BULKY DOCUMENTS

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Part 2 of 3

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FORM 10–K

CHEESECAKE FACTORY INCORPORATED – CAKE

Filed: March 08, 2001 (period: January 02, 2001)

Annual report which provides a comprehensive overview of the company for the past year

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PART II

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10–K
ANNUAL REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended January 2, 2001
Commission File Number 0–20574

THE CHEESECAKE FACTORY INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**51–0340466** (IRS Employer Identification No.)
26950 Agoura Road **Calabasas Hills, California** (Address of principal executive offices)	**91301** (Zip Code)

(818) 871–3000
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
Preferred Stock Purchase Rights

Indicate by check mark whether the 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 |X| 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 the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10–K or any amendment to this Form 10–K. |X|

The aggregate market value of the voting stock held by non–affiliates of the Registrant as of February 26, 2001 was $1,164,996,591.

As of February 26, 2001, 31,580,169 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

Documents Incorporated by Reference

Part III incorporates information by reference from the definitive proxy statement for the 2000 Annual Meeting of Stockholders to be held on May 24, 2001.

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-K which are not historical facts may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Such risks, uncertainties, and other factors include, but are not limited to: changes in general economic conditions which affect consumer spending for restaurant dining occasions; increasing competition in the upscale casual dining segment of the restaurant industry; adverse weather conditions which impact customer traffic at the Company's restaurants in general and which cause the temporary underutilization of outdoor patio seating available at several of the Company's restaurants; various factors which increase the cost to develop and/or delay the development and opening of the Company's new, highly customized restaurants, including factors under the influence and control of the Company's landlords; changes in the availability and/or cost of raw materials, management and hourly labor, energy or other resources necessary to successfully operate the Company's restaurants and bakery production facility; the Company's ability to raise prices sufficiently to offset cost increases; the success of strategic and operating initiatives, including new restaurant concepts and new bakery products; depth of management; adverse publicity about the Company, its restaurants or bakery products; the Company's dependence on a single bakery production facility; the Company's ability to obtain and retain customers for its bakery operations; changes in timing and/or scope of the purchasing plans of bakery customers which cause fluctuations in bakery sales and the Company's consolidated operating results; the rate of growth of general and administrative expenses associated with building a strengthened corporate infrastructure to support the Company's growing operations; relations between the Company and its employees; the availability, amount, type, and cost of capital for the Company and the deployment of such capital; changes in, or any failure to comply with, governmental regulations; the revaluation of any of the Company's assets; the amount of, and any changes to, tax rates; and other factors referenced in this Form 10-K.

ITEM 1: BUSINESS

General

As of February 26, 2001, The Cheesecake Factory Incorporated (referred to herein as the "Company" or in the first person notations "we", "us" and "our") operated 41 upscale, full-service, casual dining restaurants under The Cheesecake Factory® mark in Arizona, California, Colorado, Florida, Georgia, Illinois, Indiana, Maryland, Massachusetts, Missouri, Nevada, New Jersey, New York, Ohio, Rhode Island, Texas and Washington, DC. We also operated Grand Lux Cafe®, an upscale casual dining restaurant located in the Venetian Resort-Hotel-Casino in Las Vegas, Nevada; two self-service, limited menu "express" foodservice operations under The Cheesecake Factory Express® mark inside the DisneyQuest® family entertainment centers in Orlando, Florida and Chicago, Illinois; and a bakery production facility. We also licensed three bakery cafes under The Cheesecake Factory mark to another foodservice operator.

Our full-service Cheesecake Factory restaurants offer approximately 200 menu items including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches, omelets and desserts including approximately 40 varieties of cheesecake and other baked desserts. In contrast to many chain restaurant operations, substantially all menu items (except desserts manufactured at our bakery production facility) are prepared on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate prices. Our restaurants possess a distinctive, contemporary design and decor that creates a high-energy ambiance in a casual setting. Our full-service Cheesecake Factory restaurants currently range in size from 5,400 to 17,300 interior square feet, provide full liquor service and are generally open seven days a week for lunch and dinner, including Sunday brunch. Restaurant sales represented 92.9%, 92.2% and 91.8% of our total revenues for fiscal 2000, 1999 and 1998, respectively.

We believe our ability to select suitable locations and operate successful restaurants, coupled with the continuing popularity of our restaurant concept with consumers, is reflected in our average food and beverage sales per restaurant which we believe are among the highest of any publicly-held restaurant company. Average sales per full-service restaurant open for the full year were approximately $10.6 million, $10.3 million and $10.1 million for fiscal 2000, 1999 and 1998, respectively. Since each of our restaurants has a customized layout and differs in size (measured in square feet), we believe the most effective method to measure sales productivity is by square foot. Average sales per productive square foot (defined as interior plus patio square feet, seasonally adjusted) for full-service restaurants open for the full year were approximately $976, $942 and $907 for fiscal 2000, 1999 and 1998, respectively.

We intend to continue developing full-service restaurants in high profile locations within densely populated areas. During fiscal 2000, we opened seven full-service restaurants under The Cheesecake Factory mark. Our primary restaurant expansion objective is to increase our total restaurant productive square feet and operating weeks by approximately 24% to 25% during each of fiscal 2001 and 2002. We currently expect to open as many as 10 to 11 additional restaurants during fiscal 2001. As of February 26, 2001, seven leases and several letters of intent have been signed for potential restaurant openings during fiscal 2001 and 2002.

Our operations originated in 1972 as a producer and distributor of high quality cheesecakes and other baked desserts. Our first restaurant opened in Beverly Hills, California in 1978 for the primary purpose of promoting the sale of cheesecakes and other baked desserts to other foodservice operators, retailers and distributors ("bakery sales"). Although our restaurant operations have grown substantially during recent years, we continue to focus on increasing branded and private-label sales of bakery products in order to leverage our brand identity with consumers and to take advantage of current excess bakery production capacity. Bakery sales represented 7.1%, 7.8% and 8.2% of our total revenues for fiscal 2000, 1999 and 1998, respectively.

Our principal business strategy is to develop and operate full-service Cheesecake Factory restaurants on a national scale, supported by our bakery production operations. Our competitive positioning is focused on offering consumers broad selections of high quality food and desserts at exceptional value in distinctive settings with superior customer service. In addition to expanding our full-service restaurants, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant and bakery operations, which may include new restaurant concepts and new bakery product lines and distribution channels. In order to facilitate our expansion strategy, we plan to continue building our operating and corporate support infrastructure to focus on achieving optimal leverage and efficiencies in all of our operations.

In February 1992, the Company was incorporated in Delaware to succeed to the restaurant and bakery businesses of its predecessors operating under The Cheesecake Factory mark. Our initial public offering of common stock was completed in September 1992. Follow-on public offerings were completed in January 1994 and November 1997. Our executive offices are located at 26950 Agoura Road, Calabasas Hills, California 91301, and our telephone number is (818) 871-3000. Our internet site can be accessed at www.thecheesecakefactory.com.

Competitive Positioning

The key elements of our competitive positioning are as follows:

Extensive, Creative and Contemporary Menu and Bakery Product Offerings. Our restaurants offer approximately 200 items, including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches, and omelets. The menu is generally updated twice each year to respond to changing consumer dining preferences and trends. Our bakery production facility produces over 50 varieties of quality cheesecake and other baked desserts, of which approximately 40 varieties are offered at any one time in our restaurants.

High Quality Products. Substantially all menu items (except the desserts manufactured at the Company's bakery production facility) are prepared on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We use high quality dairy and other raw ingredients in our bakery products.

Exceptional Value. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate price points. The average check per restaurant guest, including beverages and desserts, was approximately $15.40, $15.00 and $14.65 for fiscal 2000, 1999 and 1998, respectively.

Superior Service. Our goal is to consistently meet or exceed the expectations of every restaurant guest in all facets of the dining experience. We believe that our restaurant–level employee recruitment, selection, training and incentive programs allow us to attract and retain qualified employees (staff members) who are motivated to provide consistent excellence in customer service.

Flexible Kitchen Capabilities and Operating Systems. Our restaurants have been strategically designed with sufficient capacity, equipment and operating systems to allow for the successful preparation and delivery of an extensive, contemporary and flexible menu which requires multiple food preparation and cooking methods executed simultaneously.

Distinctive Restaurant Design and Decor. Our restaurants have a distinctive contemporary design and decor that creates a high–energy, "non–chain" image and ambiance in a casual setting. Whenever possible, outdoor patio seating is also incorporated in the design of the restaurants, thus allowing for additional restaurant capacity (weather permitting) at a relatively low occupancy cost per seat.

High Profile Restaurant Locations and Flexible Site Layouts. We locate our restaurants in high profile locations within densely populated areas with a balanced mix of residences, businesses, shopping and entertainment outlets. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop near each of our restaurants. The design of our restaurants is flexible to accommodate a wide variety of urban and suburban site layouts, including multi–level locations.

Commitment to Selecting, Training, Rewarding, and Retaining High Quality Employees. We believe our employee recruitment and selection criteria are among the most rigorous in the restaurant industry. By providing extensive training and innovative compensation programs, we believe our employees develop a sense of personal commitment to our core values and culture of customer service. We believe these programs have resulted in employee turnover rates which are generally lower than average for the restaurant industry.

The Cheesecake Factory Restaurant Concept and Menu

The Cheesecake Factory strives to provide a distinctive dining experience at an exceptional value by offering an extensive, original and evolving menu in an upscale, high energy casual setting with efficient, attentive and friendly service. As a result, our restaurants appeal to a diverse customer base. The Cheesecake Factory's extensive menu enables the concept to compete for substantially all dining preferences and occasions, including the mid-afternoon and late-night dayparts which are traditionally weaker dayparts for most chain restaurant operations. Our restaurants are not open for breakfast, but do offer Sunday brunch. All of our restaurants are open seven days a week. All items on the menu, including approximately 40 varieties of cheesecake and other quality baked desserts, may be purchased for off-premise consumption, which represents approximately 10% of total restaurant sales.

Our menu currently consists of approximately 19 pages and features approximately 200 items including appetizers, pizza, seafood, steaks, chicken, burgers, specialty items, pastas, salads, sandwiches and omelets. Examples of menu offerings include Tex-Mex Eggrolls, Roadside Sliders, Crusted Chicken Romano, Shrimp Scampi, Cajun Jambalaya Pasta, Santa Fe Salad, Orange Chicken and Caribbean Steak. Menu items (except those desserts manufactured at our bakery production facility) are prepared daily on the restaurant premises with high quality, fresh ingredients using innovative and proprietary recipes. We consider the extensive selection of items on our menu to be an important factor in the differentiation of our restaurants from our competitors. Menu entrees range in price from approximately $5.95 to $23.95. Appetizers range in price from $3.00 to $8.95, and desserts range from $3.95 to $6.95. The average check per customer at our restaurants, including beverages and desserts was approximately $15.40, $15.00 and $14.65 for fiscal 2000, 1999 and 1998, respectively.

One of our competitive strengths is our ability to anticipate consumer dining and taste preferences and adapt our menu to the latest trends in food consumption. We develop new menu items to keep pace with changing consumer tastes and preferences and regularly update our ingredients and cooking methods to improve the quality and consistency of our food offerings. Generally every six months, we review the appeal and pricing of all of our menu items and either update or replace as many as 10 to 20 of the items. All new menu items are tested and selected based on uniqueness, sales popularity, ease of preparation and profitability.

Our ability to create, promote and attractively display our unique line of baked desserts is also important to the competitive positioning and financial success of our restaurants. We believe that our brand identity and reputation for offering high quality desserts results in a higher percentage of dessert sales relative to that of most chain restaurant operators. Dessert sales represented approximately 15% of total restaurant sales for fiscal 2000, 1999 and 1998.

Each restaurant maintains a full-service bar where appetizers or the full menu may also be purchased. The sale of alcoholic beverages represented approximately 13% of total restaurant sales for fiscal 2000, 1999 and 1998. We believe the majority of alcoholic beverage sales occur with meal purchases.

We place significant emphasis on the unique interior design and decor of our restaurants which results in a higher investment per square foot of restaurant space than is typical for the industry. However, each of our restaurants has historically generated annual sales per square foot that is also typically higher than other competitors in the industry. We believe the stylish restaurant design and decor package contribute to the distinctive dining experience enjoyed by our customers. Each restaurant features large, open dining areas and a contemporary kitchen design featuring exhibition cooking. Five restaurants offer banquet facilities. Approximately two-thirds of our restaurants offer outdoor patio seating (weather permitting), and three of our restaurants overlook waterfronts which complement the overall dining experience. The table and seating layouts of our restaurants are flexible, permitting tables and seats to be easily rearranged to accommodate large groups or parties, thus permitting more effective utilization of seating capacity. See "Restaurant Sales and Investment Characteristics."

Restaurant Locations and Site Selection

As of February 26, 2001, we operated 41 upscale, full–service casual dining restaurants under The Cheesecake Factory mark in 16 states and the District of Columbia. We also operated Grand Lux Cafe at the Venetian–Resort–Hotel–Casino in Las Vegas, Nevada and two self–service, limited menu "express" operations at DisneyQuest–Orlando and Chicago under The Cheesecake Factory Express mark. We also licensed three bakery cafes under The Cheesecake Factory mark to another foodservice operator. The following table sets forth information with respect to our restaurant locations:

Existing Restaurant Locations

Restaurant Location	Opening Year	Approximate Interior Square Feet(1)	Approximate Interior Seats(2)
Beverly Hills, CA	1978	5,400	160
Marina del Rey, CA	1983	6,000	195
Redondo Beach, CA	1988	14,000(3)	500
Woodland Hills, CA	1989	10,500	323
Washington, DC	1991	12,500	410
Newport Beach, CA	1993	9,500	252
Brentwood, CA	1993	7,000	200
Atlanta, GA (Buckhead)	1993	14,000	446
North Bethesda, MD	1994	9,900	265
Coconut Grove, FL	1994	6,100	193
Boca Raton, FL	1995	15,800	426
Chicago, IL	1995	15,600	430
Houston, TX	1995	12,500	336
Boston, MA	1995	10,600	292
Skokie, IL	1996	17,300	439
Baltimore, MD	1996	7,200	258
Kansas City, MO	1996	12,800	264
Pasadena, CA	1997	8,000	212
Denver, CO	1997	11,500	280
Westbury, NY	1997	12,700	350
Las Vegas, NV (Forum Shops)	1997	11,500	375
Cambridge, MA	1997	9,600	275
Miami, FL	1997	10,000	312
Aventura, FL	1998	10,500	285
Orlando, FL (DisneyQuest)	1998	8,900	150
Irvine, CA	1998	7,500	182
Dallas, TX	1998	10,000	292
Sunrise, FL	1998	9,200	260
San Diego, CA	1999	8,800	252
Thousand Oaks, CA	1999	6,500	180
Las Vegas, NV (Grand Lux Cafe)	1999	19,100	550
Chicago, IL (DisneyQuest)	1999	6,300	105
Columbus, OH	1999	10,700	292
Boulder, CO	1999	8,000	222
Providence, RI	1999	9,400	329
Mission Viejo, CA	1999	8,500	208
San Francisco, CA	2000	11,000	280
Atlanta, GA (Perimeter Mall)	2000	10,000	282
Scottsdale, AZ	2000	9,700	276
Indianapolis, IN	2000	11,600	312
West Palm Beach, FL	2000	8,500	254
Frisco (Dallas), TX	2000	10,500	317
Hackensack, NJ	2000	10,500	298
Schaumburg, IL	2001	10,400	301
Total		455,600	12,820

(1) Excludes outside patio area, if applicable.

(2) Average seats, including bar and banquet facilities. Excludes outdoor patio seating of approximately 22 at Beverly Hills, 256 at Marina del Rey, 125 at Redondo Beach, 92 at Woodland Hills, 112 at Brentwood, 138 at Atlanta, 80 at Chicago, 40 at Boston, 132 at Baltimore, 125 at Kansas City, 80 at Denver, 40 at Cambridge, 68 at Aventura, 62 at Irvine, 32 at Dallas, 120 at Sunrise, 110 at San Diego, 65 at Thousand Oaks, 46 at Boulder, 79 at Mission Viejo, 105 at San Francisco, 70 at Atlanta (Perimeter), 80 at Scottsdale, 42 at Indianapolis, 118 at West Palm Beach, 62 at Frisco, and 43 at Hackensack. Outdoor patio seating is typically available, weather permitting, in the Southern California and South Florida locations during most of each year and during the spring and summer seasons for the other locations.

(3) Excludes approximately 7,000 square feet of dedicated banquet space.

While our restaurants typically share common interior decor elements, the layouts of our restaurants differ to accommodate the different types of buildings and the different square feet of available space. Restaurants have been opened both as freestanding structures and as components of existing shopping malls, entertainment centers and office complexes, and are located in both urban and suburban areas.

We believe the locations of our restaurants are critical to our long–term success and we devote significant time and resources to analyzing each prospective site. Since the Cheesecake Factory concept can be executed within a wide range of restaurant sizes and site types, we can be highly selective in choosing suitable locations. In general, we prefer to open our restaurants at high profile sites within larger metropolitan areas with dense population and above–average household incomes. In addition to carefully analyzing demographic information for each prospective site, we consider other factors such as visibility, traffic patterns and general accessibility; the availability of suitable parking; the proximity of residences and shopping areas, office parks and tourist attractions; the degree of competition within the site's trade area; and the general availability of restaurant–level employees. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop in each of our trade areas.

We currently lease all of our restaurant locations for primary terms of 10–20 years and currently have no plans to own any real estate (land or buildings) for our restaurants. We currently own substantially all of the equipment in our restaurants and plan to do so in the future. We believe the relatively high and consistent sales productivity of our restaurants provides opportunities to obtain suitable leasing terms from landlords, including contributions toward restaurant development and construction costs in many cases. Due to the uniquely flexible and customized nature of our restaurant operations and the complex design, construction and preopening processes for each new location, our lease negotiation and restaurant development timeframes vary from location to location and can be subject to unforeseen delays. Our entire development process typically ranges from six to eighteen months after lease signing, depending on the timing of the delivery of the leased premises to us from the landlord, which may be subject to factors outside of the landlord's control.

As a result of the highly customized and operationally complex nature of our restaurants, the restaurant preopening process is extensive and costly relative to that of most chain restaurant operations. Effective with fiscal 1998, our definition of preopening costs was modified to include only those non–capitalizable, incremental out–of–pocket costs that are directly related to the openings of new restaurants. Preopening costs include, but are not limited to: costs to relocate and compensate restaurant management employees prior to opening; costs to recruit and train hourly restaurant employees; and costs for practice service activities prior to opening. Preopening costs will vary from location to location depending on a number of factors, which include the proximity of our existing restaurants; the size and physical layout of each location; the relative difficulty of the restaurant staffing process; and travel and lodging costs for our corporate opening team and support staff. Our direct preopening cost for a 10,000 square foot, single–story restaurant in an established Company market averages approximately $600,000 to $700,000. Preopening costs may be higher for new markets and for newer concepts such as Grand Lux Cafe. During fiscal 1998, we elected early adoption of AICPA Statement of Position (SOP) 98–5, "Reporting on the Costs of Start–Up Activities," which requires most business entities to expense preopening costs as they are incurred.

The timing and number of new restaurants we actually open will depend on a number of factors including, but not limited to: the availability of suitable locations and leases for such locations; the availability of suitable financing to construct and open our restaurants; our ability to obtain all necessary governmental licenses and permits to operate the restaurants; our ability to successfully manage the development and preopening processes for each restaurant; the availability of suitable restaurant management and hourly employees; and general economic conditions.

Expansion Strategy

We currently plan to continue to expand our restaurant operations principally through the opening of additional upscale, casual dining restaurants under The Cheesecake Factory mark. We also plan to take advantage of opportunities to leverage our operational strengths in other venues. The following table sets forth information with respect to future full-service restaurant locations under development as of February 26, 2001 for which leases have been signed:

Future Restaurants with Signed Leases

Location	Potential Opening Year	Approximate Interior Square Feet
Phoenix, Arizona	Fiscal 2001	9,400
Seattle, Washington	Fiscal 2001	10,700
Orlando, Florida	Fiscal 2001	13,200
Sherman Oaks, California	Fiscal 2001	9,500
Los Angeles, California (Grand Lux Cafe)	Fiscal 2001	12,000
Chandler, Arizona	Fiscal 2001	11,400
Chicago, Illinois (Grand Lux Cafe)	Fiscal 2002	21,300

We are currently negotiating leases for potential future locations and have signed non–binding letters of intent to lease several locations that could potentially open during fiscal 2001 and 2002. From time to time, we will evaluate opportunities to acquire and convert other restaurant locations to the Cheesecake Factory concept. However, we currently have no binding commitments (other than the signed leases set forth in the table above) or agreements to acquire or convert any other restaurant locations to our concepts.

In May 1999, we opened Grand Lux Cafe at the Venetian Resort–Hotel–Casino in Las Vegas, Nevada. Grand Lux Cafe is an upscale, casual dining concept with menu presentations and operating systems that are similar to that of the Cheesecake Factory concept. The menu at Grand Lux Cafe offers approximately 150 menu items including appetizers, pasta, seafood, steaks, chicken, burgers, salads, specialty items and desserts. A full–service bar is also included in the concept. Based upon the initial success of the concept in Las Vegas, we currently plan to open two additional Grand Lux Cafes (Los Angeles in fiscal 2001 and Chicago in fiscal 2002) in order to more fully evaluate its expansion potential.

We developed a bakery cafe format during fiscal 1997 to extend The Cheesecake Factory brand and provide a potential additional source of sales and operating leverage for our bakery production facility. As of February 26, 2001, there were three licensed bakery cafe outlets in operation which range in size from 250 to 2,000 square feet and feature many of our unique desserts and a limited selection of beverages, sandwiches and salads in a self–service format. The first bakery cafe opened in July 1997 in the Ontario Mills shopping mall complex near Los Angeles, followed by the opening of two kiosk–type outlets in August 1997 located in the Ronald Reagan National Airport in Washington, DC. A third licensed bakery cafe opened at the MacArthur Center in Norfolk, Virginia in August 1999. All bakery cafes are operated by Host Marriott Services Corporation under licensing agreements with us. As of February 26, 2001, we had no binding commitments to license any future bakery cafes.

The Cheesecake Factory Express is currently the exclusive foodservice operator for the two DisneyQuest family entertainment centers located in Orlando, Florida and Chicago, Illinois. DisneyQuest features innovative, interactive technologies together with Disney characters to create an entertainment adventure for families and guests of all ages. Our foodservice operation in DisneyQuest consists of a limited selection of the Cheesecake Factory's quality menu items and desserts in a self-service format at an average check of approximately $7.50 per guest. As of February 26, 2001, we had no binding commitments to develop and operate any additional "express" operations.

Restaurant Sales and Investment Characteristics

Since each of our restaurants has a customized layout and differs in size (measured in square feet), we believe the most effective method to measure the unit economics of our concepts is by square foot. Average sales per productive square foot for our full-service restaurants open during the entire period were $976, $942 and $907 for fiscal 2000, 1999 and 1998, respectively. We currently lease the land and building shell for each of our restaurants, but are required to expend cash for leasehold improvements and furnishings, fixtures and equipment which is targeted, on average, from $375 to $425 per square foot (excluding preopening costs and landlord construction contributions). We seek to obtain construction contributions for permanent improvements from our landlords that, if obtained, usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. While we have been generally successful in obtaining landlord construction contributions in the past, there can be no assurance that such contributions will be available in similar amounts, if at all, for every potential location we seek to develop into a new restaurant. On average, we target a minimum 2.5 to 1 sales-to-cash investment ratio and a 50% cash-on-cash return when evaluating potential restaurant locations. If we select a potential restaurant location for acquisition and development, the actual performance of the location may differ from its originally targeted performance.

Restaurant Operations and Management

Our ability to successfully and correctly execute a high quality, complex menu and effectively manage high volume restaurants is critical to our overall success. Detailed operating procedures, standards, controls, food line management systems, and cooking methods and processes have been implemented at our restaurants to accommodate our extensive menu and relatively high sales productivity. However, the successful day-to-day operation of our restaurants remains critically dependent on the quality, ability, dedication and enthusiasm of the general manager, executive kitchen manager and all other management and hourly employees working at each restaurant.

Excluding the Cheesecake Factory and Grand Lux Cafe restaurants located in Las Vegas (which are both open 365 days a year), our restaurants are open every day of the year except Thanksgiving and Christmas. Hours of operation are generally from 11:00 a.m. to 11:00 p.m., except for Sunday when the restaurants open at 10:00 a.m. for brunch. Additionally, most restaurants remain open past midnight on weekends. Outdoor patio seating is available (weather permitting) at approximately two-thirds of our restaurants.

We believe the relatively high average sales volume and popularity of our restaurants with consumers allow us to attract and retain higher quality, experienced restaurant–level management and other operational personnel. We also believe our restaurants have experienced a lower level of employee turnover than the restaurant industry in general. Each full–service restaurant is typically staffed with one general manager, one executive kitchen manager and from six to sixteen additional management personnel, depending on the sales volume of each restaurant. On average, general managers possess at least five years of experience with us and typically have at least five additional years of management experience with other foodservice operators. All restaurant management personnel complete an extensive training program during which they receive both classroom and on–the–job instruction in food quality and preparation, customer service, alcoholic beverage service, liquor liability avoidance, financial management and cost controls, risk management and human relations. We also provide our restaurant managers with detailed manuals covering food and beverage standards and the proper operation of our restaurants. We are committed to operational excellence in every component of our restaurant operations.

Efficient, attentive and friendly guest service is integral to our overall concept and brand identity. Each full–service restaurant is staffed, on average, with approximately 200 hourly employees. We require each hourly employee to participate in a formal training program for their respective position in the restaurant. For example, new servers at each restaurant currently participate in approximately three weeks of training during which the server works under the supervision of restaurant management. We strive to instill enthusiasm and dedication in our employees and regularly solicit suggestions concerning restaurant operations and all aspects of our business.

Our success will continue to be highly dependent upon our ability to attract, develop and retain qualified employees who are capable of successfully managing high volume restaurants and consistently executing our extensive and complex menu. The availability and retention of qualified restaurant management employees continues to be a significant industry–wide challenge facing chain restaurant operators. To enable us to more effectively compete for and retain the highest quality restaurant management personnel available, we maintain an innovative and comprehensive compensation program for our restaurant general managers and executive kitchen managers. Each participant in the program receives a competitive base salary and has the opportunity to earn an annual cash bonus (calculated and paid quarterly) based on the performance of his or her restaurant. Participating restaurant general managers also are eligible to utilize a company–leased vehicle, for which all nonbusiness use thereof is valued and added to the participants' taxable income pursuant to income tax regulations. A longer–term capital accumulation opportunity, based principally on stock options, is also available to participating restaurant general managers and executive kitchen managers which is dependent upon the participants' extended service with us in their respective positions (at least five years) and their achievement of certain agreed–upon performance objectives during that five–year period.

Each of our restaurant general managers reports to an area director of operations, who typically supervises the operations of five to seven restaurants, depending upon geographical and management experience considerations. In turn, each area director of operations currently reports to the senior vice president for restaurant operations. Our restaurant field supervision organization also includes area kitchen operations managers and performance development professionals who are responsible for managing new restaurant openings and training for all operational employees. As we open new restaurants, our field supervision and performance development resources will also expand appropriately.

We maintain financial and accounting controls in our restaurants through the use of a point–of–sale (POS) cash register and personal computer system in each location. The POS and personal computer system provides our restaurant management with daily and weekly information regarding sales, cash receipts, inventory, food and beverage costs, labor costs and other controllable operating expenses. Each restaurant also has an onsite accounting technician who assists in the accumulation and processing of accounting and other administrative information.

During the fourth quarter of fiscal 2000, we began installing new computer technology into our restaurants which is intended to improve our operating efficiencies and reporting capabilities. All of our restaurants are being outfitted with a new POS system that incorporates the latest technology for such systems and an automated front desk management system that should allow us to better optimize our seating capacity and increase our speed of operations. We anticipate that substantially all our restaurants will have this new technology before the third quarter of fiscal 2001.

Bakery Operations

The Company originated in 1972 as a producer and distributor of high quality cheesecakes and other baked desserts. The creation, production and marketing of quality cheesecakes and other baked desserts remain a cornerstone of our brand identity. At our state–of–the–art bakery production facility, we produce approximately 50 varieties of cheesecake based on our proprietary recipes. Some of our popular cheesecakes include the Original Cheesecake, White Chocolate Raspberry Truffle®, Chocolate Peanut Butter Cookie–Dough, Kahlua Almond Fudge, Dutch Apple Caramel Streusel, Fresh Strawberry and Triple Chocolate Brownie Truffle®. Other popular baked desserts include chocolate fudge cake, carrot cake, blackout cake and apple dumplings. In the aggregate, our bakery production facility currently produces approximately 500 product SKUs.

The commissary role of our bakery operations is to produce innovative, high quality cheesecakes and other baked desserts for sale at our restaurants. Dessert sales represented approximately 15% of our total restaurant sales for both fiscal 2000 and 1999 and are important to restaurant–level profitability. We also market our cheesecakes and other baked products on a wholesale basis to other foodservice operators, retailers and distributors. Approximately 65% to 70% of our bakery's production is currently devoted to these customers. The remaining 30% to 35% of production is devoted to supplying our restaurants. Cheesecakes and other items produced for outside accounts are marketed under The Cheesecake Factory mark as well as private labels. Current large–account customers include warehouse club operators, institutional foodservice marketers and distributors, supermarkets, and other restaurant and foodservice operators. Sales to warehouse club operators represented approximately 55% and 57% of our total bakery sales for fiscal 2000 and 1999, respectively. Our bakery products are delivered daily to customers in the Southern California area by our delivery vehicles, and are shipped throughout the United States by common carrier. We also contract with an outside fulfillment company to process our mail order sales. Frozen bakery products are also shipped internationally.

As a result of our growth plans and the ultimate capacity constraints of our former bakery production facility, we substantially completed the construction of a new 60,000 square foot bakery production facility and corporate center in Calabasas Hills, California during fiscal 1995, of which approximately 45,000 square feet is currently devoted to bakery production. The new production facility was fully commissioned from an engineering and operational perspective in October 1996 at a total cost of approximately $18.6 million. We currently own the land, building and all of the equipment at the production facility. By the end of fiscal 2000, our bakery facility operated at approximately 60% to 65% of its practical capacity. We believe that our capacity utilization rate could increase to approximately 70% to 75% on a run–rate basis by the end of fiscal 2001 based on our expected production plan for the year. During fiscal 2001, we will begin to evaluate alternatives to increase our future bakery production capacity.

Advertising and Promotion

We compete in the upscale, casual dining segment of the restaurant industry. This segment is generally positioned between easily–replicated casual dining operations and highly customized, expensive "fine dining" operations. We believe our commitment to providing consistent, exceptional value to consumers in an upscale, casual dining environment continues to be the most effective approach to attracting and retaining customers. Accordingly, we have historically focused our resources on consistently meeting and exceeding customer expectations and have relied primarily on high profile locations, operational excellence and "word of mouth" advertising to attract and retain customers. We would consider more traditional forms of advertising if the need arose. During fiscal 2000, our expenditures for advertising were less than 1% of total revenues.

We believe that our commitment to delivering exceptional value to our customers has enabled our newer restaurants to benefit from the name recognition and reputation for quality developed by our existing restaurants. From time to time, we participate in local promotional activities of a community service nature in each of our restaurant trade areas. With respect to our bakery operations, we currently maintain a full–time staff of seven sales and marketing employees and three product development employees. Additionally, we utilize outside foodservice brokers from time to time for certain bakery products and distribution channels.

Purchasing and Distribution

We strive to obtain quality menu ingredients, raw materials and other supplies and services for our operations from reliable sources at competitive prices. We continually research and evaluate various ingredients and products in an effort to maintain high quality and to be responsive to changing consumer tastes. Other than for cheesecakes and other baked products, our restaurants do not utilize a central food commissary. Substantially all menu items are prepared from scratch using fresh ingredients. In order to maximize purchasing efficiencies and to provide for the freshest ingredients for our menu items while obtaining the lowest possible prices for the required quality and consistency, each restaurant's management determines the quantities of food and supplies required and orders the items from local and regional suppliers on terms negotiated by each restaurant's management or by our centralized purchasing staff. We believe that all essential food and beverage products are available from several qualified suppliers in all cities in which our operations are located. Most food and supply items are delivered daily to our restaurants by independent foodservice distributors, including the largest foodservice distributor in North America.

Competition

The restaurant industry is highly competitive. There are a substantial number of restaurant operations that compete directly and indirectly with us, many of which have significantly greater financial resources, higher revenues and greater economies of scale. The restaurant business is often affected by changes in consumer tastes and discretionary spending patterns; national and regional economic conditions; demographic trends; the cost and availability of raw materials, labor and energy; purchasing power; governmental regulations and local competitive factors. Any change in these or other related factors could adversely affect our restaurant operations. Multi–unit foodservice operations such as ours can also be substantially affected by adverse publicity resulting from food quality, illness, injury, health concerns or operating issues stemming from a single restaurant or, with respect to our bakery operations, a single production run of bakery products. We attempt to manage these factors, but the occurrence of any one of these factors could cause our entire Company to be adversely affected. With regard to our bakery operations, competition within the premium baked dessert market has historically been regional and fragmented. However, overall competition within that market remains intense. We believe that our restaurant and bakery operations compete favorably with consumers on the critical attributes of quality, variety, taste, service, consistency and overall value.

Government Regulation

We are subject to various federal, state and local laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities which may include alcoholic beverage control, health and safety and fire agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development of new restaurants in particular areas. However, we believe that we are in compliance in all material respects with all relevant governmental regulations, and we have not experienced abnormal difficulties or delays in obtaining the required licenses or approvals required to open any new restaurant to date.

Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county and municipal authorities for licenses and permits to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of our restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, and storage and dispensing of alcoholic beverages. We have not encountered any material problems relating to alcoholic beverage licenses to date. The failure to receive or retain, or a delay in obtaining, a liquor license in a particular location could adversely affect our ability to obtain such licenses elsewhere.

We are subject to "dram–shop" statutes in most of the states in which we have operations, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment which wrongfully served alcoholic beverages to such person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance that we believe is consistent with coverage carried by other entities in the restaurant industry. Even though we are covered by general liability insurance, a judgment against us under a "dram–shop" statute in excess of our liability coverage could have a material adverse effect on our operations.

Various federal and state labor laws govern our relationship with our employees, including such matters as minimum wage and citizenship requirements, overtime, safety and other working conditions. Significant additional government–imposed increases in minimum wages, paid leaves of absence and mandated health benefits, or increased tax reporting and tax payment requirements for our employees who receive gratuities could be detrimental to the profitability of our restaurants and bakery operations. Even though we carry employment practices insurance, a settlement or a judgment against us in excess of our coverage limitations could have a material adverse effect on our operations. We are not aware of any environmental regulations that have had a material effect on our operations to date.

Employees

As of February 26, 2001, we employed approximately 10,400 persons of which approximately 9,930 employees worked in our restaurants, approximately 350 worked in our bakery operations and approximately 120 employees worked in our corporate center and restaurant field supervision organization. None of our employees are currently covered by collective bargaining agreements, and we have never experienced an organized work stoppage, strike or labor dispute. We believe our working conditions and compensation packages are generally comparable with those offered by our competitors and consider overall relations with our employees to be favorable.

Trademarks

We have registered, among other marks, "The Cheesecake Factory", "Grand Lux Cafe", "The Cheesecake Factory Bakery", "The Cheesecake Factory Express" and "The Cheesecake Factory Bakery Cafe" as trademarks with the United States Patent and Trademark Office. Additional trademark applications are pending. We regard our trademarks as having substantial value and as being important factors in the marketing of our restaurants and bakery products. We have registered, or have pending applications to register, one or more of our trademarks in more than 70 foreign countries, although there can be no assurance that our name and marks are registerable in every country for which registration is being sought.

Executive Officers

David Overton, age 54, co-founded our predecessor company in 1972 with his parents. He has served as our Chairman of the Board, President and Chief Executive Officer since the Company was incorporated in February 1992.

Gerald W. Deitchle, age 49, joined the Company as Senior Vice President, Finance and Administration and Chief Financial Officer in July 1995. He was named Executive Vice President and Chief Financial Officer in March 1997. From September 1984 to June 1995, Mr. Deitchle was employed by Long John Silver's Restaurants, Inc. and its predecessor company in various executive and financial management positions.

Linda J. Candioty, age 46, joined our predecessor in 1977 and currently serves as Executive Vice President and Secretary.

Debby R. Zurzolo, age 44, joined the Company as Senior Vice President and General Counsel in April 1999. From 1982 until joining the Company, Ms. Zurzolo practiced law at Greenberg Glusker Fields Claman & Machtinger LLP in Los Angeles, California. As a partner with that firm, Ms. Zurzolo represented the Company on various real estate matters and negotiated several of the Company's restaurant leases.

ITEM 2: PROPERTIES

All of our 44 existing company-operated restaurants are located on leased properties, and we have no current plans to own land and buildings for future restaurants. We own substantially all of the equipment in our restaurants. Existing restaurant leases have primary terms with expiration dates ranging from August 5, 2003 to January 31, 2021 (excluding existing renewal options). We do not anticipate any difficulties renewing our existing leases as they expire; however, there can be no assurance that we will be able to renew such leases after the expiration of all remaining renewal options. Leases generally provide for rent based on a percentage of restaurant sales (versus a minimum base rental) and payment of certain lease-related expenses. See Note 6 of the Notes to the Company's Consolidated Financial Statements for information regarding the aggregate minimum and percentage rentals paid for recent periods and information regarding our obligation to pay minimum rentals in future years.

Our corporate center and bakery production facility are located in Calabasas Hills, California in a 60,000 square-foot facility on a 3.3-acre parcel of land. We currently own this entire facility (land, building and equipment) in fee simple.

ITEM 3: LEGAL PROCEEDINGS

From time to time, lawsuits are filed against us in the ordinary course of our business. Such lawsuits typically involve claims from customers and others related to operational issues common to the foodservice industry. A number of such claims may exist at any given time. In addition, we also encounter complaints and allegations from current and former employees or others from time to time which we believe to be common for businesses similar to ours. We are currently not a party to any litigation that could have a material adverse effect on our results of operations, liquidity, financial position or our business and we are not aware that any such litigation is threatened.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended January 2, 2001.

PART II

ITEM 5: MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the Nasdaq Stock Market® under the symbol CAKE. The following table sets forth, for the periods indicated, the high and low sales prices as reported on the Nasdaq Stock Market.

	High	Low
Fiscal 1999		
First Quarter	$19.83	$12.67
Second Quarter	20.25	14.25
Third Quarter	21.92	17.17
Fourth Quarter	22.33	16.33
Fiscal 2000		
First Quarter	$24.58	$18.50
Second Quarter	32.92	22.88
Third Quarter	40.88	26.88
Fourth Quarter	48.44	35.00

Since our initial public offering in September 1992, we have not declared or paid any cash dividends on our common stock. We currently intend to retain all earnings for the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. There were 563 holders of record of our common stock at February 26, 2001, and we estimate there were approximately 12,252 beneficial stockholders on that date.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth, for the periods indicated, selected consolidated financial data which has been derived from our audited Consolidated Financial Statements. The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto, and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Fiscal Year				
	2000	1999	1998	1997	1996
	(in thousands, except net income per share)				
Income Statement Data:					
Revenues:					
Restaurant sales	$406,947	$320,450	$243,415	$189,475	$139,715
Bakery sales to other foodservice operators, retailers and distributors	31,334	27,032	21,808	19,114	20,590
Total revenues	438,281	347,482	265,223	208,589	160,305
Costs and expenses:					
Restaurant cost of sales	102,994	82,496	65,480	50,084	38,643
Bakery cost of sales	14,466	12,685	10,626	7,805	8,715
Labor expenses	133,287	105,796	81,475	64,708	49,075
Other operating costs and expenses	95,941	77,247	60,452	48,320	37,134
General and administrative expenses	25,831	21,266	17,333	10,096	7,238
Depreciation and amortization expenses	13,682	10,913	8,540	6,696	5,350
Preopening costs	5,943	6,217	3,603	6,646	5,394
Total costs and expenses	392,144	316,620	247,509	194,355	151,549
Income from operations	46,137	30,862	17,714	14,234	8,756
Interest income, net	4,660	2,807	2,955	520	499
Other (expense) income, net	(439)	555	435	420	(360)
Income before income taxes and cumulative effect of change in accounting principle	50,358	34,224	21,104	15,174	8,895
Income tax provision	18,257	12,492	7,073	5,235	2,983
Income before cumulative effect of change in accounting principle	32,101	21,732	14,031	9,939	5,912
Cumulative effect of change in accounting principle, net of income tax benefit of $3,343	—	—	6,347	—	—
Net income	$ 32,101	$ 21,732	$ 7,684	$ 9,939	$ 5,912
Net income per share:					
Basic:					
Income before cumulative effect of change in accounting principle	$ 1.04	$ 0.72	$ 0.47	$ 0.39	$ 0.24
Cumulative effect of change in accounting principle	—	—	(0.21)	—	—
Net income	$ 1.04	$ 0.72	$ 0.26	$ 0.39	$ 0.24
Diluted:					
Income before cumulative effect of change in accounting principle	$ 0.96	$ 0.68	$ 0.46	$ 0.39	$ 0.24
Cumulative effect of change in accounting principle	—	—	(0.21)	—	—
Net income	$ 0.96	$ 0.68	$ 0.25	$ 0.39	$ 0.24
Weighted average shares outstanding:					
Basic	30,831	30,092	29,976	25,263	24,525
Diluted	33,461	31,783	30,858	25,698	24,929
Balance Sheet Data (at end of period):					
Net working capital	$ 39,480	$ 35,542	$ 30,264	$ 57,123	$ 8,757
Total assets	$288,392	$221,785	$185,420	$177,702	$108,155
Total long-term debt (including current portion)	$ —	$ —	$ —	$ —	$ 6,000
Stockholders' equity	$240,836	$185,573	$160,291	$152,545	$ 83,512

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

General

As of February 26, 2001, The Cheesecake Factory Incorporated operated 41 upscale, high volume, casual dining restaurants under The Cheesecake Factory® mark. We also operated Grand Lux Cafe®, an upscale casual dining restaurant located in the Venetian Resort–Hotel–Casino in Las Vegas, Nevada; two self–service, limited menu "express" foodservice operations under The Cheesecake Factory® mark inside the DisneyQuest® family entertainment centers in Orlando, Florida and Chicago, Illinois; and a bakery production facility. We also licensed three limited menu bakery cafes under The Cheesecake Factory® mark to another foodservice operator.

Our revenues consist of sales from our restaurant operations and sales from our bakery operations to other foodservice operators, retailers and distributors ("bakery sales"). Sales and cost of sales are reported separately for restaurant and bakery activities. All other operating cost and expense categories are reported on a combined basis for both restaurant and bakery activities. Comparable restaurant sales include the sales of restaurants open for the full period of each period being compared. New restaurants enter the comparable sales base in their thirteenth month of operations.

We utilize a 52/53 week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal 2000 consisted of 53 weeks. Fiscal 1999 and 1998 each consisted of 52 weeks. Fiscal 2001 will consist of 52 weeks and will end on January 1, 2002.

We elected early adoption of AICPA Statement of Position (SOP) 98–5, "Reporting on the Costs of Start–Up Activities," during fiscal 1998. This accounting standard requires most entities to expense all noncapitalizable start–up and preopening costs as incurred. Consistent with the practice of most casual dining restaurant entities, we previously deferred such costs and then amortized them over the twelve–month period following openings. The SOP does not permit the restatement of previously issued financial statements, and does not require the presentation of the pro forma effect of retroactive application. For a discussion of the potential impact of the SOP for future periods, see "Preopening Costs" in this Item 7. In connection with our adoption of the SOP, we modified our definition of preopening costs to include only those direct, incremental out–of–pocket costs incurred to open new restaurants which are not otherwise capitalizable. Prior to fiscal 1998, deferred preopening costs (and their related amortization expense) included those costs plus allocated costs for management recruitment and training, as well as allocated costs related to field supervision and corporate support resources which were specifically identifiable to restaurant openings. Effective with fiscal 1998, these allocated costs were reclassified to the general and administrative expense category. For all periods presented in the Consolidated Financial Statements, certain prior year amounts for restaurant cost of sales, labor, other operating costs and expenses, and general and administrative expenses have also been reclassified to further improve their comparability to similar cost and expense categories reported by other restaurant entities.

Results of Operations

The following table sets forth, for the periods indicated, the Consolidated Statements of Operations of the Company expressed as percentages of total revenues.

	Fiscal Year		
	2000	1999	1998
Revenues:			
Restaurant sales	92.9%	92.2%	91.8%
Bakery sales to other foodservice operators, retailers and distributors	7.1	7.8	8.2
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant cost of sales	23.5	23.7	24.7
Bakery cost of sales	3.3	3.7	4.0
Labor expenses	30.4	30.5	30.7
Other operating costs and expenses	21.9	22.2	22.8
General and administrative expenses	5.9	6.1	6.5
Depreciation and amortization expenses	3.1	3.1	3.2
Preopening costs	1.4	1.8	1.4
Total costs and expenses	89.5	91.1	93.3
Income from operations	10.5	8.9	6.7
Interest income, net	1.1	0.8	1.1
Other (expense) income, net	(0.1)	0.2	0.2
Income before income taxes and cumulative effect of change in accounting principle	11.5	9.9	8.0
Income tax provision	4.2	3.6	2.7
Income before cumulative effect of change in accounting principle	7.3	6.3	5.3
Cumulative effect of change in accounting principle, net of income tax benefit	—	—	2.4
Net income	7.3%	6.3%	2.9%

Fiscal 2000 Compared to Fiscal 1999

Revenues

Total revenues increased 26% to $438.3 million for fiscal 2000 compared to $347.5 million for fiscal 1999. Fiscal 2000 consisted of 53 weeks compared to 52 weeks for fiscal 1999. After adjusting for $10.7 million of revenues contributed by the additional operating week, total revenues would have increased by 23% to $427.6 million for fiscal 2000 on a 52–week basis.

Restaurant sales increased 27% to $407.0 million for fiscal 2000 compared to $320.5 million for the prior fiscal year. After adjusting for $10.1 million of restaurant sales contributed by the additional operating week, restaurant sales would have increased by 24% to $396.9 million for fiscal 2000 on a 52–week basis. The resulting restaurant sales increase of $76.4 million for fiscal 2000 on a 52–week basis consisted of the following components: $29.0 million from the openings of seven new restaurants during the fiscal year; $32.3 million from restaurants opened during fiscal 1999 that were not considered comparable sales during fiscal 2000; and $15.1 million from comparable restaurant sales. On a 52–week basis for fiscal 2000, total restaurant operating weeks increased 20% to 1,996 compared to 1,661 for fiscal 1999.

We believe that measuring total restaurant operating weeks from period to period is the most effective way to analyze the growth rate and overall capacity of our restaurant operations. On a 52–week basis for fiscal 2000, average sales per full–service restaurant operating week increased 3% to $204,500 compared to $197,700 for fiscal 1999. Sales for comparable restaurants, which increased 4.5% during fiscal 2000, benefited from an effective menu price increase of approximately 1.5% for the fiscal year. An additional 1% effective menu price increase was implemented during January 2001.

Bakery sales to other foodservice operators, retailers and distributors ("bakery sales") increased 16% to $31.3 million for fiscal 2000 compared to $27.0 million for the prior fiscal year. After adjusting for $0.6 million of bakery sales contributed by the additional operating week, bakery sales would have increased 14% to $30.7 million during fiscal 2000. Sales to warehouse club operators represented approximately 55% of total bakery sales for fiscal 2000 compared to 57% for fiscal 1999.

Restaurant Cost of Sales

Restaurant cost of sales increased 25% to $103.0 million in fiscal 2000 compared to $82.5 million in fiscal 1999. This increase was primarily attributable to the 27% increase in restaurant sales during fiscal 2000. As a percentage of restaurant sales, these costs decreased slightly to 25.3% during fiscal 2000 compared to 25.7% for the prior fiscal year, principally as a result of menu price increases and higher volume purchase discounts.

The menu at our restaurants is one of the most diversified in the industry and, accordingly, is not overly dependent on a single commodity. The principal commodity categories for our restaurants include produce, chicken, meat, fish and seafood, cheese, other dairy products, bread and general grocery items. While we have taken steps to qualify multiple suppliers and enter into longer–term supply agreements for some of the key commodities used in our restaurant operations, there can be no assurance that future supplies and costs for commodities used in our restaurant operations will not fluctuate due to weather and other market conditions outside of our control. For new restaurants, cost of sales will typically be higher than normal during the first 90–120 days of operations until our management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by our restaurants.

Bakery Cost of Sales

Bakery cost of sales, which include ingredient, packaging and production supply costs, were $14.5 million for fiscal 2000 compared to $12.7 million for the prior fiscal year. The increase of $1.8 million was principally attributable to the 16% increase in bakery sales for fiscal 2000. As a percentage of bakery sales, bakery cost of sales decreased slightly for fiscal 2000 to 46.2% compared to 46.9% for fiscal 1999, principally as a result of lower dairy–related commodity costs (principally cream cheese, whipped cream and butter). While we have taken steps to qualify multiple suppliers and enter into longer–term supply agreements for some of the key commodities used in our bakery operations, there can be no assurance that future supplies and costs for commodities used in our bakery operations will not fluctuate due to weather and other market conditions outside of our control.

Labor Expenses

Labor expenses, which include restaurant–level labor costs and bakery direct production labor (including associated fringe benefits), increased 26% to $133.3 million for fiscal 2000 compared to $105.8 million for fiscal 1999. This increase was principally due to the 26% increase in total revenues during fiscal 2000.

As a percentage of total revenues, labor expenses decreased slightly to 30.4% for fiscal 2000 compared to 30.5% for fiscal 1999. For new restaurants, labor expenses will typically be higher than normal during the first 90–120 days of operations until our management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by our restaurants.

The state of California increased its minimum wage by $0.50 per hour to $6.25 effective January 1, 2001. We believe that such increase should not have a material impact on our labor expenses as a percentage of total revenues.

Other Operating Costs and Expenses

Other operating costs and expenses consist of restaurant–level occupancy expenses (rent, insurance, licenses and taxes, and utilities), other operating expenses (excluding food costs and labor expenses reported separately) and bakery production overhead, selling and distribution expenses. Other operating costs and expenses increased 24% to $95.9 million for fiscal 2000 compared to $77.2 million for fiscal 1999. This increase was principally attributable to the 26% increase in total revenues for fiscal 2000. As a percentage of total revenues, other operating costs and expenses decreased slightly to 21.9% for fiscal 2000 versus 22.2% for fiscal 1999, principally due to the leveraging of the fixed component of this expense category with higher revenues. The cost for electric and natural gas services to our restaurants was 1.3% of restaurant sales for both fiscal 2000 and 1999. As of February 26, 2001, 12 of our 41 full–service restaurants and our bakery production facility were located in the state of California, where both the general availability and cost of energy have recently become more volatile. As a result, the impact of electric and natural gas services on our operations in California, and possibly in other states where we operate, will likely be less predictable during fiscal 2001 compared to prior fiscal years.

General and Administrative Expenses

General and administrative ("G&A")expenses consist of restaurant support expenses (field supervision, manager recruitment and training, relocation and other related expenses), bakery administrative expenses, and corporate support and governance expenses. G&A expenses increased 21% to $25.8 million for fiscal 2000 compared to $21.3 million for fiscal 1999. This increase was principally due to the planned growth of our field supervision and corporate support infrastructures commensurate with the growth of our restaurant and bakery operations during fiscal 2000. As a percentage of total revenues, G&A expenses decreased slightly to 5.9% for fiscal 2000 compared to 6.1% for the prior fiscal year.

During the four years ended with fiscal 2000, we made significant investments to strengthen and add capacity to our operational support infrastructure in order to continue our growth plan in a controlled manner. Additional resources were allocated to building the field supervision and training organizations, strengthening the opening teams for new restaurants, recruiting and training additional qualified restaurant management personnel, and improving our financial, human resource and data warehouse information systems. Additionally, we aggressively pursued new large–account customers for our bakery operation that required additional investments in bakery marketing and operational support resources. During fiscal 2001, we plan to further strengthen the Company's infrastructure with additional investments in systems, processes and people. However, we believe the rate of growth of G&A expenses should be less than our revenue growth rate for the year.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased 25% to $13.7 million for fiscal 2000 compared to $10.9 million for fiscal 1999. This increase was principally due to new restaurant openings. As a percentage of total revenues, depreciation and amortization expenses were 3.1% for both fiscal 2000 and 1999.

Preopening Costs

Preopening costs decreased 4% to $5.9 million for fiscal 2000 compared to $6.2 million for the prior fiscal year. We opened seven restaurants during fiscal 2000 compared to eight openings during fiscal 1999. Preopening costs include incremental, out–of–pocket costs that are directly incurred to open new restaurants and that are not otherwise capitalizable. The principal components of preopening costs include the cost of recruiting and training the hourly staff for each new restaurant; the cost to relocate and pay the management staff assigned to each new restaurant approximately 45 days prior to opening; the cost to send training and support staff to each opening; and the cost of practice cooking and service activities.

As a result of the highly customized and operationally complex nature of our upscale, casual dining restaurants, the restaurant preopening process is significantly more extensive and costly relative to that of other chain restaurant operations. Preopening costs will vary from location to location depending on a number of factors, including (but not limited to) the proximity of our other established restaurants; the size and physical layout of each location; the cost of travel and lodging in different metropolitan areas; and the relative difficulty of the restaurant staffing and training process. Additionally, new concepts such as Grand Lux Cafe are expected to incur initial preopening costs that could be significantly higher than preopening costs for our more established restaurant concepts. Preopening costs will fluctuate from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant, and the fluctuations could be significant. We expense preopening costs as they are incurred. Based on our current growth objectives for fiscal 2001 and 2002, preopening costs for each of those years will likely exceed the respective amount of preopening costs for the applicable prior year.

Interest Income, Other (Expense) Income and Income Taxes

Interest income increased 66% to $4.7 million for fiscal 2000 compared to $2.8 million for fiscal 1999. This increase was principally due to higher levels of interest–bearing cash and investments during fiscal 2000. Other (expense) for fiscal 2000 was ($439,000) compared to other income of $555,000 for fiscal 1999. This decrease was principally due to the one–time write off of the remaining net book value of our current restaurant point–of–sale system and the settlement of a sales tax audit assessment. Our effective income tax rate was 36.2% for fiscal 2000 compared to 36.5% for fiscal 1999.

Fiscal 1999 Compared to Fiscal 1998

Revenues

Total revenues increased 31% to $347.5 million for fiscal 1999 compared to $265.2 million for fiscal 1998. Restaurant sales increased 32% to $320.5 million for fiscal 1999 compared to $243.5 million for the prior fiscal year. The $77.0 million increase in restaurant sales for fiscal 1999 consisted of the following components: $39.6 million from the openings of eight new restaurants during the fiscal year; $28.3 million from restaurants opened during fiscal 1998 that were not comparable sales during fiscal 1999; and $9.1 million from comparable restaurant sales. Restaurant operating weeks increased 29% to 1,661 for fiscal 1999 compared to 1,286 for fiscal 1998. Average sales per restaurant operating week increased to $192,900 for fiscal 1999 compared to $189,300 for the prior fiscal year. Sales for comparable restaurants, which increased 3.8% during fiscal 1999, benefited from an effective menu price increase of approximately 2% which was taken in February 1999.

Bakery sales increased 24% to \$27.0 million for fiscal 1999 compared to \$21.8 million for the prior fiscal year. Sales to warehouse club operators represented approximately 57% of bakery sales for fiscal 1999 compared to 63% for fiscal 1998.

Restaurant Cost of Sales

Restaurant cost of sales increased 26% to \$82.5 million in fiscal 1999 compared to \$65.5 million in fiscal 1998. This increase was primarily attributable to the 32% increase in restaurant sales in fiscal 1999. As a percentage of restaurant sales, these costs decreased to 25.7% during fiscal 1999 versus 26.9% for fiscal 1998, principally as a result of the impact of menu price increases.

Bakery Cost of Sales

Bakery cost of sales increased 20% to \$12.7 million for fiscal 1999 versus \$10.6 million for fiscal 1998. This increase was primarily attributable to the 24% increase in bakery sales for fiscal 1999. As a percentage of bakery sales, cost of sales for fiscal 1999 decreased to 46.9% versus 48.7% for fiscal 1998, principally as a result of lower dairy–related commodity costs.

Labor Expenses

Labor expenses increased 30% to \$105.8 million for fiscal 1999 versus \$81.5 million for fiscal 1998. This increase was principally due to the 31% increase in total revenues during fiscal 1999. As a percentage of total revenues, labor expenses decreased slightly to 30.5% compared to 30.7% for fiscal 1998.

Other Operating Costs and Expenses

Other operating costs and expenses increased 28% to \$77.2 million for fiscal 1999 compared to \$60.5 million for fiscal 1998. This increase was principally attributable to the 31% increase in total revenues for fiscal 1999. As a percentage of total revenues, other operating costs and expenses decreased slightly to 22.2% for fiscal 1999 versus 22.8% for fiscal 1998, reflecting lower insurance costs and the leveraging of the fixed component of this expense category with higher revenues.

General and Administrative Expenses

General and administrative ("G&A") expenses increased 23% to \$21.3 million for fiscal 1999 versus \$17.3 million for fiscal 1998. This increase was principally due to the planned growth of our field supervision and corporate support infrastructures commensurate with the growth of our restaurant and bakery operations during fiscal 1999. As a percentage of total revenues, G&A expenses decreased to 6.1% for fiscal 1999 compared to 6.5% for the prior fiscal year.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased 28% to \$10.9 million for fiscal 1999 versus \$8.5 million for fiscal 1998. This increase was principally due to new restaurant openings. As a percentage of total revenues, depreciation and amortization expenses were 3.1% for fiscal 1999 versus 3.2% for fiscal 1998.

Preopening Costs

Preopening costs increased 72% to $6.2 million for fiscal 1999 versus $3.6 million for fiscal 1998. We opened eight restaurants during fiscal 1999, including a new concept, Grand Lux Cafe, with unusually heavy preopening costs, compared to five restaurant openings during fiscal 1998.

Liquidity and Capital Resources

The following table presents, for the periods indicated, a summary of the Company's key liquidity measurements.

	Fiscal Year		
	2000	1999	1998
	(dollar amounts in millions)		
Cash and marketable securities on hand, end of year	$85.3	$55.2	$52.7
Net working capital, end of year	$39.5	$35.5	$30.3
Current ratio, end of year	1.9:1	2.1:1	2.2:1
Long–term debt, end of year	$ —	$ —	$ —
Cash provided by operations	$56.3	$39.2	$28.0
Capital expenditures	$39.2	$38.6	$28.0

During fiscal 2000, our total amount of cash and marketable securities on hand increased by $30.1 million to $85.3 million as of January 2, 2001. This increase was principally due to increased cash flow from operations and increased proceeds from the exercise of employee stock options during fiscal 2000.

As of February 26, 2001, there were no borrowings outstanding under our $25 million revolving credit and term loan facility (the "Credit Facility"). Borrowings under the Credit Facility will bear interest at variable rates based, at our option, on either the prime rate of interest, the lending institution's cost of funds plus 0.75%, or the applicable LIBOR rate plus 0.75%. The Credit Facility expires on May 31, 2002. On that date, a maximum of $25 million of any borrowings outstanding under the Credit Facility automatically convert into a four–year term loan, payable in equal quarterly installments at interest rates of 0.5% higher than the applicable revolving credit rates. The Credit Facility is not collateralized and requires us to maintain certain financial ratios and to observe certain restrictive covenants with respect to the conduct of our operations, with which we are currently in compliance.

During fiscal 2000, our capital expenditures were approximately $39.2 million, most of which were related to our restaurant operations. For fiscal 2001, we currently estimate our capital expenditure requirement to range between $50–$55 million, net of agreed–upon landlord construction contributions and excluding $8–$9 million of expected noncapitalizable preopening costs for new restaurants. This estimate contemplates $40–$42 million for as many as 10 to 11 new restaurants to be opened during fiscal 2001, including an increase in estimated construction–in–progress disbursements for anticipated fiscal 2002 openings. Other estimated capital expenditures for fiscal 2001 include $4–$5 million for restaurant–level technology upgrades (new point of sale systems and automated front desk management systems); $3–$4 million for capacity additions to existing restaurants and the Company's corporate center; and $3–$4 million for maintenance capital expenditures. We lease the land and building shells for substantially all of our restaurants for primary lease terms that usually range from 15 to 20 years for our new restaurants. We expend cash for leasehold improvements and furnishings, fixtures and equipment for our new restaurants.

Based on our current expansion objectives and opportunities, we believe that our cash and short–term investments on hand, coupled with expected cash provided by operations, available borrowings under our Credit Facility and expected landlord construction contributions should be sufficient to finance our planned capital expenditures and other operating activities through fiscal 2002. We may seek additional funds to finance our growth in the future. However, there can be no assurance that such funds will be available when needed or be available on terms acceptable to us.

Our Board of Directors has authorized the Company repurchase up to 1,125,000 shares of our common stock for reissuance upon the exercise of stock options under our current stock option plans. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. Under this authorization, we have repurchased a total of 504,000 shares at a total cost of $7.1 million as of January 2, 2001.

Recent Accounting Pronouncements

We elected early adoption of Statement of Position (SOP) 98–5, "Reporting on the Costs of Start–Up Activities," during fiscal 1998. This accounting standard, issued in 1998 by the American Institute of CPAs, requires most entities to expense all start–up and preopening costs as they are incurred. Consistent with the practice of most casual dining restaurant companies, we previously deferred such costs and then wrote them off over the twelve–month period following the opening of each restaurant. The early adoption of SOP 98–5 was made retroactive to the first quarter of fiscal 1998. The cumulative effect of this change in accounting principle, net of income tax benefit, for fiscal 1998 was $6.3 million or $0.21 per diluted share and was recorded retroactively to the first quarter of 1998 as a one–time charge. This accounting standard accelerates our recognition of preopening costs but benefits the post–opening results of new restaurants.

In June 1998, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. The new statement was effective the first quarter of 2001, as amended by SFAS 137. We do not believe this new accounting standard will have a material impact on our financial statements.

Impact of Inflation and Changes in the Costs of Key Operating Resources

Our profitability is dependent, among other things, upon our ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, energy and other supplies and services. While we have taken steps to qualify multiple suppliers and enter into longer–term supply agreements for some of the key commodities used in our restaurant and bakery operations, there can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control. The impact of inflation on food, labor, energy and occupancy costs can significantly affect our restaurant and bakery operations. Many of our restaurant and bakery employees are paid hourly rates related to the federal minimum wage, which increased in 1988, 1991, 1996 and 1997. Proposals are currently pending in Congress to again increase the federal minimum wage. The state of California increased its minimum wage by $0.50 per hour to $6.25 effective January 1, 2001, with another $0.50 per hour increase approved for January 2002. Additionally, a general shortage in the availability of qualified restaurant management and hourly workers in certain geographical areas in which we operate has caused related increases in the costs of recruiting and compensating such employees. Certain operating costs, such as taxes, insurance and other outside services, continue to increase with the general level of inflation and may also be subject to other cost and supply fluctuations outside of our control.

While the Company has been able to react to inflation and other changes in the costs of key operating resources by gradually increasing prices for its menu items and bakery products, coupled with more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be able to continue to do so in the future. Substantially all of the leases for our restaurants provide for additional rent obligations based on a percentage of sales. As a result, rent expense will absorb a proportionate share of any menu price increases in our restaurants. There can be no assurance that we will continue to generate increases in comparable restaurant sales and bakery sales in amounts sufficient to offset inflationary or other cost pressures.

Seasonality and Quarterly Results

Our business is subject to seasonal fluctuations. Historically, our highest levels of revenues and net income have occurred in the second and third quarters of the fiscal year. Over one-half of our restaurants are located in or near shopping centers and malls that typically experience seasonal fluctuations in sales. Our bakery operations are seasonal to the extent that the fourth quarter's sales are typically higher due to holiday business. Additionally, bakery sales comparisons may fluctuate significantly from quarter to quarter due to the timing and size of orders from our larger bakery customers. As a result of these and other factors, the Company's financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year. Quarterly results have been, and in the future are likely to be, significantly impacted by the timing of new restaurant openings and their preopening costs.

Year 2000 Readiness

To address the year 2000 issue, we began to formulate a plan during fiscal 1998 to assess, remediate and test all mission–critical internal computer systems and processes. Our plan also included an assessment of the readiness of key suppliers of mission–critical goods and services to our restaurant and bakery operations. All phases of our year 2000 readiness plan were completed as scheduled. To date, we have not experienced any year 2000 issues with respect to our internal computer systems and key suppliers, and did not experience any loss of revenues as a result of the issue. Our total costs to address the year 2000 issue were not material, and any additional costs are expected to be minimal. Although we have not experienced any year 2000 issues to date and believe that it is unlikely that any such issues will arise in the future, there can be no assurance that unforeseen year 2000 issues will not arise in the future and adversely affect our results of operations, liquidity and financial position.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on funded debt. This exposure relates to our $25 million revolving credit and term loan facility (the "Credit Facility"). There were no borrowings outstanding under the Credit Facility during fiscal 2000, 1999, 1998 or fiscal 2001 through February 26, 2001. Borrowings under the Credit Facility bear interest at variable rates based on either the prime rate of interest, the lending institution's cost of funds plus 0.75% or LIBOR plus 0.75%. A hypothetical 1% interest rate change would not have any impact on our results of operations.

A change in market prices also exposes us to market risk related to our investments in marketable securities. As of January 2, 2001, we held $51.0 million in available–for–sale marketable securities. A hypothetical 10% decline in the market value of those securities would result in a $5.1 million unrealized loss and a corresponding decline in their fair value. This hypothetical decline would not affect our cash flow from operations and would not have an impact on net income until the securities were disposed of.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements required to be filed hereunder are set forth on pages 28 through 46 of this report.

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

None.

PART III

ITEMS 10, 11, 12 AND 13:

The information required by Items 10, 11, 12 and 13 is hereby incorporated by reference from the Registrant's definitive proxy statement for the Annual Meeting of Stockholders to be held on May 24, 2001 and which will be filed with the Commission within 120 days after the close of the Company's fiscal year.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORT ON FORM 8-K

The following documents are filed as a part of this Report:

(a) The Financial Statements required to be filed hereunder are listed in the Index to Financial Statements on page 28 of this report.

(b) The Exhibits required to be filed hereunder are listed in the exhibit index included herein at page 47.

(c) The Registrant did not file any reports on Form 8-K during the last quarter of its fiscal year ended January 2, 2001.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of
The Cheesecake Factory Incorporated:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, equity and cash flows present fairly, in all material respects, the financial position of The Cheesecake Factory Incorporated and Subsidiaries at January 2, 2001 and December 28, 1999, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 2, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 10 to the consolidated financial statements, the Company changed its method of accounting for the cost of start–up activities in 1998.

PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
February 2, 2001

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	January 2, 2001	December 28, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,284	$ 24,026
Investments and marketable securities	16,822	21,686
Accounts receivable	4,877	5,333
Other receivables	15,112	6,760
Inventories	9,328	8,121
Prepaid expenses	1,411	2,295
Deferred income taxes	773	257
Total current assets	82,607	68,478
Property and equipment, net	161,223	135,512
Other assets:		
Marketable securities	34,208	9,524
Other receivables	5,276	3,922
Trademarks	1,905	1,794
Other	3,173	2,555
Total other assets	44,562	17,795
Total assets	$ 288,392	$ 221,785
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,712	$ 13,104
Income taxes payable	993	1,973
Other accrued expenses	24,422	17,859
Total current liabilities	43,127	32,936
Deferred income taxes	4,429	3,276
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued and outstanding	—	—
Junior participating cumulative preferred stock, $.01 par value, 150,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value, 150,000,000 shares authorized; 31,924,807 and 30,614,795 issued and outstanding for 2000 and 1999, respectively	319	204
Additional paid–in capital	147,694	123,677
Retained earnings	99,581	67,612
Unrealized gain (loss) on available–for–sale securities	365	(115)
Treasury stock, 504,000 and 443,250 shares at cost for 2000 and 1999, respectively	(7,123)	(5,805)
Total stockholders' equity	240,836	185,573
Total liabilities and stockholders' equity	$288,392	$221,785

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Fiscal Year		
	2000	1999	1998
Revenues:			
Restaurant sales	$406,947	$320,450	$243,415
Bakery sales to other foodservice operators, retailers and distributors	31,334	27,032	21,808
Total revenues	438,281	347,482	265,223
Costs and expenses:			
Restaurant cost of sales	102,994	82,496	65,480
Bakery cost of sales	14,466	12,685	10,626
Labor expenses	133,287	105,796	81,475
Other operating costs and expenses	95,941	77,247	60,452
General and administrative expenses	25,831	21,266	17,333
Depreciation and amortization expenses	13,682	10,913	8,540
Preopening costs	5,943	6,217	3,603
Total costs and expenses	392,144	316,620	247,509
Income from operations	46,137	30,862	17,714
Interest income, net	4,660	2,807	2,955
Other (expense) income, net	(439)	555	435
Income before income taxes and cumulative effect of change in accounting principle	50,358	34,224	21,104
Income tax provision	18,257	12,492	7,073
Income before cumulative effect of change in accounting principle	32,101	21,732	14,031
Cumulative effect of change in accounting principle, net of income tax benefit of $3,343	—	—	6,347
Net income	$ 32,101	$ 21,732	$ 7,684
Net income per share:			
Basic:			
Income before cumulative effect of change in accounting principle	$ 1.04	$ 0.72	$ 0.47
Cumulative effect of change in accounting principle	—	—	(0.21)
Net income	$ 1.04	$ 0.72	$ 0.26
Diluted:			
Income before cumulative effect of change in accounting principle	$ 0.96	$ 0.68	$ 0.46
Cumulative effect of change in accounting principle	—	—	(0.21)
Net income	$ 0.96	$ 0.68	$ 0.25
Weighted average shares outstanding:			
Basic	30,831	30,092	29,976
Diluted	33,461	31,783	30,858

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total
Balance, December 30, 1997	$133	$114.185	$38.262	$(35)	$ —	$152.545
Net income	—	—	7.684	—	—	7.684
Three-for-two stock split	66	—	(66)	—	—	—
Issuance of common stock pursuant to stock option plan	2	2.581	—	—	—	2.583
Tax benefit related to stock option plan	—	947	—	—	—	947
Purchase of treasury stock	—	—	—	—	(3.468)	(3.468)
Balance, December 29, 1998	201	117.713	45.880	(35)	(3.468)	160.291
Net income	—	—	21,732	—	—	21.732
Issuance of common stock pursuant to stock option plan	3	4.529	—	—	—	4.532
Tax benefit related to stock option plan	—	1.435	—	—	—	1,435
Net unrealized loss	—	—	—	(80)	—	(80)
Purchase of treasury stock	—	—	—	—	(2.337)	(2.337)
Balance, December 28, 1999	204	123,677	67.612	(115)	(5.805)	185,573
Net income	—	—	32,101	—	—	32,101
Issuance of common stock pursuant to stock option plan	13	13,508	—	—	—	13,521
Tax benefit related to stock option plan	—	10,509	—	—	—	10.509
Net unrealized gain	—	—	—	480	—	480
Purchase of treasury stock	—	—	—	—	(1,318)	(1,318)
Three-for-two stock split	102	—	(102)	—	—	—
Dividends paid for fractional shares	—	—	(30)	—	—	(30)
Balance, January 2, 2001	$319	$147.694	$99,581	$ 365	$(7,123)	$240,836

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Fiscal Year		
	2000	1999	1998
Cash flows from operating activities:			
Net Income	$ 32.101	$ 21.732	$ 7.684
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	13.682	10.913	8.540
Cumulative effect of change in accounting principle	—	—	6.347
Loss on asset sale	3	—	—
(Gain) loss on available–for–sale securities	(14)	122	9
Deferred income taxes	345	1.904	(2.965)
Changes in assets and liabilities:			
Accounts receivable	456	(1.860)	(1.309)
Other receivables	(9.706)	82	4.198
Inventories	(1.207)	(2.267)	(785)
Prepaid expenses	884	(1,469)	137
Trademarks	(190)	(248)	(416)
Other	(719)	(79)	(774)
Accounts payable	4.608	1,801	(768)
Income taxes payable	9.530	2.033	5,044
Other accrued expenses	6.563	6,569	3,039
Cash provided by operating activities	56.336	39,233	27,981
Cash flows from investing activities:			
Additions to property and equipment	(39,216)	(38,616)	(27,966)
Investments in available–for–sale securities	(64,446)	(35,763)	(51,774)
Sales of available–for–sale securities	45,411	39,510	26,568
Cash used by investing activities	(58,251)	(34,869)	(53,172)
Cash flows from financing activities:			
Issuance of common stock	13	3	2
Dividends paid for fractional shares	(30)	—	—
Proceeds from exercise of employee stock options	13,508	4,529	2,581
Purchase of treasury stock	(1,318)	(2,337)	(3.468)
Cash provided by financing activities	12,173	2,195	(885)
Net change in cash and cash equivalents	10,258	6.559	(26.076)
Cash and cash equivalents at beginning of period	24.026	17,467	43,543
Cash and cash equivalents at end of period	$ 34,284	$ 24,026	$ 17,467

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Basis of Presentation:

The accompanying consolidated financial statements include the accounts of The Cheesecake Factory Incorporated and our wholly owned subsidiaries (The Cheesecake Factory Restaurants, Inc.; The Cheesecake Factory Bakery Incorporated; The Cheesecake Factory Assets Co. LLC; The Houston Cheesecake Factory Corporation; TCF Stonebriar Club Incorporated and Grand Lux Cafe LLC). All of our restaurants and our bakery production facility are located within the United States. All significant intercompany accounts and transactions for the periods presented have been eliminated in consolidation. Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform with the fiscal 2000 classifications.

Fiscal Year:

We utilize a 52/53 week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal 2000 consisted of 53 weeks. Fiscal 1999 and 1998 each consisted of 52 weeks. Fiscal 2001 will consist of 52 weeks and will end on Tuesday, January 1, 2002.

Cash and Cash Equivalents:

We consider all highly liquid investments with an original maturity of three months or less at date of purchase to be cash equivalents.

Investments and Marketable Securities:

We record investments and marketable securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 establishes accounting and reporting requirements for investments in equity securities that have readily determinable fair values and for all investments in debt securities. All investment securities must be classified as one of the following: held–to–maturity, trading or available–for–sale. Debt securities that we expect to hold to maturity are classified as held–to–maturity securities and are reported at their amortized costs. Debt securities that we classify as available–for–sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity (net of related tax effect) until realized. Fair value is determined by the most recently traded price of each security at the balance sheet date, plus any accrued interest. Net realized gains or losses are determined on the specific identification cost method. At January 2, 2001 and December 28, 1999, all of our investments and marketable securities were classified in the available–for–sale category.

Accounts and Other Receivables:

Our accounts receivable principally result from credit sales to outside bakery customers. Other receivables consist of various amounts due from landlords, insurance providers and others in the ordinary course of business.

1. Summary of Significant Accounting Policies: (Continued)

Concentration of Credit Risk:

Financial instruments which potentially subject us to a concentration of credit risk are cash and cash equivalents, investments and marketable securities, and accounts receivable. We currently maintain a majority of our day–to–day operating cash balances with two major financial institutions. At times, cash balances may be in excess of FDIC insurance limits. We place our temporary excess cash with major financial institutions that, in turn, invest in investment–grade commercial paper and other corporate obligations, certificates of deposit, government obligations and other investments and marketable securities. Our investment policy limits the amount of exposure to any one financial institution or investment. With respect to marketable securities, the net unrealized gain or loss on our investment portfolio as of January 2, 2001 and December 28, 1999 has been reported (net of tax effect) as a separate component within the stockholders' equity section of the Consolidated Balance Sheet. We consider the concentration of credit risk for accounts receivable to be minimal as a result of the large number of outside bakery customers, as well as the payment histories and general financial condition of the larger outside bakery customers.

Inventories:

Inventories are stated at the lower of cost (first–in, first–out) or market.

Property and Equipment:

Property and equipment are recorded at cost. Improvements are capitalized while repair and maintenance costs are expensed as incurred. Depreciation is calculated using the straight–line method over the estimated economic lives of the assets or the primary terms of the respective leases. Depreciation periods are as follows:

Land improvements	25 years
Buildings	30 years
Leasehold improvements	Primary term of lease
Restaurant fixtures and equipment	10 years
Bakery equipment	15 years
Automotive equipment	5 years
Computer equipment	3 years

Preopening Costs:

Preopening costs are expensed as incurred.

Income Taxes:

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under the asset and liability method of SFAS No. 109, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to the difference between

1. Summary of Significant Accounting Policies: (Continued)

the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under SFAS No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Net Income Per Share:

In accordance with the provisions of SFAS No. 128, "Earnings Per Share," basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share includes the dilutive effect of potential stock option exercises, calculated using the treasury stock method.

Recent Accounting Pronouncements:

During fiscal 1998, we elected early adoption of AICPA Statement of Position (SOP) 98–5, "Reporting on the Costs of Start–Up Activities." This accounting standard requires most entities to expense all start–up and preopening costs as they are incurred. Consistent with the practice of most casual dining restaurant companies, we previously deferred such costs and then wrote them off over the twelve–month period following the opening of each restaurant. Restatement of previously issued financial statements was not permitted by SOP 98–5 and entities were not required to report the pro forma effects of the retroactive application of the accounting standard.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. The statement will be effective the first quarter of 2001, as amended by SFAS 137. We do not believe that the new standard will have a material impact on our financial statements.

Impairment of Long–Lived Assets:

We account for our long–lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long–Lived Assets and for Long–Lived Assets to Be Disposed Of." SFAS No. 121 requires impairment losses to be recorded on long–lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. SFAS No. 121 also addresses the accounting for long–lived assets that are held for disposal.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies: (Continued)

Revenue Recognition:

Revenue from restaurant sales is recognized when food and beverage products are sold. Revenue from bakery sales to other foodservice operators, retailers and distributors is recognized when the products are shipped.

Advertising Costs:

Advertising costs are expensed as incurred. Advertising expenses for the fiscal years 2000, 1999 and 1998 were insignificant.

2. Investments and Marketable Securities:

Investments and marketable securities consisted of (in thousands):

Classification	Cost	Fair Value	Unrealized Gain/(Loss)	Balance Sheet Amount	Maturity
At January 2, 2001:					
Current assets:					
Available–for–sale securities:					
Corporate debt securities	$16,095	$16,074	$(21)	$16,074	April 2001 to December 2001
U.S. Treasury securities	750	748	(2)	748	April 2001
Total	$16,845	$16,822	$(23)	$16,822	
Other assets:					
Available–for–sale securities:					
Corporate debt securities	$33,588	$34,208	$ 620	$34,208	February 2002 to December 2002
At December 28, 1999:					
Current assets:					
Available–for–sale securities:					
Corporate debt securities	$21,029	$20,940	$(89)	$20,940	March 2000 to December 2000
U.S. Treasury securities	748	746	(2)	746	August 2000
Total	$21,777	$21,686	$(91)	$21,686	
Other assets:					
Available–for–sale securities:					
Corporate debt securities	$ 8,458	$ 8,387	$(71)	$ 8,387	January 2001 to December 2001
U.S. Treasury securities	1,152	1,137	(15)	1,137	December 2000 to April 2001
Total	$ 9,610	$ 9,524	$(86)	$ 9,524	

3. Other Receivables:

Other receivables consisted of (in thousands):

	January 2, 2001	December 28, 1999
Tenant improvement allowances from landlords	$ 19,067	$ 9,550
Accrued interest on investments	1,178	622
Other	143	510
Total other receivables	20,388	10,682
Less: current portion	(15,112)	(6,760)
Other receivables	$ 5,276	$ 3,922

4. Inventories:

Inventories consisted of (in thousands):

	January 2, 2001	December 28, 1999
Restaurant food and supplies	$6,905	$5,142
Bakery raw materials	1,329	1,605
Bakery finished goods	1,094	1,374
Total	$9,328	$8,121

The amounts for restaurant food and supplies as of January 2, 2001 and December 28, 1999 include $3.5 million and $2.3 million, respectively, for certain smallware inventories in the restaurants.

5. Property and Equipment:

Property and equipment consisted of (in thousands):

	January 2, 2001	December 28, 1999
Land and related improvements	$ 1,394	$ 1,394
Building	6,464	6,464
Fixtures and equipment	75,918	63,217
Leasehold improvements	108,844	94,339
Computer equipment	4,666	1,483
Automotive equipment	390	390
Construction in progress	17,957	9,403
Property and equipment, total	215,633	176,690
Less: accumulated depreciation and amortization	(54,410)	(41,178)
Property and equipment, net	$161,223	$135,512

5. Property and Equipment: (Continued)

Repair and maintenance expenses for fiscal 2000, 1999 and 1998 were $5.1 million, $2.8 million and $2.3 million, respectively.

6. Commitments and Contingencies:

We lease all our restaurant locations under operating leases, with primary terms ranging from 10 to 20 years. The restaurant leases include land and building shells, require contingent rent above the minimum lease payments based on a percentage of sales ranging from 3.5% to 8%, and require various expenses incidental to the use of the property. Most leases have renewal options. We have always exercised our renewal options in the past. We also lease certain restaurant and bakery equipment under operating lease agreements.

The aggregate minimum annual lease payments under operating leases (including those for seven restaurants with executed leases as of January 2, 2001 that are planned for fiscal 2001 or 2002 openings) are as follows (in thousands):

2001	$ 14,313
2002	15,319
2003	15,266
2004	13,969
2005	14,636
Thereafter	171,060
Total minimum lease commitments	$244,563

Rent expenses charged to operations on all operating leases were as follows (in thousands):

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Base rent	$10,778	$ 9,384	$ 7,334
Contingent rent	12,721	9,079	7,303
Other charges	5,392	4,135	3,535
Total	$28,891	$22,598	$18,172

With respect to seven restaurants with executed leases as of January 2, 2001 that are currently planned for openings in fiscal 2001, we have estimated construction commitments (leasehold improvements and fixtures and equipment), net of agreed–upon landlord construction contributions, totaling approximately $21 million.

From time to time, lawsuits are filed against us in the ordinary course of our business. Such lawsuits typically involve claims from customers and others related to operational issues common to the foodservice industry. A number of such claims may exist at any given time. In addition, we also encounter complaints and allegations from current and former employees or others from time to time which are believed to be common for businesses similar to ours. We are currently not a party to any litigation that could have a material adverse effect on our results of operations, liquidity, financial position or our business and we are not aware that any such litigation is threatened.

7. Income Taxes:

The provision for income taxes consisted of the following (in thousands):

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Income before income taxes and cumulative effect of change in accounting principle	$50,358	$34,224	$ 21,104
Cumulative effect of change in accounting principle	—	—	(9,690)
Income before income taxes	$50,358	$34,224	$ 11,414
Income tax provision:			
Current:			
Federal	$15,656	$ 8,385	$ 5,132
State	2,256	2,203	1,563
Total current	17,912	10,588	6,695
Deferred	345	1,904	378
Provision before cumulative effect of change in accounting principle	18,257	12,492	7,073
Benefit (deferred provision) from cumulative effect of change in accounting principle	—	—	(3,343)
Total	$18,257	$12,492	$ 3,730

The following is a reconciliation between the U.S. federal statutory rate and the effective tax rate:

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Tax at U.S. federal statutory rate	35.0%	35.0%	35.0%
State and district income taxes net of federal income tax benefit	4.2	5.2	4.6
FICA tip credit and research credits	(3.2)	(2.5)	(6.4)
Municipal bond income, dividends received deduction and other	0.2	(1.2)	(0.5)
Effective tax rate	36.2%	36.5%	32.7%

7. Income Taxes: (Continued)

The temporary differences which give rise to deferred income tax assets and liabilities are as follows (in thousands):

	January 2, 2001	December 28, 1999
Current deferred tax asset/(liability):		
State tax current provision	$ 275	$ 399
Other, net	498	(142)
Total	$ 773	$ 257
Noncurrent deferred tax asset/(liability):		
Property and equipment	$(3,624)	$(2,948)
Accrued rent	(1,754)	(1,272)
Tax credit carryforwards	536	640
Capital losses	318	277
Other, net	95	27
Total	$(4,429)	$(3,276)

8. Long-term Debt:

We maintain a $25 million revolving credit and term loan facility (the "Credit Facility") with a major financial institution. As of January 2, 2001 and December 28, 1999, there were no borrowings outstanding under the Credit Facility. The terms of the Credit Facility provide for, among other things, borrowings under the Credit Facility to bear interest at variable rates based, at our option, on either the prime rate of interest, the lending institution's cost of funds rate plus 0.75% or the applicable LIBOR rate plus 0.75%. The Credit Facility expires on May 31, 2002. On that date, a maximum of $25 million of any borrowings outstanding under the Credit Facility automatically convert into a four-year term loan payable in equal quarterly installments at interest rates of 0.5% higher than the applicable revolving credit rates. The Credit Facility is not collateralized and requires us to maintain certain financial ratios and to observe certain restrictive covenants with respect to the conduct of our operations, with which we are currently in compliance.

9. Stockholders' Equity:

We effected a stock dividend in the form of a three-for-two stock split on June 8, 2000. In connection with this stock dividend and split, $102,000 was transferred to common stock from retained earnings and $30,000 was paid to shareholders for fractional shares. All references in the Consolidated Financial Statements to shares of common stock and related prices, weighted average number of shares, per share amounts and stock option plan data have been adjusted to reflect the stock split.

The Company is authorized by its Board of Directors to repurchase up to 1,125,000 shares of our common stock for reissuance upon the exercise of stock options under our current stock option plans.

Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. As of January 2, 2001, we had repurchased a total of 504,000 shares for a total cost of $7.1 million under this authorization.

10. Adoption of Statement of Position 98–5, "Reporting on the Costs of Start–Up Activities":

We elected early adoption of Statement of Position (SOP) 98–5, "Reporting on the Costs of Start–Up Activities," during fiscal 1998. This accounting standard, issued in 1998 by the American Institute of CPAs, requires most entities to expense all start–up and preopening costs as they are incurred. Consistent with the practice of most casual dining restaurant companies, we previously deferred such costs and then wrote them off over the twelve–month period following the opening of each restaurant. The early adoption of SOP 98–5 was made retroactive to the first quarter of fiscal 1998. The cumulative effect of this change in accounting principle, net of income tax benefit, was $6.3 million or $0.21 per diluted share and was recorded retroactively to the first quarter of 1998 as a one–time charge. This accounting standard accelerates our recognition of preopening costs but benefits the post–opening results of new restaurants.

11. Stock Options:

Since the Company's inception, the Board of Directors and stockholders have authorized us to grant options to certain employees and outside directors to acquire a total of 7,930,875 shares of common stock, pursuant to the terms of our employee and non–employee director stock option plans. Options are granted at market value on the date of the grant, generally vest at 20% per year, and become exercisable provided we meet or exceed certain performance standards. The options generally expire ten years from the date of grant. During fiscal 2000, 1999 and 1998, our Board of Directors and stockholders authorized us to grant an additional 3,000,000 (included in the cumulative total set forth above) shares of common stock under our non–employee director and employee stock option plans. Transactions during fiscal 2000, 1999 and 1998 under the option plans were as follows:

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Options outstanding at start of year	4,714,129	2,846,721	2,485,463
Options granted	1,233,199	2,528,850	751,500
Options exercised	(1,306,899)	(452,642)	(322,517)
Options cancelled	(165,451)	(208,800)	(67,725)
Options outstanding at end of year	4,474,978	4,714,129	2,846,721
Options exercisable at end of year	1,528,539	1,151,325	857,193
Options available for grant at end of year	464,567	721,557	2,148,356

11. Stock Options: (Continued)

Weighted average option exercise price information for the fiscal years 2000, 1999 and 1998 were as follows:

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Options outstanding at start of year	$11.95	$ 9.95	$ 8.93
Options granted	$25.56	$13.87	$12.56
Options exercised	$10.33	$10.01	$ 8.01
Options cancelled	$13.53	$12.19	$10.31
Options outstanding at end of year	$16.11	$11.95	$ 9.95

The following table sets forth information with respect to fixed stock options as of January 2, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Amount of Outstanding as of 1/02/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Amount Exercisable as of 1/02/01	Weighted Average Exercise Price
$5.92–$10.56	809,370	5.57 years	$ 8.79	620,032	$ 8.77
$10.92–$12.00	1,161,970	6.90	$11.90	502,044	$11.86
$12.22–$17.63	852,188	7.94	$14.07	147,563	$14.38
$18.00–$19.08	955,700	8.99	$18.56	252,650	$18.10
$19.17–$27.75	326,750	9.26	$24.48	6,250	$22.03
$30.06–$36.69	354,000	9.92	$36.11	—	$ —
$41.69–$42.81	15,000	9.82	$42.44	—	$ —
$5.92–$42.81	4,474,978	7.73	$16.11	1,528,539	$11.92

We have adopted the "disclosure only" provisions of SFAS No. 123, "Accounting for Stock–Based Compensation," and will continue to use the intrinsic value–based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for our stock option plans. Had compensation expense for our stock option plans been determined based on the fair value at the grant date for awards in fiscal 2000, 1999 and 1998 consistent with the provisions of SFAS No. 123, our net income and net income per share would have been reduced to the pro forma amounts indicated below (in thousands, except net income per share):

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Net income, as reported	$32,101	$21,732	$7,684
Net income, pro forma	$23,540	$13,774	$4,535
Basic net income per share, as reported	$ 1.04	$ 0.72	$ 0.26
Basic net income per share, pro forma	$ 0.76	$ 0.46	$ 0.15
Diluted net income per share, as reported	$ 0.96	$ 0.68	$ 0.25
Diluted net income per share, pro forma	$ 0.70	$ 0.43	$ 0.15

11. Stock Options: (Continued)

The weighted average fair value at date of grant for options issued in fiscal 2000. 1999 and 1998 was $15.39. $9.20 and $7.20 per option, respectively. The fair value of options at date of grant was estimated using the Black–Scholes option pricing model with the following weighted average assumptions for each respective year: (a) no dividend yield on our stock, (b) expected volatility of our stock of 49.1%, 49.9% and 49.6%, (c) a risk free interest rate of 6.17%, 4.88% and 5.78%, and (d) expected option lives of seven years.

12. Other Supplemental Data:

Other accrued expenses consisted of (in thousands):

	January 2, 2001	December 28, 1999
Salaries and wages	$ 5,404	$ 5.093
Payroll and sales taxes	3.473	1.850
Rent and related expenses	2,869	1.679
Compensated absences	2,562	2.057
Gift certificates	4,730	3.202
Medical benefit plan	1,414	757
Other	3,970	3,221
Total	$24.422	$17.859

13. Supplemental Cash Flow Disclosures:

Supplemental cash flow disclosures consisted of (in thousands):

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Interest paid	$ 10	$ 44	$ 24
Income taxes paid	$8,330	$8,675	$4,994

14. Employee Benefit Plans:

During fiscal 1998, we established a defined contribution benefit plan (the "401(k) Plan") in accordance with section 401(k) of the Internal Revenue Code. The 401(k) Plan is open to all employees who meet certain compensation and eligibility requirements. The 401(k) Plan allows participating employees to defer the receipt of a portion of their compensation and contribute such amount to one or more investment options. We match a certain percentage of the employee contributions to the 401(k) Plan and also pay for administrative expenses, neither of which were significant amounts during fiscal 2000, 1999 and 1998.

14. Employee Benefit Plans: (Continued)

Effective October 1999, we adopted an Executive Savings Plan (the "ESP"). The ESP is a nonqualified deferred compensation plan for our highly compensated employees as defined in the ESP and who are otherwise ineligible for participation in our 401(k) plan. The ESP allows participating employees to defer the receipt of up to 15% of their salaries and 100% of their eligible bonuses. Non–employee directors can also participate in the ESP and defer the receipt of their fees. We match 25% of the first 4% of annual salaries deferred by participating employees and also pay for administrative expenses, neither of which were significant amounts during fiscal 2000. Our match vests 25% annually beginning with the end of the employee's second year of participation in the ESP. Employee deferrals and our match are deposited into a "rabbi" trust established by us, and the funds are generally invested in individual variable life insurance contracts owned by us that are specifically designed to informally fund savings plans of this nature.

Effective May 1999, we adopted a self–insured medical benefits plan for our employees. We have purchased stop–loss coverage in order to limit our exposure to any significant medical claims. Self–insured medical benefit plan expenses are accrued based upon our estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and our historical experience. The accrued liability for our self–insured medical benefit plan (included in other accrued expenses) as of January 2, 2001 was $1,414,000.

15. Stockholder Rights Plan:

During fiscal 1998, our Board of Directors adopted a stockholder rights plan (the "Rights Plan"). The Rights Plan provides for the distribution to stockholders of one right to purchase a unit equal to 1/100 of a share of a newly created series of junior participating cumulative preferred stock. The rights are evidenced by our common stock certificates and automatically trade with its common stock. The rights are not exercisable unless a person or group acquires (or commences a tender or exchange offer or announces an intention to acquire) 15% or more of our common stock without the approval of the Board of Directors. When declared exercisable, holders of the rights (other than the acquiring person or group) would have the right to purchase units of junior participating cumulative preferred stock having a market value equal to two times the exercise price of each right, which is $110. Additionally, if we are thereafter merged into another entity, or more than 50% of our consolidated assets or earning power is sold or transferred, holders of the rights will be entitled to buy common stock of the acquiring person or group equal to two times the exercise price of each right. The rights expire on August 4, 2008, unless redeemed earlier by us.

16. Quarterly Financial Data (unaudited):

Summarized unaudited quarterly financial data (in thousands, except net income per share) for fiscal 2000 and 1999 is as follows:

Quarter Ended:	March 28, 2000	June 27, 2000	September 26, 2000	January 2, 2001
Total revenues	$96.111	$105,216	$111.321	$125.633
Income from operations	$ 8,606	$ 12.063	$ 12.458	$ 13.010
Net income	$ 5,967	$ 8,158	$ 8.552	$ 9.424
Diluted net income per share (a)	$ 0.19	$ 0.25	$ 0.25	$ 0.28

Quarter Ended:	March 30, 1999	June 29, 1999	September 28, 1999	December 28, 1999
Total revenues	$74.824	$85.767	$91,854	$95.037
Income from operations	$ 5,033	$ 7.416	$ 8.332	$10,081
Net income	$ 3,619	$ 5.272	$ 5.823	$ 7.018
Diluted net income per share (a)	$ 0.12	$ 0.17	$ 0.18	$ 0.22

(a) Diluted net income per share calculations for each quarter are based on the weighted average diluted shares outstanding for that quarter and may not total to the full year amount.

EXHIBIT INDEX

2.1	Form of Reorganization Agreement(1)
3.1	Certificate of Incorporation of the Company(1)
3.2	Bylaws of the Company(1)
3.3	Certificate of Designation of Series A Junior Participating Cumulative Preferred Stock, $.01 par value(2)
3.4	Form of Rights Agreement dated as of August 4, 1998 between the Company and U.S. Stock Transfer Corporation(2)
10.1	David Overton Employment Agreement(1)
10.2	Gerald Deitchle Employment Agreement(3)
10.3	The Cheesecake Factory Incorporated 1992 Performance Employee Stock Option Plan(1)
10.4	Performance Incentive Plan(1)
10.6	The Cheesecake Factory Incorporated Non–Employee Director Stock Option Plan(4)
10.7	David Overton Employment Contract(5)
10.8	Linda Candioty Employment Contract(5)
10.9	Amendment to The Cheesecake Factory Incorporated 1992 Performance Employee Stock Option Plan(6)
10.10	Debby R. Zurzolo Employment Agreement(7)
11.0	Statement Regarding Computation of Net Income Per Share
21.0	Subsidiaries of the Company
23.0	Consent of PricewaterhouseCoopers LLP

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(1) Previously filed and incorporated by reference herein from the Registrant's Registration Statement on Form S–1 (No. 33–47936).

(2) Previously filed and incorporated by reference herein from the Registrant's Form 8–A dated August 19, 1998.

(3) Previously filed and incorporated by reference herein from the Registrant's Form 10–K for the fiscal year ended December 29, 1996.

(4) Previously filed and incorporated by reference herein from the Registrant's Form S–8 dated August 8, 1997.

(5) Previously filed and incorporated by reference herein from the Registrant's Form 10–Q for the quarterly period ended June 30, 1998.

(6) Previously filed and incorporated by reference herein from the Registrant's Form S–8 dated January 8, 1999.

(7) Previously filed and incorporated by reference herein from the Registrant's Form 10–Q for the quarterly period ended June 29, 1999.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 6th day of March, 2001.

THE CHEESECAKE FACTORY INCORPORATED

By: /s/ DAVID OVERTON

David Overton
Chairman of the Board
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, in the capacities indicated, on this 6th day of March, 2001.

Name	Title	Date
/s/ DAVID OVERTON David Overton	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 6, 2001
/s/ GERALD W. DEITCHLE Gerald W. Deitchle	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 6, 2001
/s/ THOMAS L. GREGORY Thomas L. Gregory	Director	March 6, 2001
/s/ WAYNE H. WHITE Wayne H. White	Director	March 6, 2001
/s/ JEROME I. KRANSDORF Jerome I. Kransdorf	Director	March 6, 2001

EXHIBIT 11

STATEMENT REGARDING COMPUTATION OF NET INCOME PER SHARE

	Fiscal Year		
	2000	1999	1998
	(in thousands, except per share data)		
Net Income Per Common Share–Basic			
Weighted average shares outstanding	30,831	30,092	29,976
Net income(1)	$32,101	$21,732	$ 7,684
Net income per share–basic	$ 1.04	$ 0.72	$ 0.26
Net Income Per Common Share–Diluted			
Weighted average shares outstanding	30,831	30,092	29,976
Net effect of dilutive stock options based on the treasury stock method using average market price	2,630	1,691	882
Total shares outstanding for computation of per share earnings	33,461	31,783	30,858
Net income(1)	$32,101	$21,732	$ 7,684
Net income per share–diluted	$ 0.96	$ 0.68	$ 0.25

(1) The results for fiscal 1998 include the cumulative effect of a change in accounting principle of $6.3 million ($0.21 per basic share and $0.21 per diluted share), net of income tax benefit.

EXHIBIT 21.0

LIST OF SUBSIDIARIES:

The Cheesecake Factory Restaurants, Inc., a California corporation

The Cheesecake Factory Bakery Incorporated, a California corporation

The Cheesecake Factory Assets Co. LLC, a Nevada limited liability company

The Houston Cheesecake Factory Corporation, a Texas corporation

TCF Stonebriar Club Incorporated, a Texas corporation

Grand Lux Cafe LLC, a Nevada limited liability company

EXHIBIT 23.0

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement on Form S–8 (File No. 033–88414) of The Cheesecake Factory Incorporated of our report dated February 2, 2001 relating to the financial statements, which appear in this Form 10–K.

PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
March 6, 2001

10-K 1 d70721_10k.htm ANNUAL REPORT

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended January 1, 2002

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

Commission File Number 0-20574

THE CHEESECAKE FACTORY INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**51-0340466** *(IRS Employer Identification No.)*
26950 Agoura Road **Calabasas Hills, California** *(Address of principal executive offices)*	**91301** *(Zip Code)*

Registrant's telephone number, including area code: **(818) 871-3000**

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
Preferred Stock Purchase Rights

Indicate by check mark whether the 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 [X] 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 the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 1, 2002

CFA 0518

was $1,533,601,002. As of March 1, 2002, 48,486,973 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference information from the Registrant's proxy statement for the 2002 annual meeting of stockholders to be held on May 16, 2002.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS

Certain statements in this Form 10-K which are not historical facts may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe", "expect", "anticipate", "plan", "intend", "may", "will", "can", "should", "could" and similar expressions are intended to identify such forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Such risks, uncertainties, and other factors include, but are not limited to: changes in general economic, political or public safety conditions which affect consumer behavior and spending for restaurant dining

CFA 0519

occasions, including the ongoing ramifications of the September 11, 2001 terrorist attacks and the governmental response thereto; increasing competition in the upscale casual dining segment of the restaurant industry; adverse weather conditions which impact customer traffic at the Company's restaurants in general and which cause the temporary underutilization of outdoor patio seating available at several of the Company's restaurants; various factors which increase the cost to develop and/or affect the number and timing of the openings of new restaurants, including factors under the influence and control of government agencies and landlords; changes in the availability and/or cost of raw materials, management and hourly labor, energy or other resources necessary to successfully operate the Company's restaurants and bakery production facility; the Company's ability to raise prices sufficiently to offset cost increases, including increased costs for minimum wages, employee benefits and insurance arrangements; the success of strategic and operating initiatives, including new restaurant concepts and new bakery product lines; depth of management; adverse publicity about the Company, its restaurants or bakery products; the Company's current dependence on a single bakery production facility; the Company's ability to obtain and retain customers for its bakery operations; changes in timing and/or scope of the purchasing plans of large-account bakery customers which can cause fluctuations in bakery sales and the Company's consolidated operating results; the rate of growth of general and administrative expenses associated with building a strengthened corporate infrastructure to support the Company's growing operations; relations between the Company and its employees; the availability, amount, type, and cost of capital for the Company and the deployment of such capital, including the amounts of planned capital expenditures; changes in, or any failure to comply with, governmental regulations; the amount of, and any changes to, tax rates and the success of various initiatives to minimize taxes; and other risks and uncertainties referenced in this Form 10-K.

PART I

ITEM 1: BUSINESS

General

As of March 1, 2002, The Cheesecake Factory Incorporated (referred to herein as the "Company" or in the first person notations "we", "us" and "our") operated 50 upscale, full-service, casual dining restaurants under The Cheesecake Factory® mark in Arizona, California, Colorado, Florida, Georgia, Illinois, Indiana, Maryland, Massachusetts, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Texas, Washington and Washington, DC. We also operated two upscale casual dining restaurants under the Grand Lux Cafe® mark in Los Angeles, California and Las Vegas, Nevada; one self-service, limited menu "express" foodservice operation under The Cheesecake Factory Express® mark inside the DisneyQuest® family entertainment center in Orlando, Florida; and a bakery production facility. We also licensed three bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator. When referred to herein, the term "restaurants" includes both The Cheesecake Factory and Grand Lux Cafe concepts, unless otherwise noted, and excludes the one "express" location and the three licensed bakery cafes unless otherwise noted.

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Our Cheesecake Factory restaurants offer approximately 200 menu items including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches, omelets and desserts, including approximately 40 varieties of cheesecake and other baked desserts. Grand Lux Cafe is an upscale, casual dining concept that we are evaluating for future expansion (see "The Grand Lux Cafe Restaurant Concept and Menu"). In contrast to many chain restaurant operations, substantially all of our menu items (except desserts manufactured at our bakery production facility) are prepared on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate prices. Our restaurants possess a distinctive, contemporary design and decor that creates a high-energy ambiance in a casual setting. Our restaurants currently range in size from 5,400 to 18,300 interior square feet, provide full liquor service and are generally open seven days a week for lunch and dinner, including Sunday brunch. Total restaurant sales represented 92.7%, 92.9% and 92.2% of our total revenues for fiscal 2001, 2000 and 1999, respectively.

We believe that our ability to select suitable locations and operate successful restaurants, coupled with the

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continuing popularity of our restaurant concepts with consumers, is reflected in our average food and beverage sales per restaurant which we believe are among the highest of any publicly-held restaurant company. Average sales per restaurant open for the full year were approximately $11.0 million, $10.6 million and $10.3 million for fiscal 2001, 2000 and 1999, respectively. Since each of our restaurants has a customized layout and differs in size (measured in square feet), we believe the most effective method to measure sales productivity is by square foot. Average sales per productive square foot (defined as interior plus seasonally-adjusted patio square feet) for restaurants open for the full year were approximately $1,000, $976 and $942 for fiscal 2001, 2000 and 1999, respectively.

We believe that the viability of The Cheesecake Factory concept has been successfully demonstrated in a variety of site layouts, trade areas and markets across the United States. Accordingly, we intend to continue developing Cheesecake Factory restaurants in high profile locations within densely populated areas in both existing and new markets. In addition to expanding The Cheesecake Factory concept, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant and bakery operations, which may include new restaurant concepts such as Grand Lux Cafe or other concepts and new bakery product lines and distribution channels. In order to facilitate our expansion strategy, we plan to continue building our operating and corporate support infrastructure to focus on achieving optimal leverage and efficiencies in all of our operations. During fiscal 2001, we opened eight restaurants under The Cheesecake Factory mark and one restaurant under the Grand Lux Cafe mark. Our primary restaurant expansion objective is to increase our total restaurant productive square feet by approximately 24% to 25% during fiscal 2002. We currently expect to open as many as 12 new restaurants during fiscal 2002, of which two have opened as of March 1, 2002. Nine leases and several letters of intent have been signed as of March 1, 2002 for potential restaurant openings during fiscal 2002 and 2003.

Our operations originated in 1972 as a producer and distributor of high quality cheesecakes and other baked desserts. Our first restaurant opened in Beverly Hills, California in 1978 for the primary purpose of promoting the sale of cheesecakes and other baked desserts to other foodservice operators, retailers and distributors ("bakery sales"). Although our restaurant operations have grown substantially during recent years, we continue to focus on increasing branded and private-label sales of bakery products in order to leverage our brand identity with consumers and to take advantage of current excess bakery production capacity. Bakery sales represented 7.3%, 7.1% and 7.8% of our total revenues for fiscal 2001, 2000 and 1999, respectively.

In February 1992, the Company was incorporated in Delaware to succeed to the restaurant and bakery businesses of its predecessors operating under The Cheesecake Factory mark. Our initial public offering of common stock was completed in September 1992. Follow-on public offerings were completed in January 1994 and November 1997. Our executive offices are located at 26950 Agoura Road, Calabasas Hills, California 91301, and our telephone number is (818) 871-3000. Our Internet site can be accessed at www.thecheesecakefactory.com.

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Restaurant Competitive Positioning

The key elements of our restaurant competitive positioning are as follows:

Extensive, Creative and Contemporary Menu and Bakery Product Offerings. Our restaurants offer a wide variety of items, including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches and omelets. Our menus are generally updated twice each year to respond to changing consumer dining preferences and trends. Our bakery production facility produces over 50 varieties of quality cheesecake and other baked desserts, of which approximately 40 varieties are offered at any one time in Cheesecake Factory restaurants.

High Quality Products. Substantially all menu items (except the desserts manufactured at the Company's bakery production facility) are prepared daily on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We use high quality dairy and other raw ingredients in our bakery products.

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Exceptional Value. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate price points. The average check per restaurant guest, including beverages and desserts, was approximately $15.70, $15.40 and $15.00 for fiscal 2001, 2000 and 1999, respectively.

Superior Guest Hospitality. Our goal is to consistently meet or exceed the expectations of every restaurant guest in all facets of the dining experience. We believe that our restaurant-level employee recruitment, selection, training and incentive programs allow us to attract and retain qualified employees (staff members) who are motivated to provide consistent excellence in guest hospitality.

Flexible Kitchen Capabilities and Operating Systems. Our restaurants have been strategically designed with sufficient capacity, equipment and operating systems to allow for the successful preparation and delivery of an extensive, contemporary and flexible menu which requires multiple food preparation and cooking methods executed simultaneously.

Distinctive Restaurant Design and Decor. Our restaurants have a distinctive contemporary design and decor that creates a high-energy, "non-chain" image and upscale ambiance in a casual setting. Whenever possible, outdoor patio seating is also incorporated in the design of the restaurants, thus allowing for additional restaurant capacity (weather permitting) at a comparatively low occupancy cost per seat.

High Profile Restaurant Locations and Flexible Site Layouts. We locate our restaurants in high profile locations within densely populated areas with a balanced mix of residences, businesses, shopping and entertainment outlets. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop near each of our restaurants. We have the flexibility to design our restaurants to accommodate a wide variety of urban and suburban site layouts, including multi-level locations.

Commitment to Selecting, Training, Rewarding, and Retaining High Quality Employees. We believe our employee recruitment and selection criteria are among the most rigorous in the restaurant industry. By providing extensive training and innovative compensation programs, we believe our employees develop a sense of personal commitment to our core values and culture of excellence in restauranteuring and guest hospitality. We believe these programs have resulted in employee turnover rates which are generally lower than average for the restaurant industry.

The Cheesecake Factory Restaurant Concept and Menu

The Cheesecake Factory restaurant concept strives to provide a distinctive dining experience at moderate price points by offering an extensive, creative and evolving menu in an upscale, high energy casual setting with efficient, attentive and friendly service. As a result, our restaurants appeal to a diverse customer base. The Cheesecake Factory's extensive menu enables us to compete for substantially all dining preferences and occasions, including not only lunch and dinner, but also the mid-afternoon and late-night dayparts which are traditionally weaker dayparts for most casual dining restaurant operations. Cheesecake Factory restaurants are not open for breakfast, but do offer Sunday brunch. All of our restaurants are open seven days a week. All items on the menu, including approximately 40 varieties of cheesecake and other quality baked desserts, may be purchased for off-premise consumption, which we believe represents approximately 10% of our restaurant sales.

Our menu currently consists of approximately 19 pages and features approximately 200 items including appetizers, pizza, seafood, steaks, chicken, burgers, specialty items, pastas, salads, sandwiches and omelets. Examples of menu offerings include Tex-Mex Eggrolls, Roadside Sliders, Crusted Chicken Romano, Shrimp Scampi, Cajun Jambalaya Pasta, Santa Fe Salad, Orange Chicken and Caribbean Steak. Menu items (except those desserts manufactured at our bakery production facility) are prepared daily on the restaurant premises with high quality, fresh ingredients using innovative and proprietary recipes. We consider the extensive selection of items on our menu to be an important factor in the differentiation of our restaurants from our

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competitors. Menu entrees range in price from approximately $6.50 to $24.95. Appetizers range in price from $3.75 to $9.95, and desserts range from $3.95 to $6.95.

One of our competitive strengths is the ability to anticipate consumer dining and taste preferences and adapt our menu to the latest trends in food consumption. We create new menu items to keep pace with changing consumer tastes and preferences and regularly update our ingredients and cooking methods to improve the quality and consistency of our food offerings. Generally every six months, we review the appeal and pricing of all of our menu items and typically update or replace as many as 10 to 20 of the items. All new menu items are tested and selected based on uniqueness, sales popularity, preparation technique and profitability.

Our ability to create, promote and attractively display our unique line of baked desserts is also important to the competitive positioning and financial success of our restaurants. We believe that our brand identity and reputation for offering high quality desserts results in a higher percentage of dessert sales relative to that of most chain restaurant operators. Dessert sales represented approximately 15% of total restaurant sales for fiscal 2001, 2000 and 1999.

Each restaurant maintains a full-service bar where appetizers or the full menu may also be purchased. The sale of alcoholic beverages represented approximately 13% of total restaurant sales for fiscal 2001, 2000 and 1999. We believe the majority of our alcoholic beverage sales occur with meal purchases.

We place significant emphasis on the unique interior design and decor of our restaurants, which results in a higher investment per square foot of restaurant space than is typical for the industry. However, each of our restaurants has historically generated annual sales per square foot that is also typically higher than other competitors in the industry. We believe that our stylish restaurant design and decor package contributes to the distinctive dining experience enjoyed by our guests. Each restaurant features large, open dining areas and a contemporary kitchen design featuring exhibition cooking. Five restaurants offer banquet facilities. Approximately two-thirds of our restaurants offer outdoor patio seating (weather permitting), and three of our restaurants overlook waterfronts which complement the overall dining experience. The table and seating layouts of our restaurants are flexible, permitting tables and seats to be easily rearranged to accommodate large groups or parties, thus permitting more effective utilization of seating capacity.

The Grand Lux Cafe Restaurant Concept and Menu

In May 1999, we opened our first Grand Lux Cafe at the Venetian Resort-Hotel-Casino in Las Vegas, Nevada. Grand Lux Cafe is an upscale, casual dining concept that offers unique global cuisine in an elegant but relaxed atmosphere. The menu at Grand Lux Cafe offers approximately 150 menu items including appetizers, pasta, seafood, steaks, chicken, burgers, salads, specialty items and desserts. Examples of specialty menu offerings include Slow Roasted Lamb Shank, Chicken Venetian, Seared Rare Ahi Tuna Tostadas, Tuscan Bread Salad and Miso Glazed Salmon. Menu entrees range in price from approximately $6.50 to $28.95. Appetizers range in price from $4.95 to $10.95 and desserts range from $4.95 to $6.95. A full-service bar and bakery are also included in the concept. Our location in the Venetian Resort-Hotel-Casino is open 24 hours a day and also serves a breakfast menu with items priced from $1.95 to 15.95. Based upon the initial success of the concept in Las Vegas, we opened a second Grand Lux Cafe at the Beverly Center in Los Angeles in November 2001 and currently plan to open an additional Grand Lux Cafe in Chicago during fiscal 2002 in order to more fully evaluate the concept's future expansion potential.

Existing Restaurant Locations

As of March 1, 2002, we operated 50 full-service restaurants under The Cheesecake Factory mark in 18 states and the District of Columbia. We also operated two Grand Lux Cafe restaurants and one self-service, limited menu "express" operation at DisneyQuest-Orlando under The Cheesecake Factory Express mark. We also licensed three bakery cafes under The Cheesecake Factory Bakery Cafe mark to another foodservice operator. The following table sets forth information with respect to our Company-operated restaurant locations:

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Existing Company-Operated Restaurant Locations

Location	Opening Year	Approximate Interior Square Feet (1)	Approximate Interior Seats (2)	Approximate Patio Seats (3)
Beverly Hills, CA	1978	5,400	140	24
Marina del Rey, CA	1983	9,750	312	124
Redondo Beach, CA (4)	1988	14,000	359	165
Woodland Hills, CA	1989	10,500	319	92
Washington, DC	1991	12,500	355	—
Newport Beach, CA	1993	9,500	247	—
Brentwood, CA	1993	7,000	242	120
Atlanta, GA (Buckhead)	1993	14,000	415	138
North Bethesda, MD	1994	9,856	254	—
Coconut Grove, FL	1994	6,100	192	—
Boca Raton, FL	1995	15,742	422	—
Chicago, IL	1995	15,557	462	87
Houston, TX	1995	12,488	356	—
Chestnut Hill, MA	1995	10,646	295	32
Skokie, IL	1996	17,261	474	—
Baltimore, MD	1996	7,195	249	140
Kansas City, MO	1996	12,795	304	140
Pasadena, CA	1997	9,058	226	—
Denver, CO	1997	11,492	376	88
Westbury, NY	1997	13,008	355	—
Las Vegas, NV	1997	11,952	274	70
Cambridge, MA	1997	8,988	287	28
Miami, FL	1997	9,583	310	—
Aventura, FL	1998	10,421	285	109
Orlando, FL (DisneyQuest)	1998	3,524	296	—
Irvine, CA	1998	7,530	183	62
Dallas, TX	1998	8,852	304	32
Sunrise, FL	1998	9,237	244	154
San Diego, CA	1999	8,944	262	110
Thousand Oaks, CA	1999	7,496	230	80
Las Vegas, NV (Grand Lux Cafe)	1999	18,340	442	—
Columbus, OH	1999	10,720	295	110
Boulder, CO	1999	7,994	224	34
Providence, RI	1999	9,180	262	30
Mission Viejo, CA	1999	8,353	201	79
San Francisco, CA	2000	10,310	284	110
Atlanta, GA (Perimeter Mall)	2000	10,591	270	70
Scottsdale, AZ	2000	9,753	284	70
Indianapolis, IN	2000	11,581	341	42
West Palm Beach, FL	2000	10,425	254	118
Frisco (Dallas), TX	2000	11,314	317	62
Hackensack, NJ	2000	10,506	298	100
Schaumburg, IL	2001	10,427	301	—
Phoenix, AZ	2001	11,546	284	56
Winter Park, FL	2001	14,585	372	74
Seattle, WA	2001	11,330	314	—
Sherman Oaks, CA	2001	9,569	259	120
King of Prussia, PA	2001	11,266	316	—
Chandler, AZ	2001	11,942	334	72
Tampa, FL	2001	12,672	335	64
Los Angeles, CA (Grand Lux Cafe)	2001	14,175	334	—

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Bellevue, WA	2002	11,739	340	80
San Antonio, TX	2002	9,956	319	44
Total		568,649	16,009	3,130

(1) Excludes outside patio area, if applicable.

(2) Average seats, including bar and banquet facilities.

(3) Outdoor patio seating is typically available, weather permitting, in the Southern California and South Florida locations during most of each year and during the spring and summer seasons for other locations.

(4) Excludes approximately 7,000 square feet (85 seats) of dedicated banquet space.

New Restaurant Site Selection and Development

We believe the locations of our restaurants are critical to our long-term success and we devote significant time and resources to analyzing each prospective site. Since The Cheesecake Factory concept can be executed within a variety of site locations (urban or suburban shopping malls, retail strip centers, office complexes and entertainment centers - either freestanding or in-line) and layouts (single or multi-level, from 7,000 to 20,000 square feet), we can be highly selective and flexible in choosing suitable locations. In general, we currently prefer to open our restaurants at high profile sites within larger metropolitan areas with dense population and above-average household incomes. While our restaurants typically share common interior decor elements, the layout of each restaurant is customized to accommodate different types of buildings and different square feet of available space. In addition to carefully analyzing demographic information for each prospective site, we consider other factors such as visibility, traffic patterns and general accessibility; the availability of suitable parking; the proximity of residences and shopping areas, office parks and tourist attractions; the degree of competition within the trade area; and the general availability of restaurant-level employees. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop in each of our trade areas.

Our new restaurant development model more closely resembles that of a mall retailer, since most of our restaurants occupy leased spaces in shopping malls, office complexes, strip centers, entertainment centers and other real estate developments. We expend cash for leasehold improvements and furnishings, fixtures and equipment to build out the leased premises. We may also expend cash for permanent improvements that we make to leased premises that will be reimbursed to us by our landlords as construction contributions (also known as tenant improvement allowances) pursuant to agreed-upon terms in the respective leases. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. However, there can be no assurance that such contributions will be available for every potential location that we seek to develop into a new restaurant. In the future, we may also develop more freestanding restaurant locations using both ground leases and built-to-suit leases, which are commonly used to finance freestanding locations in the restaurant industy. We own substantially all of the equipment in our restaurants and currently plan to do so in the future

We believe the relatively high and consistent sales productivity of our restaurants provides opportunities to obtain suitable leasing terms from landlords. Due to the uniquely flexible and customized nature of our restaurant operations and the complex design, construction and preopening processes for each new location, our lease negotiation and restaurant development timeframes. The development process can range from six to eighteen months after lease signing and can be subject to delays outside of our control. The number and timing of new restaurants actually opened during any given period will depend on a number of factors including, but

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not limited to, the identification and availability of suitable locations and leases; the availability of suitable financing; the timing of the delivery of the leased premises to us from landlords so that we can commence our build-out construction activities; our ability to timely obtain all necessary governmental licenses and permits to construct and operate the restaurants; any labor shortages or disputes experienced by our outside contractors; any unforeseen engineering or environmental problems with the leased premises; weather conditions that interfere with the construction process; our ability to successfully manage the design, construction and preopening processes for each restaurant; the availability of suitable restaurant management and hourly employees; and general economic conditions. While we attempt to manage those factors within our control, we have experienced unforeseen delays in restaurant openings from time to time in the past and may continue to experience such delays in the future. Most other chain restaurant operations have a greater ability to predict the timing of their new openings as a result of their ability to acquire and control the underlying real estate for their locations and/or they have smaller, more standardized restaurant layouts that are less difficult and time consuming to construct when compared to our larger, more upscale and highly-customized leased locations.

New Restaurant Sales and Investment Objectives

Since each of our restaurants has a customized layout and differs in size (measured in square feet), we believe the most effective method to measure the unit economics of our concepts is by square foot. Average sales per productive square foot for our restaurants open during the entire period were $1,000, $976 and $942 for fiscal 2001, 2000 and 1999, respectively. We currently lease spaces for each of our restaurants and are required to expend cash for leasehold improvements and furnishings, fixtures and equipment to build out the leased spaces which is targeted, on average, from $425 to $475 per square foot (excluding preopening costs and landlord construction contributions). We typically seek to obtain construction contributions from our landlords for permanent improvements that we make to the leased premises. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. Such contributions vary from lease to lease, depending on the scope of construction activities and other factors. While we have been generally successful in obtaining landlord construction contributions in the past, there can be no assurance that such contributions will be available in similar amounts, if at all, for every potential location we seek to develop into a new restaurant.

On average, we target an average 2.5 to 1 sales-to-net cash investment ratio and an average 50% net cash-on-cash return when evaluating potential restaurant locations. The initial performance objectives for new concepts such as Grand Lux Cafe may be lower than average, since the first few locations for new concepts are typically in a refinement stage for a period of time. These cash-based performance targets for the Company's restaurant-level operations do not consider field supervision and corporate support expenses; exclude non-cash items such as depreciation expense; exclude income taxes and do not represent a targeted return on an investment in the Company's common stock. If we select a potential restaurant location for acquisition and development, the actual performance of the location may differ from its originally targeted performance. There can be no assurance that any new restaurant opened will have similar operating results to those of established restaurants. On average, our new restaurants usually require a 90-120 day period after opening to reach their targeted restaurant-level operating levels due to cost of sales and labor inefficiencies commonly associated with new, complex casual dining restaurants. As a result, a significant number of restaurant openings in any single fiscal quarter, accompanied with their associated preopening costs, could have a significant impact on our consolidated results of operations for that fiscal quarter. Therefore, our results of operations for any single fiscal quarter are not necessarily indicative of the results to be expected for any other fiscal quarter or for a full fiscal year.

Preopening Costs for New Restaurants

Preopening costs include incremental out-of-pocket costs that are directly related to the openings of new restaurants that are not otherwise capitalizable. As a result of the highly customized and operationally complex nature of our upscale, high volume concepts, the preopening process for our new restaurants is more extensive, time consuming and costly relative to that of most chain restaurant operations. The preopening cost for one of our restaurants usually includes costs to relocate and compensate an average of 11-12 restaurant management employees prior to opening; costs to recruit and train an average of 200-250 hourly restaurant employees;

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wages, travel and lodging costs for our opening training team and other support employees; and costs for practice service activities. Preopening costs will vary from location to location depending on a number of factors, including the proximity of our existing restaurants; the size and physical layout of each location; the number of management and hourly employees required to open each restaurant; the relative difficulty of the restaurant staffing process; the cost of travel and lodging for different metropolitan areas; and the extent of unexpected delays, if any, in obtaining final licenses and permits to open the restaurants, which may also be dependent upon our landlords obtaining their licenses and permits for the projects that our leased premises are located within.

Our direct preopening cost for a 10,000 square foot, single-story restaurant in an established Company market averages approximately $600,000 to $700,000. Preopening costs will usually be higher for larger restaurants, our initial entry into new markets and for new concepts such as Grand Lux Cafe. We usually incur the most significant portion of preopening costs for a typical restaurant opening within the two-month period immediately preceding and the month of the restaurant's opening. Preopening costs will fluctuate from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant, and the fluctuations could be significant. We expense preopening costs as incurred. Based on our current growth objectives for fiscal 2002 and 2003, preopening costs for each of those years will likely exceed the respective amount of preopening costs for the applicable prior year.

Restaurant Expansion Objectives

We believe that the viability of The Cheesecake Factory concept has been successfully demonstrated in a variety of site layouts, trade areas and markets across the United States. Accordingly, we intend to continue developing Cheesecake Factory restaurants in high profile locations within densely populated areas in both existing and new markets. In addition to expanding The Cheesecake Factory concept, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant operations, which may include new restaurant concepts such as Grand Lux Cafe or other concepts.

Our primary restaurant expansion objective is to increase our total restaurant productive square feet by approximately 24% to 25% during fiscal 2002. We currently expect to open as many as 12 new restaurants during fiscal 2002, of which two have opened as of March 1, 2002. Nine leases and several letters of intent have been signed as of March 1, 2002 for potential restaurant openings during fiscal 2002 and 2003. The following table sets forth information with respect to future restaurant locations under development as of March 1, 2002 for which leases have been signed:

Future Restaurants with Signed Leases

Location	Potential Opening Year	Approximate Interior Square Feet
Boston, Massachusetts	Fiscal 2002	13,800
Edina, Minnesota	Fiscal 2002	10,800
Fort Lauderdale, Florida	Fiscal 2002	11,000
Las Vegas, Nevada	Fiscal 2002	9,800
Santa Clara, California	Fiscal 2002	11,000
Orlando, Florida	Fiscal 2002	11,000
St. Louis, Missouri	Fiscal 2002	9,900
Austin, Texas	Fiscal 2003	12,600
Chicago, Illinois (Grand Lux Cafe)	Fiscal 2002	20,400

We are currently negotiating additional leases for potential future locations that could open during fiscal 2002 and 2003. From time to time, we will evaluate opportunities to acquire and convert other restaurant locations to The Cheesecake Factory and Grand Lux Cafe concepts. However, we currently have no binding commitments (other than the signed leases set forth in the table above) or agreements to acquire or convert any

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other restaurant locations to our concepts.

To date, we have not experienced any significant permanent cannibalization of the sales of existing restaurants by new restaurants, and it is not our strategy to do so. However, as we gradually increase our unit presence in existing markets over time with the objective of maximizing our competitive position and total financial performance opportunity in each market, there can be no assurance that sales cannibalization will not become more significant in the future.

We developed a bakery cafe format during fiscal 1997 to extend The Cheesecake Factory brand and provide a potential additional source of operating leverage for our bakery production facility. As of March 1, 2002, there were three licensed bakery cafe outlets in operation that range in size from 250 to 2,000 square feet and feature many of our unique desserts and a limited selection of beverages, sandwiches and salads in a self-service format. The first bakery cafe opened in July 1997 in the Ontario Mills shopping mall complex near Los Angeles, followed by the opening of two kiosk-type outlets in August 1997 located in the Ronald Reagan National Airport in Washington, DC. A third licensed bakery cafe opened at the MacArthur Center in Norfolk, Virginia in August 1999. All bakery cafes are currently operated by HMSHost, formerly known as Host Marriott Services Corporation, under licensing agreements with us. The Cheesecake Factory Express is currently the exclusive foodservice operator for the DisneyQuest family entertainment center located in Orlando, Florida. DisneyQuest features innovative, interactive technologies together with Disney characters to create an entertainment adventure for families and guests of all ages. Our Company-operated foodservice operation in DisneyQuest consists of a limited selection of The Cheesecake Factory's quality menu items and desserts in a self-service format at an average check of approximately $7.50 per guest. We have no current plans to develop and operate any additional bakery cafe or express operations, as we are currently focused on expanding our full-service restaurant concepts.

Restaurant Operations and Management

Our ability to consistently and correctly execute a made-from-scratch, complex menu in an upscale, high volume casual dining environment is critical to our overall success. Detailed operating procedures, standards, controls, food line management systems, and cooking methods and processes are utilized at our restaurants to accommodate our extensive menu and facilitate our sales productivity. However, the successful day-to-day operation of our restaurants remains critically dependent on the quality, ability, dedication and enthusiasm of the general manager, executive kitchen manager and all other management and hourly employees working at each restaurant.

Excluding The Cheesecake Factory and Grand Lux Cafe restaurants located in Las Vegas (which are both open 365 days a year), our restaurants are open every day of the year except Thanksgiving and Christmas. Hours of operation are generally from 11:00 a.m. to 11:00 p.m., except for Sunday when the restaurants open at 10:00 a.m. for brunch and on weekends when most restaurants stay open to midnight. Outdoor patio seating is available (weather permitting) at approximately two-thirds of our restaurants.

We believe that the high average sales volumes and popularity of our restaurants allow us to attract and retain higher quality, experienced restaurant-level management and other operational personnel. We also believe our restaurants have experienced a lower level of employee turnover than the restaurant industry in general. Each full-service restaurant is typically staffed with one general manager, one executive kitchen manager and from six to sixteen additional kitchen and front-of-the-house management personnel, depending on the sales volume of each restaurant. On average, general managers possess at least five years of experience with us and typically have at least five additional years of management experience with other foodservice operators. All newly-recruited restaurant management personnel complete an extensive 14-15 week training program during which they receive both classroom and on-the-job instruction in food quality and preparation, customer service, alcoholic beverage service, liquor liability avoidance, financial management and cost controls, risk management, employee relations and our core values and culture of superior guest hospitality. We also provide our restaurant managers with detailed manuals covering food and beverage standards and the proper operation of our restaurants. We are committed to operational excellence in every component of our restaurant operations.

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Efficient, attentive and friendly guest service is integral to our overall concept and brand identity. Each restaurant is staffed, on average, with approximately 200-250 hourly employees. We require each hourly employee to participate in a formal training program for their respective position in the restaurant. For example, new servers at each restaurant currently participate in approximately three weeks of training during which each server works under the supervision of restaurant management. We strive to instill enthusiasm and dedication in our employees and regularly solicit suggestions concerning restaurant operations and all aspects of our business.

Our future growth and financial success will be highly dependent upon our ability to attract, develop and retain qualified employees who are capable of successfully managing upscale, high volume casual dining restaurants and consistently executing our extensive and complex menu. The availability and retention of qualified restaurant management employees continues to be a significant industry-wide challenge facing restaurant operators. To enable us to more effectively compete for and retain the highest quality restaurant management personnel available, we maintain an innovative and comprehensive compensation program for our restaurant general managers and executive kitchen managers. Each participant in the program receives a competitive base salary and has the opportunity to earn an annual cash bonus (calculated and paid quarterly) based on the performance of his or her restaurant. Participating restaurant general managers also are eligible to utilize a company-leased vehicle, for which all nonbusiness use thereof is valued and added to the participants' taxable income pursuant to income tax regulations. A longer-term equity accumulation opportunity, based on Company stock options, is also available to participating restaurant general managers and executive kitchen managers that is dependent upon the participants' extended service with us in their respective positions (at least five years) and their achievement of certain agreed-upon performance objectives during that five-year period. Additionally, all other salaried restaurant management employees are eligible to receive annual stock option grants, based on their base compensation and tenure with the Company and our consolidated results of operations.

The restaurant general managers are responsible for selecting and training the hourly employees for their restaurants. Restaurant general managers report to area directors of operations, who typically supervise the operations of five to seven restaurants depending upon geographical and management experience factors. In turn, each area director of operations currently reports to the senior vice president for restaurant operations. Our restaurant field supervision organization also includes a senior vice president for kitchen operations, area kitchen operations managers and performance development (training) professionals who are responsible for managing new restaurant openings and training for all operational employees. As we open new restaurants, our field supervision and performance development staffs will also expand appropriately.

We maintain financial and accounting controls in our restaurants through the use of a sophisticated point-of-sale (POS) cash register system and personal computer network in each restaurant that interfaces with the computer network in the corporate office using a frame relay communication system. The POS system is also utilized to authorize and transmit credit card sales transactions. The POS system and personal computer network provides our restaurant management with daily and weekly information regarding sales, cash receipts, inventory, food and beverage costs, labor costs and other controllable operating expenses. Each restaurant also has an onsite accounting technician who assists in the accumulation and processing of accounting and other administrative information. Field supervision employees also make extensive use of laptop computers that also interface with the restaurant and corporate networks.

During the first half of fiscal 2001, we installed upgraded computer technology into our restaurants to improve our operating efficiencies and reporting capabilities. All of our restaurants were outfitted with a new POS system that incorporates the latest technology for such systems and an automated front desk management system that affords us the opportunity to better optimize our seating capacity and increase our speed of operations. During the first half of fiscal 2002, we plan to install upgraded labor timekeeping and scheduling software on our POS system. We also plan to more extensively utilize our frame relay communications capability for restaurant training purposes.

Bakery Operations

The Company's operations originated in 1972 as a producer and distributor of high quality cheesecakes and other baked desserts. The creation, production and marketing of quality cheesecakes and other baked desserts remain a cornerstone of our brand identity. At our state-of-the-art bakery production facility in Calabasas Hills, California, we produce approximately 50 varieties of cheesecake based on our proprietary recipes. Some of our popular cheesecakes include the Original Cheesecake, White Chocolate Raspberry Truffle®, Chocolate Peanut Butter Cookie-Dough, Kahlua Cocoa Coffee, Dutch Apple Caramel Streusel, Fresh Strawberry and Triple Chocolate Brownie Truffle®. Other popular baked desserts include chocolate fudge cake, carrot cake, blackout cake and apple dumplings. In the aggregate, our bakery production facility currently produces approximately 300 product SKUs.

The commissary role of our bakery operations is to produce innovative, high quality cheesecakes and other baked desserts for sale at our restaurants. Dessert sales represented approximately 15% of our total restaurant sales for both fiscal 2001 and 2000 and are important to restaurant-level profitability. We also market some of our more popular cheesecakes and other baked products on a wholesale basis to other foodservice operators, retailers and distributors. Approximately two thirds of the bakery's production activities is currently devoted to our outside customers, with the remaining one third devoted to supplying our restaurants. Cheesecakes and other items produced for outside accounts are marketed under The Cheesecake Factory mark, The Dream Factory® mark, The Cheesecake Factory Bakery® mark and private labels. Current large-account customers include the leading national warehouse club operators, institutional foodservice distributors, supermarkets, and other restaurant and foodservice operators. Sales to warehouse club operators represented approximately 49%, 55% and 57% of our total outside bakery sales for fiscal 2001, 2000 and 1999, respectively. Bakery products are delivered daily to our restaurants and other customers in the Southern California area by our delivery vehicles, and are shipped to all other markets in the United States by common carrier. We also contract with an outside fulfillment company to process our mail order sales. Frozen bakery products are also shipped internationally.

All of our cheesecakes and baked desserts are currently produced at our 60,000 square foot bakery production facility and corporate center in Calabasas Hills, California. Opened in 1996 at an approximate cost of $18.6 million, this facility has approximately 45,000 square feet devoted to bakery production. During fiscal 2001, the production facility operated at approximately 65% of its estimated practical capacity. Although bakery production increased from fiscal 2000 levels, our capacity utilization remained constant during fiscal 2001 due to the addition of several new ovens and related equipment that increased our production capacity. We believe that our capacity utilization rate could increase to approximately 70% to 75% on a run-rate basis by the end of fiscal 2002, based on our expected level of production and planned capacity additions to our existing production facility during the year. We have commenced an evaluation of various alternatives to increase our future bakery production capacity, which will likely be located in a region of the country other than the West Coast. We currently expect to complete our evaluation before the end of fiscal 2002 and to commence initial capacity addition activities during fiscal 2003.

Advertising and Promotion

We compete in the upscale, casual dining segment of the restaurant industry. This segment is generally positioned between easily-replicated casual dining operations and expensive "fine dining" or dinnerhouse operations. We believe our commitment to providing consistent, exceptional value to consumers in an upscale, casual dining environment continues to be the most effective approach to attracting and retaining customers. Accordingly, we have historically relied on our high profile locations, operational excellence and "word of mouth" to attract and retain restaurant guests instead of using media advertising. We would consider more traditional forms of media advertising if the need arose. During fiscal 2001, our restaurant-level expenditures for advertising were less than 1% of total restaurant sales.

We believe that our commitment to delivering exceptional value to consumers has enabled our newer

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restaurants to benefit from the brand recognition and reputation developed by our existing restaurants. We also attempt to build awareness and relationships with local hotel concierges. For restaurant openings in new markets, we generally host a high-profile event for a local charity as part of our preopening practice activities that also serves to introduce our concept to the market. In new markets, we also arrange for local television and radio stations to cover our high-profile restaurant openings and thereby provide us with free publicity. During fiscal 2001, the Company sponsored the formation of The Cheesecake Factory – Oscar and Evelyn Overton Charitable Foundation that, among its other intended activities, will provide a vehicle for employee participation in qualified local community service and charitable programs. With respect to our bakery operations, we currently maintain a full-time staff of seven sales and marketing employees and three product development employees. Additionally, we utilize outside foodservice brokers from time to time for certain bakery products and distribution channels.

Purchasing and Distribution

We strive to obtain quality menu ingredients, raw materials and other supplies and services for our operations from reliable sources at competitive prices. We continually research and evaluate various ingredients and products in an effort to maintain high quality and to be responsive to changing consumer tastes. Other than for cheesecakes and other baked products, our restaurants do not utilize a central food commissary. Substantially all menu items are prepared on each restaurant's premises daily from scratch, using fresh ingredients. In order to maximize purchasing efficiencies and to provide for the freshest ingredients for our menu items while obtaining the lowest possible prices for the required quality and consistency, each restaurant's management determines the quantities of food and supplies required and orders the items from local, regional and national suppliers on terms negotiated by our centralized purchasing staff. Restaurant-level inventories are maintained at minimum levels, due to the high concentration of fresh produce, poultry, meat, fish and dairy commodities that we use in our operations.

We attempt to negotiate short-term and long-term agreements for our principal commodity, supply and equipment requirements, depending on market conditions and expected demand. However, we are currently unable to contract for substantially all of our fresh commodities such as produce, poultry, meat, fish and dairy items for long periods of time and, consequently, such commodities can be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. We believe that all essential food and beverage products are available from several qualified suppliers in all cities in which our operations are located. Most food and supply items are delivered daily to our restaurants by independent foodservice distributors, including the largest foodservice distributor in North America.

Competition

The restaurant industry is highly competitive. There are a substantial number of restaurant operations that compete directly and indirectly with us, many of which have significantly greater financial resources, higher revenues and greater economies of scale. The restaurant business is often affected by changes in consumer tastes and discretionary spending patterns; national and regional economic and public safety conditions; demographic trends; the cost and availability of raw materials, labor and energy; purchasing power; governmental regulations and local competitive factors. Any change in these or other related factors could adversely affect our restaurant operations. Accordingly, we must constantly evolve and refine the critical elements of our restaurant concepts over time to protect their longer-term competitiveness. Multi-unit foodservice operations such as ours can also be substantially affected by adverse publicity resulting from food quality, illness, injury, health concerns or operating issues stemming from a single restaurant or, with respect to our bakery operations, a single production run of bakery products. We attempt to manage these factors, but the occurrence of any one of these factors could cause our entire Company to be adversely affected. With regard to our bakery operations, competition within the premium baked dessert market has historically been regional and fragmented. However, overall competition within that market remains intense. We believe that our restaurant and bakery operations compete favorably with consumers on the critical attributes of quality, variety, taste, service, consistency and overall value.

Events of September 11, 2001

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The September 11, 2001 terrorist attacks on the World Trade Center in New York City and the Pentagon have negatively impacted the United States economy, which was experiencing a reduced level of growth prior to those attacks. Like most consumer businesses, our business is affected by general economic, political and public safety conditions that impact consumer confidence and discretionary spending. Sales for most of our restaurants, particularly those located in higher profile venues (such as the landmark John Hancock building in Chicago) and major tourist destinations (such as Las Vegas, Nevada and the state of Florida), were adversely affected as a result of the September 11 attacks. While sales trends for most of our restaurants have recovered to their pre-September 11 levels as of March 1, 2002, additional terrorist attacks or related events occurring in the future could adversely impact all consumer businesses, including ours. It is not possible to predict the longer-term effects of the terrorist attacks, or the impact of actions taken in response to the attacks, on general economic, political and public safety conditions and our results of operations.

Government Regulation

We are subject to various federal, state and local laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities which may include alcoholic beverage control, health, sanitation, environmental, zoning and public safety agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development and openings of new restaurants, or could disrupt the operations of existing restaurants. However, we believe that we are in compliance in all material respects with all relevant governmental regulations, and we have not experienced abnormal difficulties or delays in obtaining the licenses or approvals required to open or operate any restaurant to date.

Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county and municipal authorities for licenses and permits to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of our restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, and storage and dispensing of alcoholic beverages. We have not encountered any material problems relating to alcoholic beverage licenses to date. The failure to receive or retain, or a delay in obtaining, a liquor license for a particular restaurant could adversely affect our ability to obtain such licenses elsewhere.

We are subject to "dram-shop" statutes in most of the states in which we have operations, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment which wrongfully served alcoholic beverages to such person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance that we believe is consistent with coverage carried by other entities in the restaurant industry of similar size and scope of operations. Even though we are covered by general liability insurance, a settlement or judgment against us under a "dram-shop" statute in excess of our liability coverage could have a material adverse effect on our operations.

Various federal and state labor laws govern our operations and our relationship with our employees, including such matters as minimum wages, overtime, fringe benefits, safety, working conditions and citizenship requirements. We are also subject to the regulations of the Immigration and Naturalization Service (INS). Even if we operate our restaurants in strict compliance with INS requirements, all of our employees may not meet federal citizenship or residency requirements, which could lead to a disruption in our work force. Significant government-imposed increases in minimum wages, paid leaves of absence and mandated health benefits, or increased tax reporting, assessment or payment requirements related to our employees who receive gratuities could be detrimental to the profitability of our restaurants and bakery operations. Even though we carry employment practices insurance, a settlement or judgment against us in excess of our coverage limitations could have a material adverse effect on our results of operations, liquidity, financial position or business. We are not aware of any environmental regulations that have had a material effect on our operations to date.

Employees

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As of March 1, 2002, we employed approximately 12,350 persons, of which approximately 11,700 employees worked in our restaurants, approximately 490 worked in our bakery operations and approximately 160 employees worked in our corporate center and restaurant field supervision organization. None of our employees are currently covered by collective bargaining agreements, and we have never experienced an organized work stoppage, strike or labor dispute. We believe our working conditions and compensation packages are generally comparable with those offered by our competitors and consider overall relations with our employees to be favorable.

Trademarks

We have registered, among other marks, "The Cheesecake Factory", "Grand Lux Cafe", "The Cheesecake Factory Bakery", "The Cheesecake Factory Express", "The Dream Factory" and "The Cheesecake Factory Bakery Cafe" as trademarks with the United States Patent and Trademark Office. Additional trademark applications are pending. We have also registered our ownership of the Internet domain name "www.thecheesecakefactory.com" and other names. We regard our trademarks as having substantial value and as being important factors in the marketing of our restaurants and bakery products. We have registered, or have pending applications to register, one or more of our trademarks in more than 70 foreign countries, although there can be no assurance that our name and marks are registerable in every country for which registration is being sought. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained, and they have not been found to become generic.

Executive Officers

David Overton, age 55, co-founded our predecessor company in 1972 with his parents. He has served as our Chairman of the Board, President and Chief Executive Officer since the Company was incorporated in February 1992.

Gerald W. Deitchle, age 50, serves as Executive Vice President, Corporate Operations and Chief Financial Officer. Mr. Deitchle has over 25 years of executive and financial management experience with national restaurant and retail chain operations. He joined our Company as Senior Vice President, Finance and Administration and Chief Financial Officer in July 1995.

Debby R. Zurzolo, age 45, joined our Company as Senior Vice President and General Counsel in April 1999. From 1982 until joining the Company, Ms. Zurzolo practiced law at Greenberg Glusker Fields Claman & Machtinger LLP in Los Angeles, California. As a partner with that firm, Ms. Zurzolo represented our Company on various real estate matters and negotiated several of our restaurant leases.

Linda J. Candioty, age 47, retired as Executive Vice President and Secretary on March 1, 2002 after 25 years of Company service. Ms. Candioty will continue to serve our Company as a part-time consultant.

ITEM 2: PROPERTIES

All of our 53 existing company-operated restaurants are located on leased properties, and we have no current plans to own land and buildings for future restaurants. We own substantially all of the equipment in our restaurants. Existing restaurant leases have primary terms with expiration dates ranging August 5, 2003 to January 31, 2023 (excluding existing renewal options). We do not anticipate any difficulties renewing our existing leases as they expire; however, there can be no assurance that we will be able to renew such leases after the expiration of all remaining renewal options. Leases generally provide for contingent rent based on a percentage of restaurant sales (versus a minimum base rental) and payment of certain lease-related expenses. See Note 6 of the Notes to the Company's Consolidated Financial Statements for information regarding the aggregate minimum and percentage rentals paid for recent periods and information regarding our obligation to pay minimum rentals in future years.

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Our corporate center and bakery production operations are located in Calabasas Hills, California in a 60,000 square-foot facility on a 3.3-acre parcel of land. We currently own this entire facility (land, building and equipment) in fee simple. During fiscal 2001, we entered into a 10-year lease for approximately 34,000 square feet of additional training, R&D and office space adjacent to our existing facility that is scheduled to commence during the second half of fiscal 2002.

ITEM 3: LEGAL PROCEEDINGS

From time to time, lawsuits are filed against us in the ordinary course of our business. Such lawsuits typically involve claims from guests and others related to operational issues common to the foodservice industry. A number of such claims may exist at any given time. In addition, we also encounter complaints and allegations from current and former employees or others from time to time that we believe to be common for businesses similar to ours. We could be affected by adverse publicity resulting from such allegations, regardless of whether or not such allegations are valid or whether we are liable. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks. We are currently not a party to any litigation that could have a material adverse effect on our results of operations, liquidity, financial position or our business and we are not aware that any such litigation is threatened.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended January 1, 2002.

PART II

ITEM 5: MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the Nasdaq Stock Market® under the symbol CAKE. The following table sets forth, for the periods indicated, the high and low sales prices as reported on the Nasdaq Stock Market.

	High	Low
Fiscal 2000:		
First Quarter	$16.39	$12.33
Second Quarter	21.94	15.25
Third Quarter	27.25	17.92
Fourth Quarter	32.29	23.33
Fiscal 2001:		
First Quarter	$29.83	$21.42
Second Quarter	28.50	21.20
Third Quarter	32.96	19.92
Fourth Quarter	36.25	23.40

Since our initial public offering in September 1992, we have not declared or paid any cash dividends on our common stock. We currently intend to retain all earnings for the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. There were approximately 650 holders of record of our common stock at March 1, 2002 and we estimate there were approximately 16,800 beneficial stockholders on that date.

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ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth, for the periods indicated, selected consolidated financial data that has been derived from our audited Consolidated Financial Statements. The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto, and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Fiscal Year (1)				
	2001	2000	1999	1998	1997
	(in thousands, except net income per share)				
Income Statement Data:					
Revenues:					
Restaurant sales	$499,519	$ 406,947	$320,450	$ 243,415	$189,475
Bakery sales to other foodservice operators, retailers and distributors	39,611	31,334	27,032	21,808	19,114
Total revenues	539,130	438,281	347,482	265,223	208,589
Costs and expenses:					
Restaurant cost of sales	127,005	102,994	82,496	65,480	50,084
Bakery cost of sales	19,153	14,466	12,685	10,626	7,805
Labor expenses	164,372	133,287	105,796	81,475	64,708
Other operating costs and expenses	120,706	95,941	77,247	60,452	48,320
General and administrative expenses	27,929	25,831	21,266	17,333	10,096
Depreciation and amortization expenses	17,457	13,682	10,913	8,540	6,696
Preopening costs	7,069	5,943	6,217	3,603	6,646
Total costs and expenses	483,691	392,144	316,620	247,509	194,355
Income from operations	55,439	46,137	30,862	17,714	14,234
Interest income, net	4,328	4,660	2,807	2,955	520
Other income (expense), net	1,654	(439)	555	435	420
Income before income taxes and cumulative effect of change in accounting principle	61,421	50,358	34,224	21,104	15,174
Income tax provision	22,112	18,257	12,492	7,073	5,235
Income before cumulative effect of change in accounting principle	39,309	32,101	21,732	14,031	9,939
Cumulative effect of change in accounting principle, net of income tax benefit of $3,343 (2)	—	—	—	6,347	—
Net income	$ 39,309	$ 32,101	$ 21,732	$ 7,684	$ 9,939
Net income per share:					
Basic:					
Income before cumulative effect of change in accounting principle	$ 0.83	$ 0.69	$ 0.48	$ 0.31	$ 0.26
Cumulative effect of change in accounting principle (2)	—	—	—	(0.14)	—
Net income	$ 0.83	$ 0.69	$ 0.48	$ 0.17	$ 0.26
Diluted:					

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Income before cumulative effect of change in accounting principle	$ 0.79	$ 0.64	$ 0.46	$ 0.31	$ 0.26
Cumulative effect of change in accounting principle (2)	—	—	—	(0.14)	—
Net income	$ 0.79	$ 0.64	$ 0.46	$ 0.17	$ 0.26
Weighted average shares outstanding:					
Basic	47,466	46,247	45,138	44,964	37,895
Diluted	49,897	50,192	47,675	46,287	38,547
Balance Sheet Data (at end of period):					
Adjusted net working capital (including all marketable securities classified as either current or noncurrent assets)	$ 70,245	$ 73,688	$ 45,066	$ 43,873	$ 58,535
Total assets	$356,927	$ 288,392	$221,785	$ 185,420	$177,702
Total long-term debt (including current portion)	$ —	$ —	$ —	$ —	$ —
Stockholders' equity	$289,471	$ 240,836	$185,573	$ 160,291	$152,545

(1) Fiscal 2000 consisted of 53 weeks. All other fiscal years consisted of 52 weeks.

(2) During fiscal 1998, we adopted AICPA SOP No. 98-5, "Reporting on the Costs of Start-Up Activities", and began expensing restaurant preopening costs as incurred. Previously, such costs were deferred and amortized over the 12-month period following restaurant openings.

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

General

As of March 1, 2002, we operated 50 upscale, high volume, casual dining restaurants under The Cheesecake Factory® mark. We also operated two upscale casual dining restaurants under the Grand Lux Cafe® mark in Los Angeles, California and Las Vegas, Nevada; one self-service, limited menu "express" foodservice operation under The Cheesecake Factory Express® mark inside the DisneyQuest® family entertainment center in Orlando, Florida; and a bakery production facility. We also licensed three limited menu bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator.

Our revenues consist of sales from our restaurant operations and sales from our bakery operations to other foodservice operators, retailers and distributors ("bakery sales"). Revenue from restaurant sales is recognized when food and beverage products are sold to our guests. Revenue from bakery sales to other foodservice operators, retailers and distributors is recognized when the products are shipped. Sales and cost of sales are reported separately for restaurant and bakery activities. All other operating cost and expense categories are reported on a combined basis for both restaurant and bakery activities. Comparable restaurant sales include the sales from restaurants open for the full period of each period being compared. We utilize a 52/53 week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal 2001 and 1999 each consisted of 52 weeks, while Fiscal 2000 consisted of 53 weeks. Fiscal 2002 will consist of 52 weeks and will end on December 31, 2002.

On September 4, 2001, Disney Regional Entertainment ("Disney") closed its DisneyQuest® family entertainment facility in Chicago, Illinois. Accordingly, our limited menu "express" foodservice operation located inside that DisneyQuest facility also closed on that date. Due to the small size and limited scope of this operation and the terms of our agreement with Disney, this closure did not have a significant impact on our results of operations or financial position. Disney expects to continue to operate the one remaining DisneyQuest facility in Orlando, Florida and we expect to continue to operate our limited menu "express" foodservice operation inside that facility.

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Results of Operations

The following table sets forth, for the periods indicated, the Consolidated Statements of Operations of the Company expressed as percentages of total revenues.

	Fiscal Year		
	2001	2000	1999
Revenues:			
Restaurant sales	92.7%	92.9%	92.2%
Bakery sales to other foodservice operators, retailers and distributors	7.3	7.1	7.8
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant cost of sales	23.5	23.5	23.7
Bakery cost of sales	3.6	3.3	3.7
Labor expenses	30.5	30.4	30.5
Other operating costs and expenses	22.4	21.9	22.2
General and administrative expenses	5.2	5.9	6.1
Depreciation and amortization expenses	3.2	3.1	3.1
Preopening costs	1.3	1.4	1.8
Total costs and expenses	89.7	89.5	91.1
Income from operations	10.3	10.5	8.9
Interest income, net	0.8	1.1	0.8
Other income (expense), net	0.3	(0.1)	0.2
Income before income taxes	11.4	11.5	9.9
Income tax provision	4.1	4.2	3.6
Net income	7.3%	7.3%	6.3%

Fiscal 2001 (52 Weeks) Compared to Fiscal 2000 (53 Weeks)

Revenues

Total revenues increased 23% to $539.1 million for the 52 weeks of fiscal 2001 compared to $438.3 million for the 53 weeks of fiscal 2000. After adjusting for the extra week in fiscal 2000, total revenues for fiscal 2001 would have increased by approximately 26%.

Restaurant sales increased 23% to $499.5 million for the 52 weeks of fiscal 2001 compared to $407.0 million for the 53 weeks in the prior fiscal year. Restaurant sales would have increased by 25% for fiscal 2001 after adjusting for approximately $8.7 million of sales for the extra week in fiscal 2000. The resulting restaurant sales increase of $101.2 million for fiscal 2001 on a 52-week basis consisted of the following components: $42.6 million from the openings of nine new restaurants during the fiscal year; $53.0 million from restaurants opened during fiscal 2000 that were not considered comparable sales during fiscal 2001; and $5.6 million from comparable restaurant sales. Total restaurant operating weeks and estimated productive square feet increased approximately 21% and 23% to 2,422 and 567,129, respectively, during fiscal 2001 on a 52-week basis. A single restaurant open during the full period of fiscal 2001 would have generated 52 operating weeks.

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Productive square feet consists of interior plus seasonally-adjusted patio square feet. We believe that measuring the changes in total restaurant operating weeks and total productive square feet from period to period is the most effective way to analyze the growth of the total productive capacity of our restaurant operations. Average sales per restaurant operating week for restaurants open during the full fiscal year increased 3.6% to $211,900 compared to $204,500 for fiscal 2000 on a 52-week basis.

To conform with the more prevalent practice of measuring comparable sales changes in the casual dining segment of the restaurant industry, starting in fiscal 2002 we will measure comparable sales using restaurants open more than eighteen months. In fiscal 2001 and prior years, we measured comparable sales using restaurants open more than twelve months. Comparable restaurant sales increased approximately 1.4% during fiscal 2001 under both measures. This increase was partially attributable to effective menu price increases totaling approximately 1.9% for the full fiscal year, offset in part by reduced guest traffic in several of our higher-profile restaurants after the events of September 11, 2001. Excluding factors outside of our control, we only expect to achieve increases in comparable restaurant sales that are approximately equal to our effective menu price increases, since most of our established restaurants currently operate close to full capacity during peak meal periods. However, there can be no assurance that increases in comparable sales will be achieved.

Bakery sales to other foodservice operators, retailers and distributors ("bakery sales") increased 26% to $39.6 million for the 52 weeks in fiscal 2001 compared to $31.3 million for the 53 weeks in the prior fiscal year. After adjusting for the extra week in fiscal 2000, bakery sales would have increased approximately 29% during fiscal 2001. The increase in bakery sales was principally attributable to higher sales volumes to new and established foodservice accounts and to warehouse club operators. Sales to warehouse club operators represented approximately 49% of total bakery sales for fiscal 2001 compared to 55% for fiscal 2000.

Restaurant Cost of Sales

Restaurant cost of sales increased 23% to $127.0 million in fiscal 2001 compared to $103.0 million in fiscal 2000. This increase was primarily attributable to the 23% increase in restaurant sales during fiscal 2001. As a percentage of restaurant sales, these costs remained relatively constant at 25.4% during fiscal 2001 compared to 25.3% for the prior fiscal year.

The menu at our restaurants is one of the most diversified in the foodservice industry and, accordingly, is not overly dependent on a single commodity. The principal commodity categories for our restaurants include produce, poultry, meat, fish and seafood, cheese, other dairy products, bread and general grocery items. While we have taken steps to qualify multiple suppliers and enter into agreements for some of the key commodities used in our restaurant operations, there can be no assurance that future supplies and costs for commodities used in our restaurant operations will not fluctuate due to weather and other market conditions outside of our control. Approximately one-third of our restaurant cost of sales consists of fresh produce, poultry and dairy commodities that can be subject to supply and cost fluctuations due principally to weather and other general agricultural conditions. For new restaurants, cost of sales will typically be higher than normal during the first 90-120 days of operations until our management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by our restaurants.

Bakery Cost of Sales

Bakery cost of sales, which include ingredient, packaging and production supply costs, were $19.2 million for fiscal 2001 compared to $14.5 million for the prior fiscal year. The increase of $4.7 million was principally attributable to the 26% increase in bakery sales for fiscal 2001. As a percentage of bakery sales, bakery cost of sales increased to 48.4% for fiscal 2001 compared to 46.2% for fiscal 2000. This increase was primarily attributable to a shift in the mix of sales to products with slightly higher cost of sales as a percentage of their

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associated price (but with slightly lower selling expenses, which are included in the "other operating costs and expenses" category) and a slight increase in the cost for certain dairy-related commodities that are not subject to annual fixed-price contracts. While we have taken steps to qualify multiple suppliers and enter into agreements for some of the key commodities used in our bakery operations, there can be no assurance that future supplies and costs for commodities used in our bakery or restaurant operations will not fluctuate due to weather and other market conditions beyond our control. Cream cheese is the most significant commodity used in our bakery products, with an expected requirement for as much as 9 million pounds during fiscal 2002. During the first quarter of fiscal 2002, we expect to execute agreements for substantially all of our cream cheese requirements for the 12-month period thereafter with two or more suppliers at a fixed cost per pound that is expected to be slightly higher than the cost experienced for fiscal 2001. We may also purchase cream cheese on the spot market as necessary to supplement our agreements.

Labor Expenses

Labor expenses, which include restaurant-level labor costs and bakery direct production labor (including associated fringe benefits), increased 23.3% to $164.4 million for fiscal 2001 compared to $133.3 million for fiscal 2000. This increase was principally due to the 23% increase in total revenues during fiscal 2001. As a percentage of total revenues, labor expenses increased slightly to 30.5% for fiscal 2001 compared to 30.4% for fiscal 2000 reflecting increased costs for employee health insurance benefits, partially offset by labor productivity improvements. For new restaurants, labor expenses will typically be higher than normal during the first 90-120 days of operations until our management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by our restaurants. The state of California increased its minimum wage by $0.50 per hour to $6.75 effective January 1, 2002. This was on top of a similar increase per hour that was effective January 1, 2001 that did not have a material impact on our labor expenses as a percentage of total revenues for fiscal 2001. As of March 1, 2002, 13 of our restaurant locations (25%) were in California. We believe the latest California minimum wage increase should not have a material impact on our labor expenses as a percentage of our total revenues.

Other Operating Costs and Expenses

Other operating costs and expenses consist of restaurant-level occupancy expenses (rent, insurance, licenses and taxes, and utilities), other operating expenses (excluding food costs and labor expenses reported separately) and bakery production overhead, selling and distribution expenses. Other operating costs and expenses increased 25.9% to $120.7 million for fiscal 2001 compared to $95.9 million for fiscal 2000. This increase was principally attributable to the 23% increase in total revenues for fiscal 2001. As a percentage of total revenues, other operating costs and expenses increased slightly to 22.4% for fiscal 2001 versus 21.9% for fiscal 2000. This increase was principally due to higher costs for electric and natural gas services which increased to 1.6% of restaurant revenues for fiscal 2001 compared to 1.3% for fiscal 2000 and increased costs for our insurance arrangements, which reflected the general increase in such costs resulting from the terrorist attacks of September 11, 2001. We expect the costs for all of our insurance arrangements to continue to increase during fiscal 2002.

General and Administrative Expenses

General and administrative ("G&A") expenses consist of the restaurant management recruiting and training program, the restaurant field supervision organization, the bakery administrative organization and the corporate support organization. G&A expenses increased 8.1% to $27.9 million for fiscal 2001 compared to $25.8 million for fiscal 2000. This increase was principally due to the planned growth of these supervision and support organizations commensurate with the growth of our restaurant and bakery operations during fiscal 2001. As a percentage of total revenues, G&A expenses decreased slightly to 5.2% for fiscal 2001 compared to 5.9% for the prior fiscal year as the 8.1% increase in these expenses for fiscal 2001 was less than the 23% increase in total revenues for the year. During fiscal 2002, we plan to continue to add resources to the G&A activities of our business, commensurate with the planned openings of as many as 12 new restaurants during the year.

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Depreciation and Amortization Expenses

Depreciation and amortization expenses increased 27.7% to $17.5 million for fiscal 2001 compared to $13.7 million for fiscal 2000. This increase was principally due to new restaurant openings. As a percentage of total revenues, depreciation and amortization expenses were 3.2% and 3.1% for fiscal 2001 and 2000, respectively.

Preopening Costs

Preopening costs increased 20.3% to $7.1 million for fiscal 2001 compared to $5.9 million for the prior fiscal year. We opened nine restaurants during fiscal 2001 compared to seven openings during fiscal 2000. Preopening costs include incremental out-of-pocket costs that are directly related to the openings of new restaurants that are not otherwise capitalizable. As a result of the highly customized and operationally complex nature of our upscale, high volume concepts, the restaurant preopening process for our new restaurants is more extensive, time consuming and costly relative to that of most chain restaurant operations. The preopening cost for one of our restaurants usually includes costs to relocate and compensate an average of 11-12 restaurant management employees prior to opening; costs to recruit and train an average of 200-250 hourly restaurant employees; wages, travel and lodging costs for our opening training team and other support employees; and costs for practice service activities. Preopening costs will vary from location to location depending on a number of factors, including the proximity of our existing restaurants; the size and physical layout of each location; the number of management and hourly employees required to open each restaurant; the relative difficulty of the restaurant staffing process; the cost of travel and lodging for different metropolitan areas; and the extent of unexpected delays, if any, in obtaining final licenses and permits to open the restaurants, which may also be caused by landlords.

Our direct preopening cost for a 10,000 square foot, single-story restaurant in an established Company market averages approximately $600,000 to $700,000. Preopening costs will usually be higher for larger restaurants, our initial entry into new markets and for new concepts such as Grand Lux Cafe. We usually incur the most significant portion of preopening costs for a typical restaurant opening within the two-month period immediately preceding and the month of the restaurant's opening. Preopening costs will fluctuate from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant, and the fluctuations could be significant. We expense preopening costs as incurred. Based on our current growth objectives for fiscal 2002 and 2003, preopening costs for each of those years will likely exceed the respective amount of preopening costs for the applicable prior year.

Interest Income, Other (Expense) Income and Income Taxes

Interest income decreased 8.5% to $4.3 million for fiscal 2001 compared to $4.7 million for fiscal 2000. This decrease was principally due to lower yields on our interest-bearing cash and short-term investments that was due to the decline in the general level of interest rates during fiscal 2001. Other income for fiscal 2001 was $1.7 million compared to other expense of ($0.4) million for fiscal 2000. This increase was principally due to gains recognized in fiscal 2001 on the sale of short-term investments compared to a one-time write off of the remaining net book value of our former restaurant point-of-sale (POS) system in the prior fiscal year. Our effective income tax rate was 36.0% for fiscal 2001 compared to 36.2% for fiscal 2000. For fiscal 2002, we initially estimate our effective tax rate to be in the range of 35.7%. The actual effective tax rate for fiscal 2002 may be different than our current estimate due to actual revenues, pretax income and tax credits achieved during the year.

Fiscal 2000 (53 Weeks) Compared to Fiscal 1999 (52 Weeks)

Revenues

Total revenues increased 26% to $438.3 million for the 53 weeks of fiscal 2000 compared to $347.5 million for the 52 weeks of fiscal 1999.

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Restaurant sales increased 27% to $407.0 million for the 53 weeks of fiscal 2000 compared to $320.5 million for the 52 weeks of the prior fiscal year. The restaurant sales increase of $86.5 million was due to $10.1 million from the additional operating week in fiscal 2001(representing revenues from the final week of the 4th quarter which included higher sales from the New Year's holiday), $29.0 million from the openings of seven new restaurants during the fiscal year; $32.3 million from restaurants opened during fiscal 1999 that were not considered comparable sales during fiscal 2000; and $15.1 million from increased comparable restaurant sales. Total restaurant operating weeks and estimated productive square feet increased approximately 20% and 21% to 1,996 and 461,645, respectively, during fiscal 2000 on a 52-week basis. Average sales per restaurant operating week increased 3% to $198,800 compared to $192,900 for fiscal 1999. Comparable sales for restaurants open at least twelve months increased 4.5% during fiscal 2000 (4.8% for restaurants open at least eighteen months) and benefited from an effective menu price increase of approximately 1.5% for the fiscal year.

Bakery sales to other foodservice operators, retailers and distributors ("bakery sales") increased 16% to $31.3 million for fiscal 2000 compared to $27.0 million for the prior fiscal year. Sales to warehouse club operators represented approximately 55% of total bakery sales for fiscal 2000 compared to 57% for fiscal 1999.

Restaurant Cost of Sales

Restaurant cost of sales increased 25% to $103.0 million in fiscal 2000 compared to $82.5 million in fiscal 1999. This increase was primarily attributable to the 27% increase in restaurant sales during fiscal 2000. As a percentage of restaurant sales, these costs decreased slightly to 25.3% during fiscal 2000 compared to 25.7% for the prior fiscal year, principally as a result of menu price increases and higher volume purchase discounts.

Bakery Cost of Sales

Bakery cost of sales were $14.5 million for fiscal 2000 compared to $12.7 million for the prior fiscal year. The increase of $1.8 million was principally attributable to the 16% increase in bakery sales for fiscal 2000. As a percentage of bakery sales, bakery cost of sales decreased slightly for fiscal 2000 to 46.2% compared to 46.9% for fiscal 1999, principally as a result of lower dairy-related commodity costs (principally cream cheese, whipped cream and butter).

Labor Expenses

Labor expenses increased 26% to $133.3 million for fiscal 2000 compared to $105.8 million for fiscal 1999. This increase was principally due to the 26% increase in total revenues during fiscal 2000. As a percentage of total revenues, labor expenses decreased slightly to 30.4% for fiscal 2000 compared to 30.5% for fiscal 1999.

Other Operating Costs and Expenses

Other operating costs and expenses increased 24% to $95.9 million for fiscal 2000 compared to $77.2 million for fiscal 1999. This increase was principally attributable to the 26% increase in total revenues for fiscal 2000. As a percentage of total revenues, other operating costs and expenses decreased slightly to 21.9% for fiscal 2000 versus 22.2% for fiscal 1999, principally due to the leveraging of the fixed component of this expense category with higher revenues.

General and Administrative Expenses

General and administrative ("G&A") expenses increased 21% to $25.8 million for fiscal 2000 compared to $21.3 million for fiscal 1999. This increase was principally due to the planned growth of our field supervision and corporate support organizations, commensurate with the growth of our restaurant and bakery operations during fiscal 2000. As a percentage of total revenues, G&A expenses decreased slightly to 5.9% for fiscal 2000 compared to 6.1% for the prior fiscal year.

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Depreciation and Amortization Expenses

Depreciation and amortization expenses increased 25% to $13.7 million for fiscal 2000 compared to $10.9 million for fiscal 1999. This increase was principally due to new restaurant openings. As a percentage of total revenues, depreciation and amortization expenses were 3.1% for both fiscal 2000 and 1999.

Preopening Costs

Preopening costs decreased 4% to $5.9 million for fiscal 2000 compared to $6.2 million for the prior fiscal year. We opened seven restaurants during fiscal 2000 compared to eight openings during fiscal 1999.

Interest Income

Interest income increased 66% to $4.7 million for fiscal 2000 compared to $2.8 million for fiscal 1999. This increase was principally due to higher levels of interest-bearing cash and investments during fiscal 2000.

Liquidity and Capital Resources

The following table presents, for the periods indicated, a summary of the Company's key liquidity measurements.

	Fiscal Year (1)		
	2001	2000	1999
	(dollar amounts in millions)		
Cash and marketable securities on hand, end of year	$92.3	$85.3	$55.2
Net working capital, end of year	$ 0.9	$39.5	$35.5
Adjusted net working capital, end of year(2)	$70.3	$73.7	$45.1
Current ratio, end of year	1.0:1	1.9:1	2.1:1
Adjusted current ratio, end of year (2)	2.2:1	2.7:1	2.4:1
Long-term debt, end of year	$ —	$ —	$ —
Cash provided by operations	$75.9	$56.3	$39.2
Capital expenditures	$74.3	$39.2	$38.6

(1) Fiscal 2000 consisted of 53 weeks. All other fiscal years consisted of 52 weeks.
(2) Includes all marketable securities classified as either current or noncurrent assets.

During fiscal 2001, our total amount of cash and marketable securities on hand increased by $7.0 million to $92.3 million as of January 1, 2002. This increase was principally due to increased cash flow from operations. In the table above, we also present adjusted net working capital and current ratio calculations that include all marketable securities classified as either current or noncurrent assets. We believe these adjusted calculations more properly reflect our overall liquidity position. In response to the recent decrease in the general level of interest rates and our forecasted cash flow requirements, we have been slightly lengthening the average maturity of our marketable securities portfolio in order to capture additional investment yield. As a result, most of our investments in marketable securities now have maturities in excess of one year and are classified as noncurrent assets, but remain available for our liquidity requirements.

As of March 1, 2002, there were no borrowings outstanding under our $25 million revolving credit and term loan facility (the "Credit Facility"). Borrowings under the Credit Facility will bear interest at variable rates based, at our option, on either the prime rate of interest, the lending institution's cost of funds plus 0.75%, or the applicable LIBOR rate plus 0.75%. The Credit Facility expires on May 31, 2003. On that date, a maximum of $25 million of any borrowings outstanding under the Credit Facility automatically convert into a four-year term

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loan, payable in equal quarterly installments at interest rates of 0.5% higher than the applicable revolving credit rates. The Credit Facility may also be used for standby letters of credit to support our purchasing and insurance programs. The Credit Facility is not collateralized and requires us to maintain certain financial ratios and to observe certain restrictive covenants with respect to the conduct of our operations, with which we are currently in compliance.

Our new restaurant development model more closely resembles that of a mall retailer, since most of our restaurants occupy leased spaces in shopping malls, office complexes, strip centers, entertainment centers or other real estate developments. We expend cash for leasehold improvements and furnishings, fixtures and equipment to build out leased premises. We may also expend cash for permanent improvements that we make to leased premises that will be reimbursed to us by our landlords as construction contributions pursuant to agreed-upon terms in the respective leases. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. We initially record uncollected landlord construction contributions as other receivables. Our balance of other receivables will fluctuate from period to period, depending on the timing of cash collections from landlords and additional receivables recorded from new restaurant development activities. See Note 3, "Other Receivables"to our Consolidated Financial Statements. In the future, we may also develop more freestanding restaurant locations using both ground leases and built-to-suit leases, which are commonly used to finance freestanding locations in the restaurant industry. We own substantially all of the equipment in our restaurants and currently plan to do so in the future.

During fiscal 2001, our cash outlays and accrued liability for capital expenditures were approximately $74 million. Of that amount, approximately $56 million was related to new restaurant openings (including several restaurants under construction as of fiscal year-end). The remainder consisted of approximately $8 million for maintenance and capacity addition expenditures for our existing restaurants; approximately $8 million for restaurant-level technology upgrades and approximately $2 million for bakery and corporate capital expenditures.

For fiscal 2002, we currently estimate our total capital expenditures to range between $70-$75 million, net of agreed-upon landlord construction contributions and excluding $9-$10 million of expected noncapitalizable preopening costs for new restaurants. This estimate contemplates $60-$64 million for as many as 12 new restaurants to be opened during fiscal 2002, which includes an estimated increase in construction-in-progress disbursements for anticipated fiscal 2003 openings and which also reflects the fact that two of our planned 12 restaurant openings for fiscal 2002 do not have any landlord construction contributions. Not every potential location that we seek to develop into a restaurant may have landlord construction contributions available, and we would therefore not expect to incur a contingent rent obligation on such locations. Expected capital expenditures for fiscal 2002 also include approximately $5 million for maintenance and capacity addition expenditures to our existing restaurants; $4-$5 million to build out the new leased space for additional training, R&D and office space adjacent to our existing corporate facility (that is scheduled to commence during the second half of fiscal 2002); and $1 million to add capacity to our existing bakery production facility.

Based on current business conditions and our current expansion objectives, we believe that our cash and short-term investments on hand, coupled with expected cash provided by operations, available borrowings under our Credit Facility and expected landlord construction contributions should be sufficient in the aggregate to finance our planned capital expenditures and other operating activities through fiscal 2003. We may seek additional funds to finance our growth in the future. However, there can be no assurance that such funds will be available when needed or be available on terms acceptable to us.

During fiscal 1998, our Board of Directors authorized the Company to repurchase up to 1,687,500 shares of our common stock for reissuance upon the exercise of stock options under our current stock option plans. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. Under this authorization, we have repurchased a total of 850,500 shares for a total cost of $9.3 million through January 1, 2002.

As of March 1, 2002, we had no financing transactions, arrangements or other relationships with any

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unconsolidated entities or related parties. Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts. Our operating lease commitments for leased restaurants and office space are disclosed in Note 6, "Commitments and Contingencies" to our Consolidated Financial Statements.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. We adopted SFAS No. 133 as of January 3, 2001. The adoption did not have any impact on our Consolidated Financial Statements.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 was effective in July 2001 and SFAS No. 142 became effective in January 2002. The new standards did not have any impact on our Consolidated Financial Statements.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This statement, which establishes one accounting model for the recognition, measurement and reporting of impairment of long-lived assets to be held and used, and measurement of long-lived assets to be disposed of by sale, became effective January 2002 with early application encouraged. We adopted this standard during fiscal 2001 and it did not have any impact on our Consolidated Financial Statements.

Impact of Inflation and Changes in the Costs of Key Operating Resources

Our profitability is dependent, among other things, upon our ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, energy and other supplies and services. While we have taken steps to qualify multiple suppliers and enter into agreements for some of the commodities used in our restaurant and bakery operations, there can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control. We are currently unable to contract for substantially all of our fresh commodities such as produce, poultry, meat, fish and dairy items for long periods of time and, consequently, such commodities can be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. The impact of inflation on food, labor, energy and occupancy costs can significantly affect our restaurant and bakery operations.

Many of our restaurant and bakery employees are paid hourly rates related to the federal minimum wage, which increased in 1988, 1991, 1996 and 1997. Proposals are currently pending in Congress to again increase the federal minimum wage. The state of California increased its minimum wage by $0.50 per hour to $6.25 in January 2001, and by another $0.50 per hour to $6.75 in January 2002. Additionally, a general shortage in the availability of qualified restaurant management and hourly workers in certain geographical areas in which we operate has caused related increases in the costs of recruiting and compensating such employees. Certain operating costs, such as taxes, insurance and other outside services continue to increase with the general level of inflation or higher and may also be subject to other cost and supply fluctuations outside of our control.

While the Company has been able to react to inflation and other changes in the costs of key operating resources by gradually increasing prices for its menu items and bakery products, coupled with more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be able to continue to do so in the future. Substantially all of the leases for our restaurants provide for contingent rent obligations based on a percentage of sales. As a result, rent expense will absorb a proportionate

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share of any menu price increases in our restaurants. There can be no assurance that we will continue to generate increases in comparable restaurant sales and bakery sales in amounts sufficient to offset inflationary or other cost pressures.

Seasonality and Quarterly Results

Our business is subject to seasonal fluctuations. Historically, our highest levels of revenues and net income have occurred in the second and third quarters of the fiscal year. Over one-half of our restaurants are located in or near shopping centers and malls that typically experience seasonal fluctuations in sales. Patio seating represents approximately 16% of the total available seating for all restaurants open as of March 1, 2002 and can be subject to disruption from inclement weather. Our bakery operations are seasonal to the extent that the fourth quarter's sales are typically higher due to holiday business. Additionally, bakery sales comparisons may fluctuate significantly from quarter to quarter due to the timing and size of orders from our larger bakery customers. As a result of these and other factors, the Company's financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year. Quarterly results have been and will continue to be significantly impacted by the timing of new restaurant openings and their associated preopening costs.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on funded debt. This exposure relates to our $25 million revolving credit and term loan facility (the "Credit Facility"). There were no borrowings outstanding under the Credit Facility during fiscal 1999, 2000, 2001 or fiscal 2002 through March 1, 2002. Borrowings under the Credit Facility bear interest at variable rates based on either the prime rate of interest, the lending institution's cost of funds plus 0.75% or LIBOR plus 0.75%. A hypothetical 1% interest rate change would not have any current impact on our results of operations.

A change in market prices also exposes us to market risk related to our investments in marketable securities. As of January 1, 2002, we held $78.3 million in available-for-sale marketable securities. A hypothetical 10% decline in the market value of those securities would result in a $7.8 million unrealized loss and a corresponding decline in their fair value. This hypothetical decline would not affect our cash flow from operations and would not have an impact on net income until the securities were disposed of.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements required to be filed hereunder are set forth on pages 31 through 49 of this report.

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

None.

PART III

ITEMS 10, 11, 12 AND 13:

The information required by Items 10, 11, 12 and 13 is hereby incorporated by reference from the Registrant's definitive proxy statement for the Annual Meeting of Stockholders to be held on May 16, 2002 and which will be filed with the Commission within 120 days after the close of the Company's fiscal year.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORT ON FORM 8-K

The following documents are filed as a part of this Report:

(a) The Financial Statements required to be filed hereunder are listed in the Index to Financial Statements on page 31 of this report.

(b) The Exhibits required to be filed hereunder are listed in the exhibit index included herein at page 50.

(c) The Registrant did not file any reports on Form 8-K during the last quarter of its fiscal year ended January 1, 2002.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of
The Cheesecake Factory Incorporated:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders'equity and cash flows present fairly, in all material respects, the financial position of The Cheesecake Factory Incorporated and Subsidiaries at January 1, 2002 and January 2, 2001, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 1, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and

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disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
February 1, 2002

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	January 1, 2002	January 2, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,025	$ 34,284
Investments and marketable securities	8,960	16,822
Accounts receivable	5,745	4,877
Other receivables	13,266	15,112
Inventories	10,771	9,328
Prepaid expenses	3,074	1,411
Deferred income taxes	2,212	773
Total current assets	58,053	82,607
Property and equipment, net	218,284	161,223
Other assets:		
Marketable securities	69,299	34,208
Other receivables	5,509	5,276
Trademarks	1,965	1,905
Other	3,817	3,173
Total other assets	80,590	44,562
Total assets	$ 356,927	$ 288,392
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 18,885	$ 17,712
Income taxes payable	2,837	993
Other accrued expenses	35,385	24,422
Total current liabilities	57,107	43,127
Deferred income taxes	10,349	4,429
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued and outstanding	—	—
Junior participating cumulative preferred stock, $.01 par value, 150,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value, 150,000,000 shares authorized;		

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48,610,303 and 47,887,210 issued at January 1, 2002 and January 2, 2001, respectively	486	319
Additional paid-in capital	159,075	147,694
Retained earnings	138,701	99,581
Unrealized gain on available-for-sale securities	530	365
Treasury stock, 850,500 and 756,000 shares at cost at January 1, 2002 and January 2, 2001, respectively	(9,321)	(7,123)
Total stockholders' equity	289,471	240,836
Total liabilities and stockholders' equity	$ 356,927	$ 288,392

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Fiscal Year		
	2001	2000	1999
Revenues:			
Restaurant sales	$499,519	$406,947	$320,450
Bakery sales to other foodservice operators, retailers and distributors	39,611	31,334	27,032
Total revenues	539,130	438,281	347,482
Costs and expenses:			
Restaurant cost of sales	127,005	102,994	82,496
Bakery cost of sales	19,153	14,466	12,685
Labor expenses	164,372	133,287	105,796
Other operating costs and expenses	120,706	95,941	77,247
General and administrative expenses	27,929	25,831	21,266
Depreciation and amortization expenses	17,457	13,682	10,913
Preopening costs	7,069	5,943	6,217
Total costs and expenses	483,691	392,144	316,620
Income from operations	55,439	46,137	30,862
Interest income, net	4,328	4,660	2,807
Other income (expense), net	1,654	(439)	555
Income before income taxes	61,421	50,358	34,224
Income tax provision	22,112	18,257	12,492
Net income	$ 39,309	$ 32,101	$ 21,732
Net income per share:			
Basic	$ 0.83	$ 0.69	$ 0.48
Diluted	$ 0.79	$ 0.64	$ 0.46
Weighted average shares outstanding:			
Basic	47,466	46,247	45,138

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Diluted	49,897	50,192	47,675

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total
Balance, December 29, 1998	$201	$117,713	$45,880	$(35)	$(3,468)	$160,291
Comprehensive income:						
Net income	—	—	21,732	—	—	
Net unrealized loss	—	—	—	(80)	—	
Total comprehensive income						21,652
Issuance of common stock pursuant to stock option plan	3	4,529	—	—	—	4,532
Tax benefit related to stock option plan	—	1,435	—	—	—	1,435
Purchase of treasury stock	—	—	—	—	(2,337)	(2,337)
Balance, December 28, 1999	204	123,677	67,612	(115)	(5,805)	185,573
Comprehensive income:						
Net income	—	—	32,101	—	—	
Net unrealized gain	—	—	—	480	—	
Total comprehensive income						32,581
Three-for-two stock split	102	—	(102)	—	—	—
Issuance of common stock pursuant to stock option plan	13	13,508	—	—	—	13,521
Tax benefit related to stock option plan	—	10,509	—	—	—	10,509
Purchase of treasury stock	—	—	—	—	(1,318)	(1,318)
Dividends paid for fractional shares	—	—	(30)	—	—	(30)
Balance, January 2, 2001	319	147,694	99,581	365	(7,123)	240,836
Comprehensive income:						
Net income	—	—	39,309	—	—	
Net unrealized gain	—	—	—	165	—	
Total comprehensive income						39,474
Three-for-two stock split	161	—	(161)	—	—	—
Issuance of common stock pursuant to stock option plan	6	5,854	—	—	—	5,860
Tax benefit related to stock option plan	—	5,527	—	—	—	5,527
Purchase of treasury stock	—	—	—	—	(2,198)	(2,198)
Dividends paid for fractional shares	—	—	(28)	—	—	(28)
Balance, January 1, 2002	$486	$159,075	$138,701	$530	$(9,321)	$289,471

See the accompanying notes to the consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Fiscal Year		
	2001	2000	1999
Cash flows from operating activities:			
Net income	$39,309	$32,101	$21,732
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	17,457	13,682	10,913
Loss on asset sale	—	3	—
(Gain) loss on available-for-sale securities	(1,549)	(14)	122
Deferred income taxes	4,388	345	1,904
Changes in assets and liabilities:			
Accounts receivable	(868)	456	(1,860)
Other receivables	1,613	(9,706)	82
Inventories	(1,443)	(1,207)	(2,267)
Prepaid expenses	(1,663)	884	(1,469)
Trademarks	(145)	(190)	(248)
Other	(753)	(719)	(79)
Accounts payable	1,173	4,608	1,801
Income taxes payable	7,371	9,530	2,033
Other accrued expenses	10,963	6,563	6,569
Cash provided by operating activities	75,853	56,336	39,233
Cash flows from investing activities:			
Additions to property and equipment	(74,324)	(39,216)	(38,616)
Investments in available-for-sale securities	(121,670)	(64,446)	(35,763)
Sales of available-for-sale securities	96,248	45,411	39,510
Cash used by investing activities	(99,746)	(58,251)	(34,869)
Cash flows from financing activities:			
Issuance of common stock	6	13	3
Dividends paid for fractional shares	(28)	(30)	—
Proceeds from exercise of employee stock options	5,854	13,508	4,529
Purchase of treasury stock	(2,198)	(1,318)	(2,337)
Cash provided by financing activities	3,634	12,173	2,195
Net change in cash and cash equivalents	(20,259)	10,258	6,559
Cash and cash equivalents at beginning of period	34,284	24,026	17,467
Cash and cash equivalents at end of period	$14,025	$34,284	$24,026

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Basis of Presentation:

The accompanying consolidated financial statements include the accounts of The Cheesecake Factory Incorporated and its wholly owned subsidiaries (The Cheesecake Factory Restaurants, Inc.; The Cheesecake Factory Bakery Incorporated; The Cheesecake Factory Assets Co. LLC; The Houston Cheesecake Factory Corporation; TCF Stonebriar Club Incorporated and Grand Lux Cafe LLC). All of our restaurants and our bakery production facility are located within the United States. All significant intercompany accounts and transactions for the periods presented have been eliminated in consolidation.

Fiscal Year:

We utilize a 52/53 week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal 2001 and 1999 each consisted of 52 weeks. Fiscal 2000 consisted of 53 weeks. Fiscal 2002 will consist of 52 weeks and will end on Tuesday, December 31, 2002.

Cash and Cash Equivalents:

We consider all highly liquid investments with an original maturity of three months or less at date of purchase to be cash equivalents.

Investments and Marketable Securities:

We record investments and marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 establishes accounting and reporting requirements for investments in equity securities that have readily determinable fair values and for all investments in debt securities. All investment securities must be classified as one of the following: held-to-maturity, trading or available-for-sale. Debt securities that we expect to hold to maturity are classified as held-to-maturity securities and are reported at their amortized costs. Debt securities that we classify as available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity (net of related tax effect) until realized. Fair value is determined by the most recently traded price of each security at the balance sheet date, plus any accrued interest. Net realized gains or losses are determined on the specific identification cost method. At January 1, 2002 and January 2, 2001, all of our investments and marketable securities were classified in the available-for-sale category.

Accounts and Other Receivables:

Our accounts receivable principally result from credit sales to outside bakery customers. Other receivables consist of accrued interest on investments and marketable securities and various amounts due from landlords, insurance providers and others in the ordinary course of business.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Concentration of Credit Risk:

Financial instruments which potentially subject us to a concentration of credit risk are cash and cash equivalents, investments and marketable securities, and accounts receivable. We currently maintain a majority of our day-to-day operating cash balances with two major financial institutions. At times, cash balances may be in excess of FDIC insurance limits. We place our temporary excess cash with major financial institutions that, in turn, invest in investment-grade commercial paper and other corporate obligations, certificates of deposit, government obligations and other investments and marketable securities. Our investment policy limits the amount of exposure to any one financial institution or investment. With respect to marketable securities, the net unrealized gain or loss on our investment portfolio as of January 1, 2002 and January 2, 2001 has been reported (net of tax effect) as a separate component within the stockholders' equity section of the Consolidated Balance Sheet. We consider the concentration of credit risk for accounts receivable to be minimal as a result of the large number of outside bakery customers, as well as the payment histories and general financial condition of the larger outside bakery customers.

Inventories:

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment:

Property and equipment are recorded at cost. Improvements are capitalized while repair and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated economic lives of the assets or the primary terms of the respective leases. Depreciation periods are as follows:

Land improvements	25 years
Buildings	30 years
Leasehold improvements	Primary term of lease
Restaurant fixtures and equipment	10 years
Bakery equipment	15 years
Automotive equipment	5 years
Computer equipment	3 years

Accounting for Long-lived Assets:

We review property and equipment whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable. In evaluating whether an asset has been impaired, we compare the expected undiscounted future cash flows to be generated by the asset to the asset's carrying value. If the sum of the undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Preopening Costs:

Preopening costs are expensed as incurred.

Income Taxes:

CFA 0552

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under the asset and liability method of SFAS No. 109, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under SFAS No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Net Income Per Share:

In accordance with the provisions of SFAS No. 128, "Earnings Per Share," basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share includes the dilutive effect of potential stock option exercises, calculated using the treasury stock method.

Recent Accounting Pronouncements:

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. We adopted SFAS No. 133 as of January 3, 2001. The adoption did not have any impact on our consolidated financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 was effective in July 2001 and SFAS No. 142 became effective in January 2002. The new standards did not have any impact on our consolidated financial statements.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This statement, which establishes one accounting model for the recognition, measurement and reporting of impairment of long-lived assets to be held and used, and measurement of long-lived assets to be disposed of by sale, became effective January 2002 with early application encouraged. We adopted this standard for fiscal 2001 and it did not have any impact on our consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Revenue Recognition:

Revenue from restaurant sales is recognized when food and beverage products are sold. Revenue from bakery sales to other foodservice operators, retailers and distributors is recognized when the products are shipped.

Advertising Costs:

CFA 0553

Advertising costs are expensed as incurred. Advertising expenses for fiscal 2001, 2000 and 1999 were insignificant.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Investments and Marketable Securities:

Investments and marketable securities consisted of (in thousands):

Classification	Cost	Fair Value	Unrealized Gain/(Loss)	Balance Sheet Amount	Maturity
At January 1, 2002:					
Current assets:					
Available-for-sale securities:					
Corporate debt securities	$ 8,901	$ 8,960	$ 59	$ 8,960	January 2002 to August 2002
Other assets:					
Available-for-sale securities:					
Corporate debt securities	$60,408	$61,131	$723	$61,131	January 2003 to November 2006
U.S. Treasury securities	8,122	8,168	46	8,168	August 2003 to November 2006
Total	$68,530	$69,299	$769	$69,299	
At January 2, 2001:					
Current assets:					
Available-for-sale securities:					
Corporate debt securities	$16,095	$16,074	$(21)	$16,074	April 2001 to December 2001
U.S. Treasury securities	750	748	(2)	748	April 2001
Total	$16,845	$16,822	$(23)	$16,822	
Other assets:					
Available-for-sale securities:					
Corporate debt securities	$33,588	$34,208	$620	$34,208	February 2002 to December 2002

3. Other Receivables:

Other receivables consisted of (in thousands):

	January 1, 2002	January 2, 2001
Tenant improvement allowances from landlords	$16,090	$19,067
Accrued interest on investments	1,030	1,178
Other	1,655	143
Total other receivables	18,775	20,388
Less: current portion	(13,266)	(15,112)
Other receivables	$ 5,509	$ 5,276

CFA 0554

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Inventories:

Inventories consisted of (in thousands):

	January 1, 2002	January 2, 2001
Restaurant food and supplies	$ 8,822	$ 6,905
Bakery raw materials	1,365	1,329
Bakery finished goods	584	1,094
Total	$10,771	$ 9,328

The amounts for restaurant food and supplies as of January 1, 2002 and January 2, 2001 include $4.6 million and $3.5 million, respectively, for certain smallware inventories in the restaurants.

5. Property and Equipment:

Property and equipment consisted of (in thousands):

	January 1, 2002	January 2, 2001
Land and related improvements	$ 1,783	$ 1,394
Building	6,464	6,464
Fixtures and equipment	100,511	75,918
Leasehold improvements	140,811	108,844
Computer equipment	13,635	4,666
Automotive equipment	390	390
Construction in progress	25,548	17,957
Property and equipment, total	289,142	215,633
Less: accumulated depreciation and amortization	(70,858)	(54,410)
Property and equipment, net	$218,284	$161,223

Repair and maintenance expenses for fiscal 2001, 2000 and 1999 were $5.8 million, $5.1 million and $2.8 million, respectively.

6. Commitments and Contingencies:

We lease all our restaurant locations under operating leases, with primary terms ranging from 10 to 20 years. The restaurant leases typically include land and building shells, require contingent rent above the minimum lease payments based on a percentage of sales ranging from 3.5% to 10%, and require various expenses incidental to the use of the property. Most leases have renewal options. We have always exercised our renewal options in the past. We also lease certain restaurant and bakery equipment under operating lease agreements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Commitments and Contingencies (Continued):

The aggregate minimum annual lease payments under operating leases (including those for eleven restaurants with executed leases as of January 1, 2002 that are planned for fiscal 2002 or 2003 openings) are as follows (in thousands):

2002	$ 18,383
2003	19,829
2004	19,478
2005	19,449
2006	20,074
Thereafter	260,919
Total minimum lease commitments	$358,132

Rent expenses charged to operations on all operating leases were as follows (in thousands):

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Base rent	$13,355	$10,778	$ 9,384
Contingent rent	15,006	12,721	9,079
Other charges	6,299	5,392	4,135
Total	$34,660	$28,891	$22,598

With respect to eleven potential restaurant locations with executed leases as of January 1, 2002 that are currently planned for openings in fiscal 2002, we have estimated construction commitments (leasehold improvements and fixtures and equipment), net of agreed-upon landlord construction contributions, totaling approximately $52.9 million. Two of these eleven potential locations have no landlord construction contributions and, accordingly, have no contingent rent obligation in their respective leases.

From time to time, lawsuits are filed against us in the ordinary course of our business. Such lawsuits typically involve claims from customers and others related to operational issues common to the foodservice industry. A number of such claims may exist at any given time. In addition, we also encounter complaints and allegations from current and former employees or others from time to time that are believed to be common for businesses similar to ours. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks. We are currently not a party to any litigation that could have a material adverse effect on our results of operations, liquidity, financial position or our business and we are not aware that any such litigation is threatened.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income Taxes:

The provision for income taxes consisted of the following (in thousands):

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Income before income taxes	$61,421	$50,358	$34,224
Income tax provision:			
Current:			
Federal	$15,595	$15,656	$ 8,385
State	2,129	2,256	2,203
Total current	17,724	17,912	10,588
Deferred	4,388	345	1,904
Total	$22,112	$18,257	$12,492

The following is a reconciliation between the U.S. federal statutory rate and the effective tax rate:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Tax at U.S. federal statutory rate	35.0%	35.0%	35.0%
State and district income taxes net of federal income tax benefit	3.3	4.2	5.2
FICA tip credit and research credits	(2.6)	(3.2)	(2.5)
Municipal bond income, dividends received deduction and other	0.3	0.2	(1.2)
Effective tax rate	36.0%	36.2%	36.5%

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income Taxes: (Continued)

The temporary differences which give rise to deferred income tax assets and liabilities are as follows (in thousands):

	January 1, 2002	January 2, 2001
Current deferred tax asset/(liability):		
Employee benefits	$ 2,135	$ 722
State tax current provision	395	275
Other, net	(318)	(224)
Total	$ 2,212	$ 773
Noncurrent deferred tax asset/(liability):		
Property and equipment	$ (9,029)	$(3,624)
Accrued rent	(2,209)	(1,754)
Tax credit carryforwards	554	536
Capital losses	—	318
Other, net	335	95
Total	$(10,349)	$(4,429)

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8. Long-term Debt:

We maintain a $25 million revolving credit and term loan facility (the "Credit Facility") with a major financial institution. As of January 1, 2002 and January 2, 2001, there were no borrowings outstanding under the Credit Facility. The terms of the Credit Facility provide for, among other things, borrowings under the Credit Facility to bear interest at variable rates based, at our option, on either the prime rate of interest, the lending institution's cost of funds rate plus 0.75% or the applicable LIBOR rate plus 0.75%. The Credit Facility expires on May 31, 2003. On that date, a maximum of $25 million of any borrowings outstanding under the Credit Facility automatically convert into a four-year term loan payable in equal quarterly installments at interest rates of 0.5% higher than the applicable revolving credit rates. The Credit Facility is not collateralized and requires us to maintain certain financial ratios and to observe certain restrictive covenants with respect to the conduct of our operations, with which we are currently in compliance.

9. Stockholders' Equity:

We effected a stock dividend in the form of a three-for-two stock split on June 18, 2001. In connection with this stock dividend and split, $161,000 was transferred to common stock from retained earnings and $28,000 was paid to shareholders for fractional shares. All references in the Consolidated Financial Statements to shares of common stock and related prices, weighted average number of shares, per share amounts and stock option plan data have been adjusted to reflect the stock split.

The Company is authorized by its Board of Directors to repurchase up to 1,687,500 shares of our common stock for reissuance upon the exercise of stock options under our current stock option plans.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Stockholders' Equity: (Continued)

Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. As of January 1, 2002, we had repurchased a total of 850,500 shares for a total cost of $9.3 million under this authorization.

10. Stock Options:

Since the Company's inception in 1992, the Board of Directors and stockholders have authorized us to grant options to certain employees and outside directors to acquire a total of 13,340,813 shares of common stock, pursuant to the terms of our employee and non-employee director stock option plans. Options are granted at market value on the date of the grant, generally vest at 20% per year, and become exercisable provided we meet or exceed certain performance objectives. The options generally expire ten years from the date of grant. During fiscal 2001, 2000 and 1999, our Board of Directors and stockholders authorized us to grant an additional 1,800,000 (included in the cumulative total set forth above) shares of common stock under our non-employee director and employee stock option plans. Transactions during fiscal 2001, 2000 and 1999 under the option plans were as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Options outstanding at start of year	6,712,467	7,071,194	4,270,082
Options granted	540,418	1,849,799	3,793,275
Options exercised	(729,561)	(1,960,349)	(678,963)
Options cancelled	(139,798)	(248,177)	(313,200)

CFA 0558

Options outstanding at end of year	6,383,526	6,712,467	7,071,194
Options exercisable at end of year	3,024,166	2,292,809	1,726,988
Options available for grant at end of year	1,740,706	696,851	1,082,336

Weighted average option exercise price information for fiscal 2001, 2000 and 1999 was as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Options outstanding at start of year	$10.74	$ 7.97	$6.63
Options granted	$22.83	$17.04	$9.25
Options exercised	$ 8.07	$ 6.89	$6.67
Options cancelled	$12.44	$ 9.02	$8.13
Options outstanding at end of year	$12.03	$10.74	$7.97

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Stock Options: (Continued)

The following table sets forth information with respect to fixed stock options as of January 1, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Amount Outstanding as of 1/01/02	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Amount Exercisable as of 1/01/02	Weighted Average Exercise Price
$ 3.95 - $ 7.85	1,039,991	4.68years	$ 6.02	933,566	$ 5.98
$ 7.96 - $ 7.96	981,943	6.06	$ 7.96	704,411	$ 7.96
$ 8.00 - $ 9.58	1,345,986	6.67	$ 8.78	546,339	$ 8.76
$ 9.81 - $12.72	1,468,350	7.89	$12.15	685,350	$12.04
$12.77 - $23.58	924,506	8.76	$19.06	115,500	$16.97
$23.67 - $28.54	617,750	9.01	$24.72	39,000	$24.83
$34.25 - $34.25	5,000	9.95	$34.25	—	—
$ 3.95 - $34.25	6,383,526	7.06	$12.03	3,024,166	$ 8.98

We have adopted the "disclosure only" provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and will continue to use the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for our stock option plans. Had compensation expense for our stock option plans been determined based on the fair value at the grant date for awards in fiscal 2001, 2000 and 1999 consistent with the provisions of SFAS No. 123, our after-tax net income and after-tax net income per share would have been reduced to the pro forma amounts indicated below (in thousands, except net income per share):

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Net income, as reported	$39,309	$32,101	$21,732
Net income, pro forma	$33,028	$26,643	$16,679
Basic net income per share, as reported	$ 0.83	$ 0.69	$ 0.48
Basic net income per share, pro forma	$ 0.70	$ 0.58	$ 0.37
Diluted net income per share, as reported	$ 0.79	$ 0.64	$ 0.46

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Diluted net income per share, pro forma	$ 0.66	$ 0.53	$ 0.35

The weighted average fair value at date of grant for options issued in fiscal 2001, 2000 and 1999 was $11.15, $10.26 and $6.13 per option, respectively. The fair value of options at date of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions for each respective year: (a) no dividend yield on our stock, (b) expected volatility of our stock of 49.5%, 49.1% and 49.9%, (c) a risk-free interest rate of 4.94%, 6.17% and 4.88%, and (d) expected option lives of seven years.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Other Supplemental Data:

Other accrued expenses consisted of (in thousands):

	January 1, 2002	January 2, 2001
Salaries and wages	$ 5,990	$ 5,404
Payroll and sales taxes	4,627	3,473
Rent and related expenses	3,297	2,869
Employee benefits	6,384	4,088
Gift certificates	6,674	4,730
Insurance	6,419	2,188
Other	1,994	1,670
Total	$35,385	$24,422

13. Supplemental Cash Flow Disclosures:

Supplemental cash flow disclosures consisted of (in thousands):

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Interest paid	$ —	$ 10	$ 44
Income taxes paid	$10,343	$8,330	$8,675

14. Employee Benefit Plans:

During fiscal 1998, we established a defined contribution benefit plan (the "401(k) Plan") in accordance with section 401(k) of the Internal Revenue Code. The 401(k) Plan is open to all employees who meet certain compensation and eligibility requirements. The 401(k) Plan allows participating employees to defer the receipt of a portion of their compensation and contribute such amount to one or more investment options. We currently match in cash a certain percentage of the employee contributions to the 401(k) Plan and also pay for related administrative expenses, neither of which were significant amounts during fiscal 2001, 2000 and 1999.

During fiscal 1999, we adopted an Executive Savings Plan (the "ESP"). The ESP is a nonqualified deferred compensation plan for our highly compensated employees as defined in the ESP and who are otherwise ineligible for participation in our 401(k) plan. The ESP allows participating employees to defer the receipt of a portion of their base compensation and up to 100% of their eligible bonuses. Non-employee directors can also participate in the ESP and defer the receipt of their fees. We match in cash a certain percentage of the base compensation deferred by participating employees and also pay for related administrative expenses, neither of

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which were significant amounts during fiscal 2001, 2000 and 1999. Employee deferrals and our match are deposited into a "rabbi" trust established by the Company, and the funds are generally invested in individual variable life insurance contracts owned by the Company that are specifically designed to informally fund savings plans of this nature.

THE CHEEECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Employee Benefit Plans: (Continued)

Effective May 1999, we adopted a self-insured medical and dental benefit plan for our employees. We have purchased stop-loss coverage in order to limit our exposure to any significant medical claims. Self-insured medical benefit plan expenses are accrued based upon our estimate of the aggregate liability for uninsured claims incurred using actuarial methods commonly followed in the insurance industry and our historical experience. The accrued liability for our self-insured medical benefit plan (included in other accrued expenses) as of January 1, 2002 and January 2, 2001 was $2,231,000 and $1,414,000, respectively.

15. Stockholder Rights Plan:

During fiscal 1998, our Board of Directors adopted a stockholder rights plan (the "Rights Plan"). The Rights Plan provides for the distribution to stockholders of one right to purchase a unit equal to 1/100 of a share of a newly created series of junior participating cumulative preferred stock. The rights are evidenced by our common stock certificates and automatically trade with our common stock. The rights are not exercisable unless a person or group acquires (or commences a tender or exchange offer or announces an intention to acquire) 15% or more of our common stock without the approval of our Board of Directors. When declared exercisable, holders of the rights (other than the acquiring person or group) would have the right to purchase units of junior participating cumulative preferred stock having a market value equal to two times the exercise price of each right, which is $110. Additionally, if we are thereafter merged into another entity, or more than 50% of our consolidated assets or earning power is sold or transferred, holders of the rights will be entitled to buy common stock of the acquiring person or group equal to two times the exercise price of each right. The rights expire on August 4, 2008, unless redeemed earlier by us.

16. Quarterly Financial Data (unaudited):

Summarized unaudited quarterly financial data (in thousands, except net income per share) for fiscal 2001 and 2000 is as follows:

Quarter Ended:	April 3, 2001	July 3, 2000	October 2, 2000	January 1, 2001
Total revenues	$120,521	$132,235	$137,620	$148,754
Income from operations	$ 11,260	$ 14,422	$ 14,192	$ 15,565
Net income	$ 8,371	$ 10,218	$ 9,777	$ 10,943
Diluted net income per share (1)	$ 0.17	$ 0.21	$ 0.20	$ 0.22

Quarter Ended:	March 28, 2000	June 27, 2000	September 26, 2000	January 2, 2001(2)
Total revenues	$ 96,111	$105,216	$111,321	$125,633
Income from operations	$ 8,606	$ 12,063	$ 12,458	$ 13,010
Net income	$ 5,967	$ 8,158	$ 8,552	$ 9,424
Diluted net income per share (1)	$ 0.12	$ 0.16	$ 0.17	$ 0.18

(1) Diluted net income per share calculations for each quarter are based on the weighted average diluted shares outstanding for that quarter and may not total to the full year amount.

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(2) Consisted of 14 weeks.

EXHIBIT INDEX

3.1 Certificate of Incorporation of the Company(1)

3.2 Bylaws of the Company(1)

3.3 Certificate of Designation of Series A Junior Participating Cumulative Preferred Stock, $.01 par value (2) Form of Rights Agreement dated as of August 4, 1998 between the Company and U.S. Stock Transfer

3.4 Corporation(2)

10.1 David Overton Employment Agreement(1)

10.2 Gerald Deitchle Employment Agreement(3)

10.3 The Cheesecake Factory Incorporated 1992 Performance Employee Stock Option Plan(1)

10.4 Performance Incentive Plan(1)

10.6 The Cheesecake Factory Incorporated Non-Employee Director Stock Option Plan(4)

10.7 David Overton Employment Contract(5)

10.8 Linda Candioty Employment Contract(5)

10.9 Amendment to The Cheesecake Factory Incorporated 1992 Performance Employee Stock Option Plan (6)

10.10 Debby R. Zurzolo Employment Agreement(7)

10.11 2001 Stock Option Plan(8)

11.0 Statement Regarding Computation of Net Income Per Share

21.0 Subsidiaries of the Company

23.0 Consent of PricewaterhouseCoopers LLP

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(1) Previously filed and incorporated by reference herein from the Registrant's Registration Statement on Form S-1 (No. 33-47936).

(2) Previously filed and incorporated by reference herein from the Registrant's Form 8-A dated August 19, 1998.

(3) Previously filed and incorporated by reference herein from the Registrant's Form 10-K for the fiscal year ended December 29, 1996.

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(4) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated August 8, 1997.

(5) Previously filed and incorporated by reference herein from the Registrant's Form 10-Q for the quarterly period ended June 30, 1998.

(6) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated January 8, 1999.

(7) Previously filed and incorporated by reference herein from the Registrant's Form 10-Q for the quarterly period ended June 29, 1999.

(8) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated July 3, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 12th day of March, 2002.

THE CHEESECAKE FACTORY INCORPORATED

/s/ DAVID OVERTON

By: David Overton
Chairman of the Board
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, in the capacities indicated, on this 12th day of March, 2002.

Name	Title	Date
/s/ DAVID OVERTON David Overton	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 12, 2002
/s/ GERALD W. DEITCHLE Gerald W. Deitchle	Executive Vice President, Corporate Operations and Chief Financial Officer (Principal Financial Officer)	March 12, 2002
/s/ MICHAEL J. DIXON Michael J. Dixon	Vice President-Finance and Controller (Principal Accounting Officer)	March 12, 2002
/s/ THOMAS L. GREGORY Thomas L. Gregory	Director	March 12, 2002
/s/ WAYNE H. WHITE	Director	March 12, 2002

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Wayne H. White

/s/ JEROME I. KRANSDORF	Director	March 12, 2002
Jerome I. Kransdorf		

EX-11 3 d70721_ex11.htm EXHIBIT 11

EXHIBIT 11

STATEMENT REGARDING COMPUTATION OF NET INCOME PER SHARE

	Fiscal Year		
	2001	2000	1999
	(in thousands, except per share data)		
Net Income Per Common Share—Basic			
Weighted average shares outstanding	47,466	46,247	45,138
Net income	$39,309	$32,101	$21,732
Net income per share-basic	$ 0.83	$ 0.69	$ 0.48
Net Income Per Common Share—Diluted			
Weighted average shares outstanding	47,466	46,247	45,138
Net effect of dilutive stock options based on the treasury stock method using average market price	2,431	3,945	2,537
Total shares outstanding for computation of per share earnings	49,897	50,192	47,675
Net income	$39,309	$32,101	$21,732
Net income per share-diluted	$ 0.79	$ 0.64	$ 0.46

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EX-21 4 d70721_ex21.htm EXHIBIT 21

EXHIBIT 21.0

LIST OF SUBSIDIARIES:

The Cheesecake Factory Restaurants, Inc., a California corporation

The Cheesecake Factory Bakery Incorporated, a California corporation

The Cheesecake Factory Assets Co. LLC, a Nevada limited liability company

The Houston Cheesecake Factory Corporation, a Texas corporation

TCF Stonebriar Club Incorporated, a Texas corporation

Grand Lux Cafe LLC, a Nevada limited liability company

EX-23 5 d70721_ex23.htm EXHIBIT 23

EXHIBIT 23.0

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 033-88414) of The Cheesecake Factory Incorporated of our report dated February 1, 2002 relating to the consolidated financial statements, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Los Angeles, California
March 13, 2002

10-K 1 d54011_10-k.htm FORM 10-K

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2002

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

Commission File Number 0-20574

THE CHEESECAKE FACTORY INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**51-0340466** *(IRS Employer Identification No.)*
26950 Agoura Road **Calabasas Hills, California** *(Address of principal executive offices)*	**91301** *(Zip Code)*

Registrant's telephone number, including area code: **(818) 871-3000**

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
Preferred Stock Purchase Rights

Indicate by check mark whether the 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 |X| 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 the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. |X|

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Indicate by check mark whether the Registrant is an accelerated filer (as determined by Exchange Act Rule 12b-2). Yes |X| No |_|

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 3, 2003 was $1,387,258,076. As of March 3, 2003, 50,144,189 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference information from the Registrant's Proxy Statement for the 2003 Annual Meeting of Stockholders to be held on May 13, 2003.

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PART I

ITEM 1: BUSINESS

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General

As of March 3, 2003, The Cheesecake Factory Incorporated (referred to herein as the "Company" or in the first person notations "we", "us" and "our") operated 61 upscale, full-service, casual dining restaurants under The Cheesecake Factory® mark in 20 states and the District of Columbia. We also operated three upscale casual dining restaurants under the Grand Lux Cafe® mark in Chicago, Illinois; Los Angeles, California and Las Vegas, Nevada; and one self-service, limited menu "express"foodservice operation under The Cheesecake Factory Express® mark inside the DisneyQuest® family entertainment center in Orlando, Florida. We also operated a bakery production facility in Calabasas Hills, California that produces baked desserts and other products for our restaurants and for other foodservice operators, retailers and distributors. We also licensed three bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator. When referred to herein, the term "restaurants" includes both The Cheesecake Factory and Grand Lux Cafe concepts, unless otherwise noted, and excludes the one "express" location, the three licensed bakery cafes and the bakery production facility, unless otherwise noted.

Our Cheesecake Factory restaurants offer approximately 200 menu items including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches, omelets and desserts, including approximately 40 varieties of cheesecake and other baked desserts. Grand Lux Cafe is an upscale, casual dining concept that we are evaluating for future expansion (see "The Grand Lux Cafe Restaurant Concept and Menu"). In contrast to many chain restaurant operations, substantially all of our menu items (except desserts manufactured at our bakery production facility) are prepared on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate prices. Our restaurants possess a distinctive, contemporary design and decor that creates a high-energy ambiance in a casual setting. Our restaurants currently range in size from 5,400 to 18,300 interior square feet, provide full liquor service and are generally open seven days a week for lunch and dinner, including Sunday brunch. Total restaurant sales represented 92.5%, 92.7% and 92.9% of our total revenues for fiscal 2002, 2001 and 2000, respectively.

We believe that our ability to select suitable locations and operate successful restaurants, coupled with the continuing popularity of our restaurant concepts with consumers, is reflected in our average food and beverage sales per restaurant which we believe are among the highest of any publicly-held restaurant company. Average sales per restaurant open for the full year were approximately \$10.9 million, \$11.0 million and \$10.6 million for fiscal 2002, 2001 and 2000, respectively. Since each of our restaurants has a customized layout and differs in size (measured in square feet), we believe the most effective method to measure sales productivity is by square foot. Average sales per productive square foot (defined as interior plus seasonally-adjusted patio square feet) for restaurants open for the full year were approximately \$1,000 for both fiscal 2002 and 2001 and \$976 for fiscal 2000.

We believe that the viability of The Cheesecake Factory concept has been successfully demonstrated in a variety of site layouts, trade areas and markets across the United States. Accordingly, we intend to continue developing Cheesecake Factory restaurants in high profile locations within densely populated areas in both existing and new markets. In addition to expanding The Cheesecake Factory concept, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant and bakery operations, which may include new restaurant concepts such as Grand Lux Cafe or other concepts and new bakery product lines and distribution channels. In order to facilitate our expansion strategy, we plan to continue building our operating and corporate support infrastructure to focus on achieving optimal leverage and efficiencies in all of our operations.

During fiscal 2002, we opened 11 restaurants under The Cheesecake Factory mark and one restaurant under the Grand Lux Cafe mark. Our primary restaurant expansion goal is to increase our total restaurant productive square feet and operating weeks by approximately 21% to 23% during fiscal 2003. We currently plan to open as many as 14 new Cheesecake Factory restaurants during fiscal 2003, of which two have opened as of March 3, 2003. As in past years, most of our potential restaurant openings for fiscal 2003 will occur during the second half of the year. We currently expect to open two, five and five new restaurants during the second, third and fourth quarters of fiscal 2003, respectively. In addition to two restaurants that have opened during fiscal 2003 as of March 3, 2003, ten leases and several letters of intent have been signed as of March 3, 2003 for potential restaurant openings during fiscal 2003 and 2004.

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Our operations originated in 1972 when Oscar and Evelyn Overton founded a small bakery in the Los Angeles area. Their son, David Overton, led the creation and opening of the first Cheesecake Factory restaurant in Beverly Hills, California in 1978. Although our restaurant operations have grown substantially during recent years, we remain in the business of creating and marketing branded and private-label bakery products to other foodservice operators, retailers and distributors ("bakery sales") in order to leverage our brand identity with consumers and to take advantage of excess bakery production capacity. Bakery sales represented 7.5%, 7.3% and 7.1% of our total revenues for fiscal 2002, 2001 and 2000, respectively.

In February 1992, the Company was incorporated in Delaware to succeed to the restaurant and bakery businesses of its predecessors operating under The Cheesecake Factory mark. Our initial public offering of common stock was completed in September 1992. Follow-on public offerings were completed in January 1994 and November 1997. Our executive offices are located at 26950 Agoura Road, Calabasas Hills, California 91301, and our telephone number is (818) 871-3000. Our Internet site can be accessed at www.thecheesecakefactory.com.

Restaurant Competitive Positioning

The following are the key elements of our restaurant competitive positioning:

Extensive, Creative and Contemporary Menu and Bakery Product Offerings. Our restaurants offer a wide variety of items, including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches and omelets. Our menus are generally updated twice each year to respond to changing consumer dining preferences and trends. Our bakery production facility produces over 50 varieties of quality cheesecake and other baked desserts, of which approximately 40 varieties are offered at any one time in Cheesecake Factory restaurants.

High Quality Products. Substantially all menu items (except the desserts manufactured at the Company's bakery production facility) are prepared daily on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We use high quality dairy and other raw ingredients in our bakery products.

Exceptional Value. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate price points. The average check per restaurant guest, including beverages and desserts, was approximately $15.78, $15.70 and $15.40 for fiscal 2002, 2001 and 2000, respectively.

Superior Guest Hospitality. Our goal is to consistently meet or exceed the expectations of every restaurant guest in all facets of the dining experience. We believe that our restaurant-level employee recruitment, selection, training and incentive programs allow us to attract and retain qualified employees (staff members) who are motivated to provide consistent excellence in guest hospitality.

Flexible Kitchen Capabilities and Operating Systems. Our restaurants have been strategically designed with sufficient capacity, equipment and operating systems to allow for the successful preparation and delivery of an extensive, contemporary and flexible menu which requires multiple food preparation and cooking methods executed simultaneously.

Distinctive Restaurant Design and Decor. Our restaurants have a distinctive contemporary design and decor that creates a high-energy, "non-chain" image and upscale ambiance in a casual setting. Whenever possible, outdoor patio seating is also incorporated in the design of the restaurants, thus allowing for additional restaurant capacity (weather permitting) at a comparatively low occupancy cost per seat.

High Profile Restaurant Locations and Flexible Site Layouts. We locate our restaurants in high profile

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locations within densely populated areas with a balanced mix of residences, businesses, shopping and entertainment outlets. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop near each of our restaurants. We have the flexibility to design our restaurants to accommodate a wide variety of urban and suburban site layouts, including multi-level locations.

Commitment to Selecting, Training, Rewarding, and Retaining High Quality Employees. We believe our employee recruitment and selection criteria are among the most rigorous in the restaurant industry. By providing extensive training and innovative compensation programs, we believe our employees develop a sense of personal commitment to our core values and culture of excellence in restauranteuring and guest hospitality. We believe these programs have resulted in employee turnover rates that are generally lower than the average for the restaurant industry.

The Cheesecake Factory Restaurant Concept and Menu

The Cheesecake Factory restaurant concept strives to provide a distinctive, high quality dining experience at moderate prices by offering an extensive, creative and evolving menu in an upscale, high-energy casual setting with efficient, attentive and friendly service. As a result, our restaurants appeal to a diverse customer base. The Cheesecake Factory's extensive menu enables us to compete for substantially all dining preferences and occasions, including not only lunch and dinner, but also the mid-afternoon and late-night dayparts which are traditionally weaker dayparts for most casual dining restaurant operations. Cheesecake Factory restaurants are not open for breakfast, but do offer Sunday brunch. All of our restaurants are open seven days a week. All items on the menu, including approximately 40 varieties of cheesecake and other quality baked desserts, may be purchased for off-premise consumption, which we believe represents approximately 10% of our restaurant sales.

Our menu currently consists of approximately 19 pages and features approximately 200 items including appetizers, pizza, seafood, steaks, chicken, burgers, specialty items, pastas, salads, sandwiches, omelets and desserts, including approximately 40 varieties of cheesecake and other baked desserts. Examples of menu offerings include Tex-Mex Eggrolls, Roadside Sliders, Crusted Chicken Romano, Shrimp Scampi, Cajun Jambalaya Pasta, Santa Fe Salad, Orange Chicken and Caribbean Steak. Menu items (except those desserts manufactured at our bakery production facility) are prepared daily on the restaurant premises with high quality, fresh ingredients using innovative and proprietary recipes. We consider the extensive selection of items on our menu to be an important factor in the differentiation of our restaurants from our competitors. Menu entrees range in price from $5.95 to $24.95. Appetizers range in price from $3.95 to $9.95, and desserts range from $3.95 to $6.95.

One of our competitive strengths is the ability to anticipate consumer dining and taste preferences and adapt our menu to the latest trends in food consumption. We create new menu items to keep pace with changing consumer tastes and preferences and regularly update our ingredients and cooking methods to improve the quality and consistency of our food offerings. Generally every six months, we review the appeal and pricing of all of our menu items and typically update or replace as many as 10 to 20 of the items. All new menu items are tested and selected based on uniqueness, sales popularity, preparation technique and profitability.

Our ability to create, promote and attractively display our unique line of baked desserts is also important to the competitive positioning and financial success of our restaurants. We believe that our brand identity and reputation for offering high quality desserts results in a higher percentage of dessert sales relative to that of most chain restaurant operators. Dessert sales represented approximately 15% of total restaurant sales for fiscal 2002, 2001 and 2000.

Each restaurant maintains a full-service bar where appetizers or the full menu may also be purchased. The sale of alcoholic beverages represented approximately 13% of total restaurant sales for fiscal 2002, 2001 and 2000. We believe the majority of our alcoholic beverage sales occur with meal purchases.

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We place significant emphasis on the unique interior design and decor of our restaurants, which results in a higher investment per square foot of restaurant space than is typical for the restaurant industry. However, each of our restaurants has historically generated annual sales per square foot that is also typically higher than other competitors in the industry. We believe that our stylish restaurant design and decor package contributes to the distinctive dining experience enjoyed by our guests. Each restaurant features large, open dining areas and a contemporary kitchen design featuring exhibition cooking. Six restaurants offer banquet facilities. Approximately three-quarters of our restaurants offer outdoor patio seating (weather permitting), and three of our restaurants overlook waterfronts which complement the overall dining experience. The table and seating layouts of our restaurants are flexible, permitting tables and seats to be easily rearranged to accommodate large groups or parties, thus permitting more effective utilization of seating capacity.

The Grand Lux Cafe Restaurant Concept and Menu

In May 1999, we opened our first Grand Lux Cafe at the Venetian Resort-Hotel-Casino in Las Vegas, Nevada. Grand Lux Cafe is an upscale, casual dining concept that offers unique American and international cuisine selections in an elegant but relaxed atmosphere. The menu at Grand Lux Cafe offers approximately 150 menu items including appetizers, pasta, seafood, steaks, chicken, burgers, salads, specialty items and desserts. Examples of specialty menu offerings include Chicken Venetian, Tuscan Bread Salad and Miso Glazed Salmon. Menu entrees range in price from $6.95 to $26.95. Appetizers range in price from $4.95 to $10.95 and desserts range from $4.95 to $6.95. A full-service bar and bakery are also included in the concept. Our location in the Venetian Resort-Hotel-Casino is open 24 hours a day and also serves a breakfast menu with items priced from $2.25 to $15.95. Based upon the initial success of the concept in Las Vegas, we opened a second Grand Lux Cafe at the Beverly Center in Los Angeles in November 2001 and a third Grand Lux Cafe in downtown Chicago in July 2002. During fiscal 2003, we will continue to review Grand Lux Cafe's menu and operations in order to prepare the concept for future growth. We anticipate opening our next Grand Lux Cafe during fiscal 2004.

Existing Restaurant Locations

As of March 3, 2003, we operated 61 full-service restaurants under The Cheesecake Factory mark in 20 states and the District of Columbia. We also operated three Grand Lux Cafe restaurants and one self-service, limited menu "express" operation at DisneyQuest-Orlando under The Cheesecake Factory Express mark. Additionally, we licensed three bakery cafes under The Cheesecake Factory Bakery Cafe mark to another foodservice operator. The following table sets forth information with respect to our Company-operated full-service restaurant locations:

Existing Company-Operated Full-Service Restaurant Locations by State

State	The Cheesecake Factory	Grand Lux Cafe	Total
Arizona	3		3
California	14	1	15
Colorado	3		3
District of Columbia	1		1
Florida	10		10
Georgia	2		2
Illinois	3	1	4
Indiana	1		1
Maryland	2		2
Massachusetts	3		3
Minnesota	1		1
Missouri	2		2

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Nevada	2	1	3
New Jersey	2		2
New York	1		1
North Carolina	1		1
Ohio	1		1
Pennsylvania	1		1
Rhode Island	1		1
Texas	5		5
Washington	2		2
Total	61	3	64

New Restaurant Site Selection and Development

We believe the locations of our restaurants are critical to our long-term success and, accordingly, we devote significant time and resources to analyzing each prospective site. Since The Cheesecake Factory concept can be successfully executed within a variety of site locations (urban or suburban shopping malls, retail strip centers, office complexes and entertainment centers – either freestanding or in-line) and layouts (single or multi-level, from 7,000 to 20,000 square feet), we can be highly selective and flexible in choosing suitable locations. In general, we currently prefer to open our restaurants at high profile sites within larger metropolitan areas with dense population and above-average household incomes. While our restaurants typically share common interior decor elements, the layout of each restaurant is customized to accommodate different types of buildings and different square feet of available space. In addition to carefully analyzing demographic information for each prospective site, we consider other factors such as visibility, traffic patterns and general accessibility; the availability of suitable parking; the proximity of residences and shopping areas, office parks and tourist attractions; the degree of competition within the trade area; and the general availability of restaurant-level employees. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop in each of our trade areas.

Our new restaurant development model more closely resembles that of a retail business that occupies leased space in shopping malls, office complexes, strip centers, entertainment centers and other real estate developments. We typically seek to lease our restaurant locations for primary periods of 15 to 20 years. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum and contingent (percentage) rent based on sales. We expend cash for leasehold improvements and furnishings, fixtures and equipment to build out the leased premises. We may also expend cash for permanent improvements that we make to leased premises that will be reimbursed to us by our landlords as construction contributions (also known as tenant improvement allowances) pursuant to agreed-upon terms in the respective leases. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. However, there can be no assurance that such contributions will be available for every potential location that we seek to develop into a new restaurant. In the future, we may also develop more freestanding restaurant locations using both ground leases and built-to-suit leases, which are commonly used to finance freestanding locations in the restaurant industry. We own substantially all of the equipment in our restaurants and currently plan to do so in the future.

We believe the relatively high and consistent sales productivity of our restaurants provides opportunities to obtain suitable leasing terms from landlords. Due to the uniquely flexible and customized nature of our restaurant operations and the complex design, construction and preopening processes for each new location, our lease negotiation and restaurant development timeframes vary. The development and opening process can range from six to eighteen months after lease signing, depending largely on the availability of the leased space we intend to occupy, and can be subject to delays outside of our control. The number and timing of new restaurants actually opened during any given period, and their associated contribution to increased operating weeks for the period, will depend on a number of factors including, but not limited to, the identification and availability of

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suitable locations and leases; the availability of suitable financing; the timing of the delivery of the leased premises to us from landlords so that we can commence our build-out construction activities; our ability to timely obtain all necessary governmental licenses and permits to construct and operate the restaurants; any labor shortages or disputes experienced by our outside contractors; any unforeseen engineering or environmental problems with the leased premises; weather conditions that interfere with the construction process; our ability to successfully manage the design, construction and preopening processes for each restaurant; the availability of suitable restaurant management and hourly employees; and general economic conditions. While we attempt to manage those factors within our control, we have experienced unforeseen delays in restaurant openings from time to time in the past and could continue to experience such delays in the future. Most other chain restaurant operations have a greater ability to predict the timing of their new openings as a result of their ability to acquire and control the underlying real estate for their locations and/or they have smaller, more standardized restaurant layouts that are less difficult and time consuming to construct when compared to our larger, more upscale and highly customized leased locations.

New Restaurant Sales and Investment Characteristics

Since each of our restaurants has a customized layout and differs in size (measured in square feet), we believe the most effective method to measure the unit economics of our concepts is by square foot. Average sales per productive square foot for our restaurants open during the entire period were approximately $1,000 for both fiscal 2002 and 2001 and $976 for fiscal 2000. We currently lease spaces for each of our restaurants and are required to expend cash for leasehold improvements and furnishings, fixtures and equipment to build out the leased spaces which is targeted, on average, from $475 to $525 per square foot (excluding preopening costs and landlord construction contributions). The construction costs to build out our leased spaces vary geographically. Additionally, our investment cost per square foot will also vary from restaurant to restaurant, depending on the complexity of our build-out of the leased space. We typically seek to obtain construction contributions (also referred to as tenant improvement allowances) from our landlords for permanent improvements that we make to the leased premises. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. Such contributions vary from lease to lease, depending on the scope of construction activities and other factors. While we have been generally successful in obtaining landlord construction contributions in the past, there can be no assurance that such contributions will be available in similar amounts, if at all, for every potential location we seek to develop into a new restaurant.

On average, we target a 2.5 to 1 sales-to-net cash investment ratio and a 50% net cash-on-cash return when evaluating potential Cheesecake Factory restaurant locations to be opened each fiscal year. The early ROI performance targets for new concepts such as Grand Lux Cafe will typically be lower than the average for an established, highly productive concept such as The Cheesecake Factory, since the first few locations for new concepts are typically in a refinement stage for a period of time. These cash-based performance targets for the Company's restaurant operations do not consider field supervision and corporate support expenses; exclude non-cash items such as depreciation expense; exclude income taxes and do not represent a targeted return on an investment in the Company's common stock. If we select a potential restaurant location for acquisition and development, the actual performance of the location may differ from its originally targeted performance. There can be no assurance that any new restaurant opened will have similar operating results to those of established restaurants.

It is common in the restaurant industry for new locations to initially open with sales volumes well in excess of their sustainable run-rate levels. This initial "honeymoon" effect usually results from grand opening promotional and consumer awareness activities that generate abnormally high customer traffic. During the several months following the opening of new restaurants, customer traffic will generally settle into its normal pattern, thus resulting in sales volumes that adjust downward to their expected run-rate level. Recent Cheesecake Factory restaurant openings have experienced a "honeymoon" sales period where sales may initially be 20% to 40% higher than their expected run-rate level. Additionally, our new restaurants usually require a 90-120 day period after opening to reach their targeted restaurant-level operating margin due to cost of sales and labor inefficiencies commonly associated with new, complex casual dining restaurants. As a result, a significant number of restaurant openings in any single fiscal quarter, accompanied with their associated preopening costs, could have a significant impact on our consolidated results of operations for that fiscal quarter. Therefore, our results of operations for any single fiscal quarter are not necessarily indicative of the results to be expected for any other fiscal quarter or for a full fiscal year.

Preopening Costs for New Restaurants

Preopening costs include incremental out-of-pocket costs that are directly related to the openings of new restaurants that are not otherwise capitalizable. As a result of the highly customized and operationally complex nature of our upscale, high volume concepts, the preopening process for our new restaurants is more extensive, time consuming and costly relative to that of most chain restaurant operations. The preopening cost for one of our restaurants usually includes costs to relocate and compensate an average of 11-12 restaurant management employees prior to opening; costs to recruit and train an average of 200-250 hourly restaurant employees; wages, travel and lodging costs for our opening training team and other support employees; and costs for practice service activities. Preopening costs will vary from location to location depending on a number of factors, including the proximity of our existing restaurants; the size and physical layout of each location; the number of management and hourly employees required to operate each restaurant; the relative difficulty of the restaurant staffing process; the cost of travel and lodging for different metropolitan areas; and the extent of unexpected delays, if any, in obtaining final licenses and permits to open the restaurants, which may also be dependent upon our landlords obtaining their licenses and permits, as well as completing their construction activities, for the properties that our leased premises are located within.

Our direct preopening cost for a 10,000 square foot, single-story Cheesecake Factory restaurant in an established market averages approximately $700,000. There will also be other preopening costs allocated to each restaurant opening, including costs for corporate travel and support activities. Preopening costs will usually be higher for larger restaurants, our initial entry into new markets and for new concepts such as Grand Lux Cafe. During fiscal 2003, we plan to open a Cheesecake Factory restaurant in Honolulu, HI that will require a higher than average preopening cost. We usually incur the most significant portion of preopening costs for a typical restaurant opening within the two-month period immediately preceding and the month of the restaurant's opening. Preopening costs will fluctuate from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant, and the fluctuations could be significant. We expense preopening costs as incurred. Based on our current growth objectives for fiscal 2003 and 2004, preopening costs for each of those years will likely exceed the respective amount of preopening costs for the applicable prior year, due to the increased number of new restaurants intended to be opened in those fiscal years compared to the applicable prior year.

Restaurant Expansion Objectives

We believe that the viability of The Cheesecake Factory restaurant concept has been successfully demonstrated in a variety of site layouts, trade areas and markets across the United States. Accordingly, we intend to continue developing Cheesecake Factory restaurants in high profile locations within densely populated areas in both existing and new markets. In addition to expanding The Cheesecake Factory concept, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant operations, which may include new restaurant concepts such as Grand Lux Cafe or other concepts.

Our primary restaurant expansion objective is to increase our total restaurant productive square feet and operating weeks by approximately 21% to 23% during fiscal 2003. We currently expect to open as many as 14 new restaurants during fiscal 2003, of which two have opened as of March 3, 2003. As in past years, most of our potential restaurant openings for fiscal 2003 will occur during the second half of the year. We currently expect to open two, five and five new restaurants during the second, third and fourth quarters of fiscal 2003, respectively. In addition to the two restaurants that have opened during 2003 as of March 3, 2003, ten leases and several letters of intent have been signed as of March 3, 2003 for potential restaurant openings during fiscal 2003 and 2004. The following table sets forth information with respect to future restaurant locations under

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development as of March 3, 2003 for which leases have been signed:

Future Restaurants with Signed Leases

Cleveland, Ohio	Honolulu, Hawaii
West Nyack, New York	Arlington, Virginia
White Plains, New York	Raleigh, North Carolina
Overland Park, Kansas	Palo Alto, California
McLean, Virginia	The Woodlands, Texas

We are currently negotiating additional leases for potential future locations that could open during fiscal 2003 and 2004. From time to time, we will evaluate opportunities to acquire and convert other restaurant locations to The Cheesecake Factory and Grand Lux Cafe concepts. However, we currently have no binding commitments (other than the signed leases set forth in the table above) or agreements to acquire or convert any other restaurant locations to our concepts. It is not our intention to open new restaurants that materially and permanently cannibalize the sales of our existing restaurants. However, as with most growing retail and restaurant chain operations, there can be no assurance that sales cannibalization will not inadvertently occur or become more significant in the future as we gradually increase our presence in existing markets over time to maximize our competitive position and financial performance in each market.

We developed a bakery cafe format during fiscal 1997 to extend The Cheesecake Factory brand and provide a potential additional source of operating leverage for our bakery production facility. As of March 3, 2003, there were three licensed bakery cafe outlets in operation that range in size from 250 to 2,000 square feet and feature many of our unique desserts and a limited selection of beverages, sandwiches and salads in a self-service format. The first bakery cafe opened in July 1997 in the Ontario Mills shopping mall complex near Los Angeles, followed by the opening of two kiosk-type outlets in August 1997 located in the Ronald Reagan National Airport in Washington, DC. A third licensed bakery cafe opened at the MacArthur Center in Norfolk, Virginia in August 1999. All bakery cafes are currently operated by HMSHost, formerly known as Host Marriott Services Corporation, under licensing agreements with us. The Cheesecake Factory Express is currently the exclusive foodservice operator for the DisneyQuest family entertainment center located in Orlando, Florida. DisneyQuest features innovative, interactive technologies together with Disney characters to create an entertainment adventure for families and guests of all ages. Our Company-operated foodservice operation in DisneyQuest consists of a limited selection of The Cheesecake Factory's quality menu items and desserts in a self-service format at an average check of approximately $7.50 per guest. We have no current plans to develop and operate any additional bakery cafe or express operations, as we are currently focused on expanding our full-service restaurant concepts.

Restaurant Operations and Management

Our ability to consistently and correctly execute a made-from-scratch, complex menu in an upscale, high volume casual dining environment is critical to our overall success. Detailed operating procedures, standards, controls, food line management systems, and cooking methods and processes are utilized at our restaurants to accommodate our extensive menu and facilitate our sales productivity. However, the successful day-to-day operation of our restaurants remains critically dependent on the quality, ability, dedication and enthusiasm of the general manager, executive kitchen manager and all other management and hourly employees working at each restaurant.

Excluding The Cheesecake Factory restaurant in the Forum Shops and Grand Lux Cafe restaurant located in Las Vegas (which are both open 365 days a year), our restaurants are open every day of the year except Thanksgiving and Christmas. Hours of operation are generally from 11:00 a.m. to 11:00 p.m., except on weekends when most of our restaurants stay open past midnight, and on Sunday when our restaurants open at 10:00 a.m. for brunch. Our Grand Lux Cafe restaurant located in Las Vegas is open 24 hours a day. Outdoor patio seating is available (weather permitting) at approximately three-fourths of our restaurants.

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We believe that the high average sales volumes and popularity of our restaurants allow us to attract and retain higher quality, experienced restaurant-level management and other operational personnel. We also believe our restaurants have experienced a lower level of employee turnover than the restaurant industry in general. Each full-service restaurant is typically staffed with one general manager, one executive kitchen manager and from six to sixteen additional kitchen and front-of-the-house management personnel, depending on the size and sales volume of each restaurant. On average, general managers possess at least five years of experience with us and typically have at least five additional years of management experience with other foodservice operators. All newly recruited restaurant management personnel complete an extensive 14-15 week training program during which they receive both classroom and on-the-job instruction in food quality and preparation, customer service, alcoholic beverage service, liquor liability avoidance, financial management and cost controls, risk management, employee relations and our core values and culture of superior guest hospitality. We also provide our restaurant managers with detailed manuals covering food and beverage standards and the proper operation of our restaurants. We are committed to operational excellence in every component of our restaurant operations.

Efficient, attentive and friendly guest service is integral to our overall concept and brand identity. Each restaurant is staffed, on average, with approximately 200-250 hourly employees. We require each hourly employee to participate in a formal training program for his or her respective position in the restaurant. For example, new servers at each restaurant currently participate in approximately three weeks of training during which each server works under the supervision of restaurant management. We strive to instill enthusiasm and dedication in our employees and regularly solicit suggestions concerning restaurant operations and all aspects of our business.

Our future growth and financial success will be highly dependent upon our ability to attract, develop and retain qualified employees who are capable of successfully managing upscale, high volume casual dining restaurants and consistently executing our extensive and complex menu. The availability and retention of qualified restaurant management employees continues to be a significant industry-wide challenge facing restaurant operators. To enable us to more effectively compete for and retain the highest quality restaurant management personnel available, we maintain an innovative and comprehensive compensation program for our restaurant general managers and executive kitchen managers. Each participant in the program receives a competitive base salary and has the opportunity to earn an annual cash bonus (calculated and paid quarterly) based on the performance of his or her restaurant. Participating restaurant general managers also are eligible to utilize a company-leased vehicle, for which all nonbusiness use thereof is valued and added to the participants' taxable income pursuant to income tax regulations. A longer-term equity accumulation opportunity, based on Company stock options, is also available to participating restaurant general managers and executive kitchen managers that is dependent upon the participants' extended service with us in their respective positions (at least five years) and their achievement of certain agreed-upon performance objectives during that five-year period. Additionally, all other salaried restaurant management employees are eligible to receive performance-based Company stock option grants, based on their base compensation and tenure with the Company and our consolidated results of operations.

Our restaurant general managers are responsible for selecting and training the hourly employees for their respective restaurants. Restaurant general managers report to area directors of operations, who typically supervise the operations of six to seven restaurants depending upon geographical and management experience factors. In turn, each area director of operations currently reports to one of two regional vice presidents of restaurant operations. Our restaurant field supervision organization also includes a senior vice president for kitchen operations, area kitchen operations managers and performance development (training) professionals who are responsible for managing new restaurant openings and training for all operational employees. As we open new restaurants, our field supervision and performance development staffs will also expand appropriately.

We maintain financial and accounting controls in our restaurants through the use of a sophisticated point-of-sale (POS) cash register system and personal computer network in each restaurant that interfaces with the computer network in the corporate office using a frame relay communication system. We also utilize an automated front desk management system that affords us the opportunity to better optimize our seating capacity

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and increase our speed of operations. The POS system is also utilized to authorize and transmit credit card sales transactions. The POS system and personal computer network provides our restaurant management with daily and weekly information regarding sales, cash receipts, inventory, food and beverage costs, labor costs and other controllable operating expenses. Each restaurant also has an onsite accounting technician who assists in the accumulation and processing of accounting and other administrative information. Field supervision employees also make extensive use of laptop computers that also interface with the restaurant and corporate computer networks. We prepare a detailed monthly operating budget for each restaurant and compare our actual results to the budget. We also measure the productivity and efficiency of our restaurant operations using a variety of statistical indicators such as daily table turns, guests served per labor hour worked, operating costs incurred per guest served and other activity measures. During the first half of fiscal 2002, we installed upgraded labor timekeeping and scheduling software on our POS system. In December 2002, we leveraged our frame relay communication system to transmit credit card and gift card transactions in order to increase the processing speed and reduce the cost per transaction. During fiscal 2003, we plan to further leverage our frame relay communications capability for restaurant training purposes.

Bakery Operations

Our bakery operations originated in 1972 when Oscar and Evelyn Overton founded a small bakery in the Los Angeles area that produced and distributed high quality cheesecakes and other baked desserts. As their business grew, the Overtons leased additional space to support their expanded production operations. During 1996, all production operations were transferred to a newly constructed, highly automated production facility in Calabasas Hills, California owned by the Company. We produce approximately 50 varieties of cheesecake in our production facility based on proprietary recipes. Some of our popular cheesecakes include the Original Cheesecake, White Chocolate Raspberry Truffle®, Chocolate Peanut Butter Cookie-Dough, Dutch Apple Caramel Streusel, Fresh Strawberry and Triple Chocolate Brownie Truffle®. Other popular baked desserts include chocolate fudge cake, carrot cake, blackout cake and apple dumplings. In the aggregate, our bakery production facility currently produces approximately 300 product SKUs.

High quality, wholesome baked desserts and other products are essential to the successful execution of our restaurant and bakery operations. Our bakery operates under an ongoing comprehensive food safety and quality assurance program. This program includes, among other things, supplier qualification and plant inspections, inbound raw material testing, microbiological testing of the production environment, safety and sanitation monitoring, and finished goods testing. Our in-house food safety and quality assurance staff constantly audits and monitors our manufacturing practices during operation and closely monitors our compliance with the industry standard Hazard Analysis Critical Control Points (HACCP) program. We use both internal and external quality control laboratory resources to test raw ingredients and finished products for safety. We believe that our production facility and manufacturing practices comply with all material government regulations.

The commissary role of our bakery operations is to produce innovative, high quality cheesecakes and other baked desserts for sale at our restaurants. Dessert sales represented approximately 15% of our total restaurant sales for fiscal 2002, 2001 and 2000, respectively, and are important to restaurant-level profitability. We also market some of our more popular cheesecakes and other baked products on a wholesale basis to other foodservice operators, retailers and distributors. Approximately two thirds of the bakery's production activities is currently devoted to our outside customers, with the remaining one third devoted to supplying our restaurants. Cheesecakes and other items produced for outside accounts are marketed under The Cheesecake Factory® mark, The Dream Factory® mark, The Cheesecake Factory Bakery® mark and private labels. Current large-account customers include the leading national warehouse club operators, institutional foodservice distributors, supermarkets and other restaurant and foodservice operators. Sales to warehouse clubs, which represented approximately 56%, 49% and 55% of our total outside bakery sales for fiscal 2002, 2001 and 2000, respectively, are concentrated with the two largest warehouse club operators in the United States. Bakery products are delivered daily to our restaurants and other customers in the Southern California area by our delivery vehicles, and are shipped to all other markets in the United States by common carrier. We also contract with an outside fulfillment company to process mail order and internet-based sales. Frozen bakery products are also shipped to international customers.

Our goal for fiscal 2003 is to increase our bakery sales by a modest 5% to 10%. During the first quarter of fiscal 2003, we entered into an expanded relationship with SYSCO Corporation, the largest foodservice marketer and distributor in North America, which has agreed to offer our Dream Factory product line for potential purchase by its customers. All of our targeted sales increase for fiscal 2003, if achieved, is expected to occur during the second half of the year and will most likely be driven by our Dream Factory product line through SYSCO and other distribution channels. We currently expect that bakery sales for the first half of fiscal 2003 will be less than the same period for the prior year due, in part, to the comparison against high initial sales volumes resulting from the initial filling of the inventory "pipelines" for a large warehouse club customer and a large retail customer, coupled with the soft retail sales environment in general. During the first half of 2002, bakery sales increased 65% compared to the first half of 2001.

We strive to develop and maintain long-term, growing relationships with our bakery customers, based largely on our 30-year reputation for producing high quality, creative baked desserts. However, bakery sales volumes will always be less predictable than our restaurant sales. It is difficult to predict the timing of bakery product shipments and contribution margins on a quarterly basis. Additionally, the purchasing plans of our large-account customers may fluctuate from quarter to quarter. Due to the highly competitive nature of the bakery business, we are unable to enter into long-term contracts with our large-account bakery customers, who may discontinue purchasing our products without advance notice at any time for any reason.

Our bakery production facility in Calabasas Hills, California contains approximately 60,000 square feet, of which approximately 45,000 square feet is devoted to production operations and the remainder is utilized for corporate support activities. During fiscal 2002, the production facility operated at approximately 75% of its estimated practical capacity. We believe that our capacity utilization rate could increase to approximately 77% to 80% on a run-rate basis by the end of fiscal 2003, based on our expected level of production and planned capacity additions to the production facility during the year. We have commenced an evaluation of various alternatives to increase our bakery production capacity in the future. We currently expect to complete our evaluation during fiscal 2003.

Advertising and Promotion

Our restaurants compete in the upscale, casual dining segment of the restaurant industry. This segment is generally positioned between easily-replicated casual dining operations and expensive "fine dining" or dinnerhouse operations. We believe our commitment to providing consistent, exceptional value to consumers in an upscale, casual dining environment continues to be the most effective approach to attracting and retaining customers. Accordingly, we have historically relied on our high profile locations, operational excellence and "word of mouth" to attract and retain restaurant guests instead of using media advertising or discounting. We would consider more traditional forms of media advertising if the need arose. During fiscal 2002, our restaurant-level expenditures for advertising were less than 1% of total restaurant sales.

We believe our commitment to deliver exceptional value to consumers has enabled our newer restaurants to benefit from the brand recognition and reputation developed by our existing restaurants. We also attempt to build awareness and relationships with local hotel concierges. For restaurant openings in new markets, we generally host a high profile event for a local charity as part of our preopening practice activities that also serves to introduce our concept to the market. In new markets, we also arrange for local television and radio stations to cover our high profile restaurant openings and thereby provide us with free publicity. During fiscal 2001, the Company sponsored the formation of The Cheesecake Factory – Oscar and Evelyn Overton Charitable Foundation that, among its other intended activities, will provide a vehicle for employee participation in qualified local community service and charitable programs. With respect to our bakery operations, we currently maintain a full-time staff of eight sales and marketing employees and three product development employees. Additionally, we utilize the services of foodservice brokers from time to time for certain bakery products and distribution channels.

Purchasing and Distribution

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We strive to obtain quality menu ingredients, raw materials and other supplies and services for our operations from reliable sources at competitive prices. We continually research and evaluate various ingredients and products in an effort to maintain high quality and to be responsive to changing consumer tastes. Other than for cheesecakes and other baked products, our restaurants do not utilize a central food commissary. Substantially all menu items are prepared on each restaurant's premises daily from scratch, using fresh ingredients. In order to maximize purchasing efficiencies and to provide for the freshest ingredients for our menu items while obtaining the lowest possible prices for the required quality and consistency, each restaurant's management determines the quantities of food and supplies required and orders the items from local, regional and national suppliers on terms negotiated by our centralized purchasing staff. Restaurant-level inventories are maintained at a minimum dollar-value level in relation to sales due to the high concentration and relatively rapid turnover of the perishable produce, poultry, meat, fish and dairy commodities that we use in our operations.

We attempt to negotiate short-term and long-term agreements for our principal commodity, supply and equipment requirements, depending on market conditions and expected demand. However, we are currently unable to contract for long periods of time for substantially all of our fresh commodities such as produce, poultry, meat, fish and dairy items and, consequently, such commodities can be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. We believe that all essential food and beverage products are available from several qualified suppliers in all cities in which our operations are located. Most food and supply items are delivered daily to our restaurants by independent foodservice distributors, including the largest foodservice distributor in North America.

Competition

The restaurant industry is highly competitive. There are a substantial number of restaurant operations that compete directly and indirectly with us, many of which have significantly greater financial resources, higher revenues and greater economies of scale. The restaurant business is often affected by changes in consumer tastes and discretionary spending patterns; national and regional economic and public safety conditions; demographic trends; weather conditions; the cost and availability of raw materials, labor and energy; purchasing power; governmental regulations and local competitive factors. Any change in these or other related factors could adversely affect our restaurant operations. Accordingly, we must constantly evolve and refine the critical elements of our restaurant concepts over time to protect their longer-term competitiveness.

Multi-unit foodservice operations such as ours can also be substantially affected by adverse publicity resulting from food quality, illness, injury, health concerns or operating issues stemming from a single restaurant or, with respect to our bakery operations, a single production run of bakery products. In particular, since the Company depends heavily on The Cheesecake Factory mark for a majority of its revenues, unfavorable publicity relating to our bakery operations could have a material adverse effect on our restaurant operations, and vice versa. We attempt to manage these risks, but the occurrence of any one of these factors could cause our entire Company to be adversely affected. With regard to our bakery operations, competition within the premium baked dessert market has historically been regional and fragmented. However, overall competition within that market remains intense. We believe that our restaurant and bakery operations compete favorably with consumers on the critical attributes of quality, variety, taste, service, consistency and overall value.

Government Regulation

We are subject to various federal, state and local laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities which may include alcoholic beverage control, health, sanitation, environmental, zoning and public safety agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development and openings of new restaurants, or could disrupt

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the operations of existing restaurants. However, we believe that we are in compliance in all material respects with all relevant governmental regulations, and we have not experienced abnormal difficulties or delays in obtaining the licenses or approvals required to open or operate any restaurant to date.

Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county and municipal authorities for licenses and permits to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be subject to penalties, temporary suspension or revocation for cause at any time. Alcoholic beverage control regulations impact many aspects of the daily operations of our restaurants, including the minimum ages of patrons and employees consuming or serving such beverages; employee alcoholic beverages training and certification requirements; hours of operation; advertising; wholesale purchasing and inventory control of such beverages; seating of minors and the service of food within our bar areas; and the storage and dispensing of alcoholic beverages. State and local authorities in many jurisdictions routinely monitor compliance with alcoholic beverage laws. We have not encountered any material problems relating to alcoholic beverage licenses to date. The failure to receive or retain, or a delay in obtaining, a liquor license for a particular restaurant could adversely affect our ability to obtain such licenses elsewhere.

We are subject to "dram-shop" statutes in most of the states in which we have operations, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to such person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance that we believe is consistent with coverage carried by other entities in the restaurant industry of similar size and scope of operations. Even though we are covered by general liability insurance, a settlement or judgment against us under a "dram-shop" statute in excess of our liability coverage could have a material adverse effect on our operations.

Various federal and state labor laws govern our operations and our relationship with our employees, including such matters as minimum wages, breaks, overtime, fringe benefits, safety, working conditions and citizenship requirements. We are also subject to the regulations of the Immigration and Naturalization Service (INS). Even if we operate our restaurants in strict compliance with INS requirements, some of our employees may not meet federal citizenship or residency requirements, which could lead to a disruption in our work force. Significant government-imposed increases in minimum wages, paid leaves of absence and mandated health benefits, or increased tax reporting, assessment or payment requirements related to our employees who receive gratuities could be detrimental to the profitability of our restaurants and bakery operations. Our suppliers may also be affected by higher minimum wage standards, which could result in higher costs for goods and services supplied to the Company. While we carry employment practices insurance, a settlement or judgment against us in excess of our coverage limitations could have a material adverse effect on our results of operations, liquidity, financial position or business.

As a manufacturer and distributor of food products, we are subject to a number of food safety regulations, including the Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration ("FDA"). This comprehensive regulatory scheme governs the manufacture (including composition and ingredients), labeling, packaging and safety of food in the United States.

We are subject to federal and state environmental regulations, but these rules have not had a material effect on our operations. Various laws concerning the handling, storage, and disposal of hazardous materials, such as cleaning solvents, and the operation of restaurants in environmentally sensitive locations may impact aspects of our operations. During fiscal 2002, there were no material capital expenditures for environmental control facilities and no such expenditures are anticipated.

Our facilities must comply with the applicable requirements of the Americans With Disabilities Act of 1990 ("ADA") and related state statutes. The ADA prohibits discrimination on the basis of disability with respect to public accommodations and employment. Under the ADA and related state laws, when constructing new restaurants or undertaking significant remodeling of existing restaurants, we must make them more readily

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accessible to disabled persons. We must also make reasonable accommodations for the employment of disabled persons.

We have a significant number of hourly restaurant employees that receive tip income. We have elected to voluntary participate in a Tip Rate Alternative Commitment ("TRAC") agreement with the Internal Revenue Service. By complying with the educational and other requirements of the TRAC agreement, we reduce the likelihood of potential employer-only FICA assessments for unreported or underreported tips.

Employees

As of March 3, 2003, we employed approximately 14,900 persons, of which approximately 14,200 employees worked in our restaurants, approximately 560 worked in our bakery operations and approximately 140 employees worked in our corporate center and restaurant field supervision organization. None of our employees are currently covered by collective bargaining agreements, and we have never experienced an organized work stoppage, strike or labor dispute. We believe our working conditions and compensation packages are generally comparable with those offered by our competitors and consider overall relations with our employees to be favorable.

Trademarks

We have registered, among other marks, "The Cheesecake Factory", "Grand Lux Cafe", "The Cheesecake Factory Bakery", "The Cheesecake Factory Express", "The Dream Factory" and "The Cheesecake Factory Bakery Cafe" as trademarks with the United States Patent and Trademark Office. Additional trademark applications are pending. We have also registered our ownership of the Internet domain name "www.thecheesecakefactory.com" and other names. We regard our trademarks as having substantial value and as being important factors in the marketing of our restaurants and bakery products. We have registered, or have pending applications to register, one or more of our trademarks in more than 70 foreign countries, although there can be no assurance that our name and marks are registerable in every country for which registration is being sought. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained, and they have not been found to become generic.

Executive Officers

David Overton, age 56, serves as our Chairman of the Board and Chief Executive Officer. Mr. Overton co-founded our predecessor company in 1972 with his parents.

Gerald W. Deitchle, age 51, serves as our President and Chief Financial Officer. Mr. Deitchle has over 26 years of executive and financial management experience with national restaurant and retail chain operations. He joined our Company as Senior Vice President, Finance and Administration and Chief Financial Officer in July 1995.

Michael P. Berry, age 54, joined our Company in July 2002 as President and Chief Operating Officer of The Cheesecake Factory Restaurants, Inc., our largest restaurant subsidiary. Prior to joining us, Mr. Berry served as President of Barnes and Noble Booksellers. His prior experience also includes service as a senior operations and foodservice executive with The Walt Disney Company, Harvard University, the University of California at Irvine and the University of California at Los Angeles.

Peter J. D'Amelio, age 41, was appointed President and Chief Operating Officer of our Grand Lux Cafe restaurant operations in October 2002. Mr. D'Amelio joined our Company in 1990 and steadily advanced through our operations organization, with his most recent position as Senior Vice President of Restaurant Operations.

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Max S. Byfuglin, age 57, serves as Executive Vice President of The Cheesecake Factory Bakery Incorporated, our bakery subsidiary. Mr. Byfuglin joined our bakery operations in 1982 and worked closely with our founders, serving in nearly every capacity in our bakery over the past 20 years.

Debby R. Zurzolo, age 46, joined our Company as Senior Vice President and General Counsel in April 1999. From 1982 until joining the Company, Ms. Zurzolo practiced law at Greenberg Glusker Fields Claman & Machtinger LLP in Los Angeles, California. As a partner with that firm, Ms. Zurzolo represented our Company on various real estate matters and negotiated several of our restaurant leases.

Michael J. Dixon, age 40, serves as our Vice President of Finance, Controller and Chief Accounting Officer. Mr. Dixon joined our Company in September 2000 after several years in finance and business development with The Walt Disney Company and nine years with the public accounting firm of Coopers & Lybrand.

Forward-looking Statements and Risk Factors

Certain information included in this Form 10-K and other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral or written statements made by us or on our behalf), may contain forward-looking statements about our current and expected performance trends, growth plans, business goals and other matters. These statements may be contained in our filings with the Securities and Exchange Commission, in our press releases, in other written communications, and in oral statements made by or with the approval of one of our authorized officers. Words or phrases such as "believe," "plan," "will likely result,""expect," "intend," "will continue," "is anticipated," "estimate," "project", "may,""could," "would," "should" and similar expressions are intended to identify forward-looking statements. These statements, and any other statements that are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as codified in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended from time to time (the "Act").

In connection with the "safe harbor" provisions of the Act, we are filing the following summary to identify important factors, risks and uncertainties that could cause our actual results to differ materially from those projected in forward-looking statements made by us, or on our behalf. These cautionary statements are to be used as a reference in connection with any forward-looking statements. The factors, risks and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a forward-looking statement or contained in any of our subsequent filings with the Securities and Exchange Commission. Because of these factors, risks and uncertainties, we caution against placing undue reliance on forward-looking statements. Although we believe that the assumptions underlying forward-looking statements are reasonable, any of the assumptions could be incorrect, and there can be no assurance that forward-looking statements will prove to be accurate. Forward-looking statements speak only as of the date on which they are made. We do not undertake any obligation to modify or revise any forward-looking statement to take into account or otherwise reflect subsequent events, or circumstances arising after the date that the forward-looking statement was made.

The following risk factors may affect our operating results and the environment within which we conduct our business. If our projections and estimates regarding these factors differ materially from what actually occurs, our actual results could vary significantly from any results expressed or implied by forward-looking statements. These risk factors include, but are not limited to, changes in general economic, demographic,

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geopolitical or public safety conditions which affect consumer behavior and spending for restaurant dining occasions, including the ongoing ramifications of the September 11, 2001 terrorist attacks and the governmental response thereto, including the potential for armed conflict in Iraq or other countries; increasing competition in the upscale casual dining segment of the restaurant industry; adverse weather conditions which impact customer traffic at the Company's restaurants in general and which cause the temporary underutilization of outdoor patio seating available at most of the Company's restaurants; various factors which increase the cost to develop and/or affect the number and timing of the openings of new restaurants, including factors under the influence and control of government agencies, landlords, construction contractors and others; fluctuations in the availability and/or cost of raw materials, management and hourly labor, energy or other resources necessary to successfully operate the Company's restaurants and bakery production facility; the Company's ability to raise prices sufficiently to offset cost increases, including increased costs for minimum wages, employee benefits and insurance arrangements; the success of strategic and operating initiatives, including new restaurant concepts and new bakery product lines; depth of management; adverse publicity about the Company, its restaurants or bakery products; the Company's current dependence on a single bakery production facility; the Company's ability to obtain and retain large-account customers for its bakery operations; changes in timing and/or scope of the purchasing plans of large-account bakery customers which can cause fluctuations in bakery sales and the Company's consolidated operating results; the rate of growth of general and administrative expenses associated with building a strengthened corporate infrastructure to support the Company's growing operations; relations between the Company and its employees; legal claims and litigation against the Company; the availability, amount, type, and cost of capital for the Company and the deployment of such capital, including the amounts of planned capital expenditures; changes in, or any failure to comply with, governmental regulations; the amount of, and any changes to, tax rates and the success of various initiatives to minimize taxes; and other risks and uncertainties referenced in this Annual Report on Form 10-K.

ITEM 2: PROPERTIES

All of our 65 existing Company-operated restaurants are located on leased properties, and we have no current plans to own the real estate underlying our restaurants. We own substantially all of the equipment, furnishings and trade fixtures in our restaurants. Existing restaurant leases have primary terms with expiration dates ranging from December 31, 2007 to January 31, 2024 (excluding existing renewal options). We do not anticipate any difficulties renewing our existing leases as they expire; however, there can be no assurance that we will be able to renew such leases after the expiration of all remaining renewal options. Our restaurant leases generally provide for contingent rent based on a percentage of restaurant sales (versus a minimum base rental) and payment of certain lease-related expenses. See Note 6 of the Notes to the Company's Consolidated Financial Statements for information regarding the aggregate minimum and percentage rentals paid for recent periods and information regarding our obligation to pay minimum rentals in future years.

Our corporate center and bakery production facility is located in Calabasas Hills, California in a 60,000 square-foot facility on a 3.3-acre parcel of land. We currently own this entire facility (land, building and equipment) in fee simple. Effective October 2002, we also occupy approximately 34,000 square feet of additional training, culinary R&D and office space adjacent to our existing production facility under a ten-year lease.

ITEM 3: LEGAL PROCEEDINGS

In December 2002, two former hourly restaurant employees in California filed a lawsuit against the Company alleging violations of California labor laws with respect to meal and rest breaks. The lawsuit seeks unspecified amounts of penalties and other monetary payments on behalf of the plaintiffs and other purported class members. The Company has filed an amended answer to the complaint and intends to vigorously defend its position. Although the lawsuit has only been recently filed and its outcome cannot be ascertained at this time, we believe that its disposition would not have a material adverse effect on our financial position, results of operations or liquidity.

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We are also subject to other private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. Such claims typically involve claims from guests, employees and others related to operational issues common to the foodservice industry. A number of such claims may exist at any given time. We could be affected by adverse publicity resulting from such allegations, regardless of whether or not such allegations are valid or whether we are determined to be liable. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks. We believe that the final disposition of such lawsuits and claims will not have a material adverse effect on our financial position, results of operations or liquidity.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended December 31, 2002.

PART II

ITEM 5: MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the Nasdaq Stock Market® under the symbol CAKE. The following table sets forth, for the periods indicated, the high and low sales prices as reported on the Nasdaq Stock Market.

	High	Low
Fiscal 2001:		
First Quarter	$29.83	$21.42
Second Quarter	28.50	21.20
Third Quarter	32.96	19.92
Fourth Quarter	36.25	23.40
Fiscal 2002:		
First Quarter	$37.85	$31.75
Second Quarter	43.55	33.29
Third Quarter	36.60	24.90
Fourth Quarter	37.70	27.95

Since our initial public offering in September 1992, we have not declared or paid any cash dividends on our common stock. We currently intend to retain all earnings for the operation and expansion of our business. Although we have the financial capacity to consider paying a cash dividend, we have no current plans to do so. There were approximately 660 holders of record of our common stock at March 3, 2003 and we estimate there were approximately 25,546 beneficial stockholders on that date.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth, for the periods indicated, selected consolidated financial data that has been derived from our audited Consolidated Financial Statements. The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto, and with

Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Fiscal Year (1)				
	2002	2001	2000	1999	1998
	(in thousands, except net income per share)				
Income Statement Data:					
Revenues:					
Restaurant sales	$603,295	$499,519	$406,947	$320,450	$243,415
Bakery sales to other foodservice operators, retailers and distributors	48,675	39,611	31,334	27,032	21,808
Total revenues	651,970	539,130	438,281	347,482	265,223
Costs and expenses:					
Restaurant cost of sales	142,998	127,005	102,994	82,496	65,480
Bakery cost of sales	22,631	19,153	14,466	12,685	10,626
Labor expenses	200,279	164,372	133,287	105,796	81,475
Other operating costs and expenses	150,617	120,706	95,941	77,247	60,452
General and administrative expenses	31,702	27,929	25,831	21,266	17,333
Depreciation and amortization expenses	22,855	17,457	13,682	10,913	8,540
Preopening costs	10,631	7,069	5,943	6,217	3,603
Total costs and expenses	581,713	483,691	392,144	316,620	247,509
Income from operations	70,257	55,439	46,137	30,862	17,714
Interest income, net	3,885	4,328	4,660	2,807	2,955
Other income (expense), net	2,178	1,654	(439)	555	435
Income before income taxes and cumulative effect of change in accounting principle	76,320	61,421	50,358	34,224	21,104
Income tax provision	27,245	22,112	18,257	12,492	7,073
Income before cumulative effect of change in accounting principle	49,075	39,309	32,101	21,732	14,031
Cumulative effect of change in accounting principle, net of income tax benefit of $3,343 (2)	—	—	—	—	6,347
Net income	$ 49,075	$ 39,309	$ 32,101	$ 21,732	$ 7,684
Net income per share:					
Basic:					
Income before cumulative effect of change in accounting principle	$ 1.00	$ 0.83	$ 0.69	$ 0.48	$ 0.31
Cumulative effect of change in accounting principle (2)	—	—	—	—	(0.14)
Net income	$ 1.00	$ 0.83	$ 0.69	$ 0.48	$ 0.17
Diluted:					
Income before cumulative effect of change in accounting principle	$ 0.96	$ 0.79	$ 0.64	$ 0.46	$ 0.31
Cumulative effect of change in accounting principle (2)	—	—	—	—	(0.14)
Net income	$ 0.96	$ 0.79	$ 0.64	$ 0.46	$ 0.17
Weighted average shares outstanding:					

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Basic	49,266	47,466	46,247	45,138	44,964
Diluted	51,158	49,897	50,192	47,675	46,287
Balance Sheet Data (at end of period):					
Adjusted net working capital (including all marketable securities classified as either current or noncurrent assets)	$102,929	$ 67,529	$ 72,400	$ 44,908	$ 43,873
Total assets	$463,842	$356,927	$288,392	$221,785	$185,420
Total long-term debt (including current portion)	$ —	$ —	$ —	$ —	$ —
Stockholders' equity	$379,564	$289,471	$240,836	$185,573	$160,291

(1) Fiscal 2000 consisted of 53 weeks. All other fiscal years consisted of 52 weeks.

(2) During fiscal 1998, we adopted AICPA SOP No. 98-5, "Reporting on the Costs of Start-Up Activities", and began expensing restaurant preopening costs as incurred. Previously, such costs were deferred and amortized over the 12-month period following restaurant openings.

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

General

This discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and related notes found elsewhere in this Annual Report on Form 10-K.

As of March 3, 2003, we operated 61 upscale, high volume, casual dining restaurants under The Cheesecake Factory® mark. We also operated three upscale casual dining restaurants under the Grand Lux Cafe® mark in Los Angeles, California, Chicago, Illinois and Las Vegas, Nevada; one self-service, limited menu "express" foodservice operation under The Cheesecake Factory Express® mark inside the DisneyQuest® family entertainment center in Orlando, Florida; and a bakery production facility. We also licensed three limited menu bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator.

Our revenues consist of sales from our restaurant operations and sales from our bakery operations to other foodservice operators, retailers and distributors ("bakery sales"). Revenue from restaurant sales is recognized when food and beverage products are sold to our guests. Revenue from bakery sales to other foodservice operators, retailers and distributors is recognized when the products are shipped. Sales and cost of sales are reported separately for restaurant and bakery activities. All other operating cost and expense categories are reported on a combined basis for both restaurant and bakery activities. Comparable restaurant sales include the sales from restaurants open for the full period of each period being compared. New restaurants enter the comparable sales base in their nineteenth month of operation. We utilize a 52/53 week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal 2002 and 2001 each consisted of 52 weeks, while fiscal 2000 consisted of 53 weeks. Fiscal 2003 will consist of 52 weeks and will end on December 30, 2003.

Results of Operations

The following table sets forth, for the periods indicated, the Consolidated Statements of Operations of the Company expressed as percentages of total revenues.

	Fiscal Year		
	2002	2001	2000
Revenues:			
Restaurant sales	92.5%	92.7%	92.9%
Bakery sales to other foodservice operators, retailers and distributors	7.5	7.3	7.1
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant cost of sales	21.9	23.5	23.5
Bakery cost of sales	3.5	3.6	3.3
Labor expenses	30.7	30.5	30.4
Other operating costs and expenses	23.1	22.4	21.9
General and administrative expenses	4.9	5.2	5.9
Depreciation and amortization expenses	3.5	3.2	3.1
Preopening costs	1.6	1.3	1.4
Total costs and expenses	89.2	89.7	89.5
Income from operations	10.8		

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EX-11 3 d54011_ex11.htm COMPUTATION OF NET INCOME PER SHARE

EXHIBIT 11

STATEMENT REGARDING COMPUTATION OF NET INCOME PER SHARE

	Fiscal Year		
	2002	**2001**	**2000**
	(in thousands, except per share data)		
Net Income Per Common Share–Basic			
Weighted average shares outstanding	49,266	47,466	46,247
Net income	$49,075	$39,309	$32,101
Net income per share–basic	$ 1.00	$ 0.83	$ 0.69
Net Income Per Common Share–Diluted			
Weighted average shares outstanding	49,266	47,466	46,247
Net effect of dilutive stock options based on the treasury stock method using average market price	1,892	2,431	3,945
Total shares outstanding for computation of per share earnings	51,158	49,897	50,192
Net income	$49,075	$39,309	$32,101
Net income per share–diluted	$ 0.96	$ 0.79	$ 0.64

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EX-21 4 d54011_ex21.htm LIST OF SUBSIDIARIES

EXHIBIT 21.0

LIST OF SUBSIDIARIES:

The Cheesecake Factory Restaurants, Inc., a California corporation

The Cheesecake Factory Bakery Incorporated, a California corporation

The Cheesecake Factory Assets Co. LLC, a Nevada limited liability company

C.F.I. Promotions Co. LLC, a Colorado limited liability company

C.F.R.I. Asset Holdings LLC, a Nevada limited liability company

CFRI Texas Restaurants LP, a Texas limited partnership

The Houston Cheesecake Factory Corporation, a Texas corporation

TCF Stonebriar Club Incorporated, a Texas corporation

Cheesecake Factory Restaurants of Kansas LLC

Grand Lux Cafe LLC, a Nevada limited liability company

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EX-23 5 d54011_ex23.htm CONSENT OF INDEPENDENT ACCOUNTANTS

EXHIBIT 23.0

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File Nos. 033-88414, 333-33173, 333-87070 and 333-64464) of The Cheesecake Factory Incorporated of our report dated February 4, 2003 relating to the consolidated financial statements, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Los Angeles, California
March 4, 2003

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EX-99.1 6 d54011_ex99-1.htm CERTIFICATION-OVERTON

EXHIBIT 99.1

THE CHEESECAKE FACTORY INCORPORATED

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of The Cheesecake Factory Incorporated (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Overton, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID OVERTON

David Overton
Chairman and Chief Executive Officer

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EX-99.2 7 d54011_ex99-2.htm CERTIFICATION-DEITCHLE

EXHIBIT 99.2

THE CHEESECAKE FACTORY INCORPORATED

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of The Cheesecake Factory Incorporated (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerald W. Deitchle, President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GERALD W. DEITCHLE

Gerald W. Deitchle
President and Chief Financial Officer

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

FORM 10-K/A

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2002

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

Commission File Number 0-20574

THE CHEESECAKE FACTORY INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**51-0340466** *(IRS Employer Identification No.)*
26950 Agoura Road **Calabasas Hills, California** *(Address of principal executive offices)*	**91301** *(Zip Code)*

Registrant's telephone number, including area code: **(818) 871-3000**

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
Preferred Stock Purchase Rights

Indicate by check mark whether the 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 |X| 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 the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this

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Form 10-K. |_|

Indicate by check mark whether the Registrant is an accelerated filer (as determined by Exchange Act Rule 12b-2). Yes |X| No |_|

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of the last business day of the second fiscal quarter, July 2, 2002, was $1,557,753,955. As of March 3, 2003, 50,144,189 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

Documents Incorporated by Reference

Certain portions of the Registrant's Proxy Statement for its 2003 Annual Meeting to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Registrant's fiscal year are incorporated by reference under Part III of this Form 10-K.

This Amendment is being filed to correct the cover page of this Form 10-K to disclose the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the Registrant's most recently completed second fiscal quarter, July 2, 2002, to revise the statement relating to Item 405 of Regulation S-K and to revise the disclosure under the caption "Documents Incorporated by Reference."

This amendment also adds the following to Part I of this Form 10-K:

Availability of Reports Filed with the Securities and Exchange Commission

Our Internet website address is www.thecheesecakefactory.com. We make available, free of charge through our website, our annual reports 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, as amended, as soon as reasonably practicable after such documents are electronically filed with or furnished to the Securities and Exchange Commission. These reports can be found under "SEC Filings" through the "Investor" section of our website. The information on our website is not incorporated by reference into this report on Form 10-K.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 21st day of March 2003.

THE CHEESECAKE FACTORY INCORPORATED

/s/ GERALD W. DEITCHLE

By: Gerald W. Deitchle

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President and Chief Financial Officer

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CERTIFICATION

I, David Overton, certify that:

1. I have reviewed this annual report on Form 10-K of The Cheesecake Factory Incorporated;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 20, 2003

/s/ DAVID OVERTON

By: David Overton

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Chairman of the Board and
Chief Executive Officer

CERTIFICATION

I, Gerald W. Deitchle, certify that:

1. I have reviewed this annual report on Form 10-K of The Cheesecake Factory Incorporated;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 20, 2003

/s/ GERALD W. DEITCHLE

By: Gerald W. Deitchle
President and Chief Financial Officer

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

FORM 10-K

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

For the fiscal year ended December 30, 2003

or

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

Commission File Number 0-20574

THE CHEESECAKE FACTORY INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**51-0340466** *(IRS Employer Identification No.)*
26950 Agoura Road **Calabasas Hills, California** *(Address of principal executive offices)*	**91301** *(Zip Code)*

Registrant's telephone number, including area code: **(818) 871-3000**

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

Indicate by check mark whether the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) 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 this Form 10-K. ☑

Indicate by check mark whether the Registrant is an accelerated filer (as determined 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 business day of the second fiscal quarter, July 1, 2003, was $1,615,599,760 (based on the last reported sales on the

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Nasdaq National Market on that date). As of March 4, 2004, 51,791,599 shares of the registrant's Common Stock, $.01 par value per share, were outstanding.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference information from the Registrant's Proxy Statement for the 2004 Annual Meeting of Stockholders to be held on May 18, 2004.

TABLE OF CONTENTS

PART I

ITEM 1: BUSINESS

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General

As of March 4, 2004, The Cheesecake Factory Incorporated (referred to herein as the "Company" or in the first person notations "we", "us" and "our") operated 75 upscale, full-service, casual dining restaurants under The Cheesecake Factory® mark in 24 states and the District of Columbia. We also operated three upscale full-service casual dining restaurants under the Grand Lux Cafe® mark in Chicago, Illinois; Los Angeles, California and Las Vegas, Nevada; and one self-service, limited menu "express" foodservice operation under The Cheesecake Factory Express® mark inside the DisneyQuest® family entertainment center in Orlando, Florida. We also operated a bakery production facility in Calabasas Hills, California that produces baked desserts and other products for our restaurants and for other foodservice operators, retailers and distributors. We also licensed three bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator. When referred to herein, the term "restaurants" includes both The Cheesecake Factory and Grand Lux Cafe full-service restaurant concepts, unless otherwise noted, and excludes the one "express" location, the three licensed bakery cafes and the bakery production facility, unless otherwise noted.

Our Cheesecake Factory restaurants offer approximately 200 menu items including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches, omelets and desserts, including approximately 40 varieties of cheesecake and other baked desserts (See "The Cheesecake Factory Restaurant Concept and Menu"). Grand Lux Cafe is an upscale, casual dining concept that we created and are evaluating for future expansion (see "The Grand Lux Cafe Restaurant Concept and Menu"). In contrast to many chain restaurant operations, substantially all of our menu items (except desserts manufactured at our bakery production facility) are prepared on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate prices. Our restaurants possess a distinctive, contemporary design and decor that creates a high-energy ambiance in a casual setting. Our restaurants currently range in size from 5,400 to 20,500 interior square feet, provide full liquor service and are generally open seven days a week for lunch and dinner, as well as Sunday brunch. Total restaurant sales represented 94.5%, 92.5% and 92.7% of our total revenues for fiscal 2003, 2002 and 2001, respectively.

We believe that our ability to select suitable locations and operate successful restaurants, coupled with the continuing popularity of our restaurant concepts with consumers, is reflected in our average food and beverage sales per restaurant which we believe are among the highest of any publicly-held restaurant company. Average sales per restaurant open for the full year were approximately $10.8 million, $10.9 million and $11.0 million for fiscal 2003, 2002 and 2001, respectively. Since each of our restaurants has a customized layout and differs in size (measured in square feet), another way that we measure sales productivity is by average sales per productive square foot. Average sales per productive square foot (defined as interior plus seasonally-adjusted patio square feet) for restaurants open for the full year were approximately $971 for fiscal 2003 and approximately $1,000 for both fiscal 2002 and 2001. Average sales per operating week for restaurants open for the full year were $208,100, $210,400 and $211,900 for fiscal 2003, 2002 and 2001, respectively. Our average sales metrics for a given fiscal year can be impacted by a number of factors, including the average size of restaurants open during the year. The estimated average productive square feet for restaurants open the full year were 12,300, 12,000 and 11,900 for fiscal 2003, 2002 and 2001, respectively.

We believe that the viability of The Cheesecake Factory concept has been successfully demonstrated in a variety of site layouts, trade areas and markets across the United States. Accordingly, we intend to continue developing Cheesecake Factory restaurants in high profile locations within densely populated areas in both existing and new markets. In addition to expanding The Cheesecake Factory concept, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant and bakery operations, which may include new restaurant concepts such as Grand Lux Cafe or other concepts and new bakery product lines and distribution channels. In order to facilitate our expansion strategy, we plan to continue building our operating and corporate support infrastructure to focus on achieving optimal leverage and efficiencies in all of our operations.

During fiscal 2003, we opened 14 restaurants under The Cheesecake Factory mark and increased our total restaurant productive square feet and operating weeks by approximately 24% and 21%, respectively. Our primary restaurant expansion goal is to increase our total restaurant productive square feet and operating weeks by approximately 20-21% and 22%, respectively, during fiscal 2004. We currently plan to open as many as 16 full-service restaurants during 2004, consisting of approximately 14 Cheesecake Factory locations and as many as two Grand Lux Cafe locations. Two new Cheesecake Factory locations have opened as of March 4, 2004, and will represent our total openings for the first quarter of fiscal 2004. As in past years, most of our potential

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restaurant openings for fiscal 2004 will likely occur during the second half of the year. Based on information available as of March 4, 2004, we currently expect to open as many as two, seven and five new restaurants during the second, third and fourth quarters of fiscal 2004, respectively. However, it is difficult for us to precisely predict the timing of our new restaurant openings due to many factors that are outside of our control. See "New Restaurant Site Selection and Development." In addition to two restaurants that have opened during fiscal 2004 as of March 4, 2004, six leases and several letters of intent have been signed for potential restaurant openings during fiscal 2004 and 2005.

Our business operations originated in 1972 when Oscar and Evelyn Overton founded a small bakery in the Los Angeles area. Their son, David Overton, led the creation and opening of the first Cheesecake Factory restaurant in Beverly Hills, California in 1978. Although our restaurant operations have grown substantially during recent years, we remain in the business of creating and marketing branded and private-label bakery products to other foodservice operators, retailers and distributors ("bakery sales") in order to leverage our brand identity with consumers and to take advantage of excess bakery production capacity. Bakery sales represented 5.5%, 7.5%, and 7.3% of our total revenues for fiscal 2003, 2002 and 2001, respectively.

In February 1992, our Company was incorporated in Delaware to succeed to the restaurant and bakery businesses of its predecessors operating under The Cheesecake Factory mark. Our initial public offering of common stock was completed in September 1992. Follow-on public offerings were completed in January 1994 and November 1997. Our executive offices are located at 26950 Agoura Road, Calabasas Hills, California 91301, and our telephone number is (818) 871-3000.

The Company maintains a website at www.thecheesecakefactory.com. We make available on our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission.

Restaurant Competitive Positioning

Following are the key elements of our restaurant competitive positioning:

Extensive, Creative and Contemporary Menu and Bakery Product Offerings. Our restaurants offer a wide variety of items, including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches and omelets. Our menus are generally updated twice each year to respond to changing consumer dining preferences and trends. Our bakery production facility produces over 50 varieties of quality cheesecake and other baked desserts, of which approximately 40 varieties are offered at any one time in Cheesecake Factory restaurants.

High Quality Products. Substantially all menu items (except the desserts manufactured at the Company's bakery production facility) are prepared daily on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We use high quality dairy and other raw ingredients in our bakery products.

Exceptional Value. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate price points. The estimated average check per Cheesecake Factory restaurant guest, including beverages and desserts, was approximately $16.09, $15.78 and $15.70 for fiscal 2003, 2002 and 2001, respectively.

Commitment to Excellent Service and Hospitality. Our goal is to consistently exceed the expectations of every restaurant guest in all facets of the dining experience. We believe that our restaurant-level employee recruitment, selection, training and incentive programs allow us to attract and retain qualified employees (staff members) who are motivated to provide consistent excellence in guest hospitality.

Flexible Kitchen Capabilities and Operating Systems. Our restaurants have been strategically designed with sufficient capacity, equipment and operating systems to allow for the successful preparation and delivery of an extensive, contemporary and flexible menu which requires multiple food preparation and cooking methods executed simultaneously.

Distinctive Restaurant Design and Decor. Our restaurants have a distinctive contemporary design and decor that creates a high-energy, "non-chain" image and upscale ambiance in a casual setting. Whenever possible, outdoor patio seating is also incorporated in the design of the restaurants, thus allowing for additional restaurant capacity (weather permitting) at a comparatively low occupancy cost per seat.

High Profile Restaurant Locations and Flexible Site Layouts. We generally locate our restaurants in high profile locations within densely populated areas with a balanced mix of residences, businesses, shopping and entertainment outlets. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop near each of our restaurants. We have the flexibility to design our restaurants to accommodate a wide variety of urban and suburban site layouts, including multi-level locations.

Commitment to Selecting, Training, Rewarding, and Retaining High Quality Employees. We believe our employee recruitment and selection criteria are among the most rigorous in the restaurant industry. By providing extensive training and innovative compensation programs, we believe our employees develop a sense of personal commitment to our core values and culture of excellence in restauranteuring and guest hospitality. We believe these programs have resulted in employee turnover rates that are generally lower than the average for the restaurant industry.

The Cheesecake Factory Restaurant Concept and Menu

The Cheesecake Factory restaurant concept strives to provide a distinctive, high quality dining experience at moderate prices by offering an extensive, creative and evolving menu in an upscale, high-energy casual setting with efficient, attentive and friendly service. As a result, our restaurants appeal to a diverse customer base. The Cheesecake Factory's extensive menu enables us to compete for substantially all dining preferences and occasions, including not only lunch and dinner, but also the mid-afternoon and late-night dayparts which are traditionally weaker dayparts for most casual dining restaurant operations. Cheesecake Factory restaurants are not open for breakfast, but do offer Sunday brunch. All of our restaurants are open seven days a week. All items on the menu, including approximately 40 varieties of cheesecake and other quality baked desserts, may be purchased for off-premise consumption, which we believe represents approximately 7-8% of our restaurant sales.

Our menu currently consists of approximately 19 pages and features approximately 200 items including appetizers, pizza, seafood, steaks, chicken, burgers, specialty items, pastas, salads, sandwiches, omelets and desserts, including approximately 40 varieties of cheesecake and other baked desserts. Examples of menu offerings include Tex-Mex Eggrolls, Roadside Sliders, Crusted Chicken Romano, Shrimp Scampi, Cajun Jambalaya Pasta, Santa Fe Salad, Orange Chicken and Steak Diane. Menu items (except those desserts manufactured at our bakery production facility) are prepared daily on the restaurant premises with high quality, fresh ingredients using innovative and proprietary recipes. We consider the extensive selection of items on our menu to be an important factor in the differentiation of our restaurants from our competitors. In the majority of our Cheesecake Factory restaurants, menu entrees range in price from $6.95 to $26.95. Appetizers range in price from $4.50 to $10.95, and desserts range from $3.95 to $7.50.

One of our competitive strengths is the ability to anticipate consumer dining and taste preferences and adapt our menu to the latest trends in food consumption. We create new menu items to keep pace with changing consumer tastes and preferences and regularly update our ingredients and cooking methods to improve the quality and consistency of our food offerings. Generally every six months, we review the appeal and pricing of all of our menu items and typically update or replace as many as five to fifteen of the items. All new menu

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items are tested and selected based on uniqueness, sales popularity, preparation technique and profitability.

Our ability to create, promote and attractively display our unique line of baked desserts is also important to the competitive positioning and financial success of our restaurants. We believe that our brand identity and reputation for offering high quality desserts results in a higher percentage of dessert sales relative to that of most chain restaurant operators. Dessert sales represented approximately 15% of total Cheesecake Factory restaurant sales for fiscal 2003, 2002 and 2001.

Each restaurant maintains a full-service bar where appetizers or the full menu may also be purchased. The sale of alcoholic beverages represented approximately 13% of total Cheesecake factory restaurant sales for fiscal 2003, 2002 and 2001. We believe the majority of our alcoholic beverage sales occur with meal purchases.

We place significant emphasis on the unique interior design and decor of our restaurants, which results in a higher investment per square foot of restaurant space than is typical for the restaurant industry. However, each of our restaurants has historically generated annual sales per square foot that is also typically higher than other competitors in the industry. We believe that our stylish restaurant design and decor package contributes to the distinctive dining experience enjoyed by our guests. Each restaurant features large, open dining areas and a contemporary kitchen design featuring exhibition cooking. Six restaurants offer banquet facilities. Approximately three-fourths of our restaurants offer outdoor patio seating (weather permitting), and three of our restaurants overlook waterfronts which complement the overall dining experience. Approximately 17% of our total estimated productive seating capacity is located on outdoor patios, which can be subject to underutilization from time to time due to adverse or unseasonable weather conditions. The table and seating layouts of our restaurants are flexible, permitting tables and seats to be easily rearranged to accommodate large groups or parties, thus permitting more effective utilization of seating capacity.

The Grand Lux Cafe Restaurant Concept and Menu

In May 1999, we opened our first Grand Lux Cafe at the Venetian Resort-Hotel-Casino in Las Vegas, Nevada. Grand Lux Cafe is an upscale, casual dining concept that offers unique American and international cuisine selections in an elegant but relaxed atmosphere. The menu at Grand Lux Cafe offers approximately 150 menu items including appetizers, pasta, seafood, steaks, chicken, burgers, salads, specialty items and made-to-order desserts. Examples of specialty menu offerings include Chicken Venetian, Seared Rare Ahi Tuna Salad and Miso Glazed Salmon. Menu entrees currently range in price from $6.95 to $28.95. Appetizers range in price from $4.95 to $11.50 and desserts range from $5.50 to $6.95. A full-service bar and bakery are also included in the concept. Our location in the Venetian Resort-Hotel-Casino is open 24 hours a day and also serves a breakfast menu with items priced from $2.25 to $16.95. Based upon the initial success of the concept in Las Vegas, we opened a second Grand Lux Cafe at the Beverly Center in Los Angeles in November 2001 and a third Grand Lux Cafe in downtown Chicago in July 2002. The estimated average check per restaurant guest at our two Grand Lux Cafe locations outside of Las Vegas was approximately $17.00 during fiscal 2003.

Comparable sales for our Las Vegas, Los Angeles and Chicago Grand Lux Cafe locations increased 15%, 8% and 37%, respectively, during fiscal 2003. We continue to refine Grand Lux Cafe's menu and operations in order to prepare the concept for future growth. We currently plan to open as many as two additional Grand Lux Cafes during fiscal 2004. While we are optimistic that Grand Lux Cafe has the opportunity to become a profitable second growth vehicle for our restaurant operations, there are inherent risks with expanding any new restaurant concept that has not yet proven its long-term financial viability. These risks include, but are not limited to, consumer acceptance, recruiting and training qualified staff members and achieving an acceptable return on investment.

Existing Restaurant Locations

As of March 4, 2004, we operated 75 full-service restaurants under The Cheesecake Factory mark in 24 states and the District of Columbia. We also operated three Grand Lux Cafe restaurants and one self-service, limited menu "express" operation at DisneyQuest-Orlando under The Cheesecake Factory Express mark. Additionally, we licensed three bakery cafes under The Cheesecake Factory Bakery Cafe mark to another foodservice operator. The following table sets forth information with respect to our Company-operated full-service restaurant locations as of March 4, 2004:

Existing Company-Operated Full-Service Restaurant Locations by State

State	The Cheesecake Factory	Grand Lux Cafe	Total
Alabama	1		1
Arizona	4		4
California	16	1	17
Colorado	3		3
District of Columbia	1		1
Florida	10		10
Georgia	2		2
Hawaii	1		1
Illinois	3	1	4
Indiana	1		1
Kansas	1		1
Maryland	2		2
Massachusetts	3		3
Minnesota	1		1
Missouri	2		2
Nevada	2	1	3
New Jersey	2		2
New York	3		3
North Carolina	2		2
Ohio	3		3
Pennsylvania	1		1
Rhode Island	1		1
Texas	6		6
Virginia	2		2
Washington	2		2
Total	75	3	78

New Restaurant Site Selection and Development

We believe the locations of our restaurants are critical to our long-term success and, accordingly, we devote significant time and resources to analyzing each prospective site. Since The Cheesecake Factory concept can be successfully executed within a variety of site locations (urban or suburban shopping malls, retail strip centers, office complexes and entertainment centers – either freestanding or in-line) and layouts (single or multi-level, generally from 7,000 to 20,000 square feet), we can be highly selective and flexible in choosing suitable locations. In general, we currently prefer to open our restaurants at high profile sites within larger metropolitan areas with dense population and above-average household incomes. While our restaurants typically share common interior decor elements, the layout of each restaurant is customized to accommodate different types of buildings and different square feet of available space. In addition to carefully analyzing demographic information for each prospective site, we consider other factors such as visibility, traffic patterns and general accessibility; the availability of suitable parking; the proximity of residences and shopping areas,

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office parks and tourist attractions; the degree of competition within the trade area; and the general availability of restaurant-level employees. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop in each of our trade areas.

Historically, our new restaurant development model has more closely resembled that of a retail business that occupies leased space in shopping malls, office complexes, strip centers, entertainment centers and other real estate developments (the "retail lease" development model). While we expect the retail lease development model to continue as our principal development approach, we also expect to open more freestanding restaurants. We generally lease our restaurant locations for primary periods of 15 to 20 years. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum and contingent (percentage) rent based on sales. We are also responsible for our proportionate share of common area maintenance (CAM), insurance, property tax and other occupancy-related expenses under our leases. Many of our leases provide for maximum allowable annual percentage or fixed dollar increases in CAM and insurance expenses to enable us to better predict and control future variable lease costs. Our sales volumes are usually well in excess of the threshold for percentage rent payments at substantially all of our restaurant locations that have such a provision in their leases. We expend cash for leasehold improvements and furnishings, fixtures and equipment to build out our leased premises. We may also expend cash for permanent improvements that we make to leased premises that will be reimbursed to us by our landlords as construction contributions (also known as tenant improvement allowances) pursuant to agreed-upon terms in our leases. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. However, there can be no assurance that such contributions will be available for every potential location that we seek to develop into a new restaurant. We are also developing freestanding restaurant locations using both ground leases and built-to-suit leases, which are commonly used to finance freestanding locations in the restaurant industry. We own substantially all of the equipment in our restaurants and currently plan to do so in the future.

We believe the relatively high and consistent sales productivity of our restaurants provides opportunities to obtain suitable leasing terms from landlords. Due to the uniquely flexible and customized nature of our restaurant operations and the complex design, construction and preopening processes for each new location, our lease negotiation and restaurant development timeframes vary. The development and opening process generally ranges from six to eighteen months after lease signing, depending largely on the availability of the leased space we intend to occupy, and can be subject to delays outside of our control. The number and timing of new restaurants actually opened during any given period, and their associated contribution to operating week growth for the period, will depend on a number of factors including, but not limited to, the identification and availability of suitable locations and leases; the availability of suitable financing to us and our landlords; the timing of the delivery of the leased premises to us from our landlords so that we can commence our build-out construction activities; the ability of our landlords and us to timely obtain all necessary governmental licenses and permits to construct and operate our restaurants; any labor shortages or disputes experienced by our landlords or our outside contractors; any unforeseen engineering or environmental problems with the leased premises; weather conditions that interfere with the construction process; our ability to successfully manage the design, construction and preopening processes for each restaurant; the availability of suitable restaurant management and hourly employees; and general economic conditions. While we attempt to manage those factors within our control, we have experienced unforeseen delays in restaurant openings from time to time in the past and could continue to experience such delays in the future. Most other chain restaurant operations have a greater ability to predict the timing of their new openings as a result of their ability to acquire and control the underlying real estate for their locations and/or they have smaller, more standardized restaurant layouts that are less difficult and time consuming to construct and open when compared to our larger, more upscale and highly customized leased locations.

New Restaurant Sales and Investment Characteristics

Since each of our restaurants has a customized layout and differs in size (measured in square feet), we believe an effective method to measure the unit economics of our concepts is by square foot. Average sales per productive square foot for our restaurants open during the entire period were approximately $971 for fiscal 2003 and $1,000 for both fiscal 2002 and 2001. Our average sales per productive square foot for a given fiscal year can be impacted by a number of factors, including the average size of restaurants open during that year. Generally, our smaller restaurants are slightly more productive than our larger restaurants on a square foot basis. The estimated average productive square feet for restaurants open the full year were 12,300, 12,000 and 11,900 for fiscal 2003, 2002 and 2001, respectively.

We currently lease space for each of our restaurants and are required to expend cash for leasehold improvements and furnishings, fixtures and equipment to build out the leased spaces which is targeted, on average, from $475 to $525 per square foot for Cheesecake Factory restaurants (excluding preopening costs and landlord construction contributions). The construction costs to build out our leased spaces vary geographically. Additionally, our investment cost per square foot will also vary from restaurant to restaurant, depending on the complexity of our build-out of the leased space. We typically seek to obtain construction contributions (also referred to as tenant improvement allowances) from our landlords for permanent improvements that we make to the leased premises. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. Such contributions vary from lease to lease, depending on the scope of construction activities and other factors. While we have been generally successful in obtaining landlord construction contributions in the past, there can be no assurance that such contributions will be available in similar amounts, if at all, for every potential location we seek to develop into a new restaurant.

On average, we target a 2.5 to 1 sales-to-net cash investment ratio and a 50% net cash-on-cash return for Cheesecake Factory restaurant locations when they reach their mature run-rate levels of sales and profitability. Maturation periods vary from restaurant to restaurant, but generally range from two to five years. The initial ROI performance targets for new concepts such as Grand Lux Cafe will typically be lower than the average for an established, highly productive concept such as The Cheesecake Factory, since the first few locations for new concepts are typically in a refinement stage for a period of time. These cash-based performance targets for the Company's restaurant operations do not consider field supervision and corporate support expenses; exclude non-cash items such as depreciation expense; exclude income taxes and do not represent a targeted return on an investment in the Company's common stock. If we select a potential restaurant location for acquisition and development, the actual performance of the location may differ from its originally targeted performance. There can be no assurance that any new restaurant opened will have similar operating results to those of established restaurants.

It is common in the restaurant industry for new locations to initially open with sales volumes well in excess of their sustainable run-rate levels. This initial "honeymoon" effect usually results from grand opening publicity, promotional and other consumer awareness activities that generate abnormally high customer traffic, particularly in new markets for our concepts. During the several months following the opening of new restaurants, customer traffic will generally settle into its normal pattern, thus resulting in sales volumes that gradually adjust downward to their expected sustained run-rate level. Several recent Cheesecake Factory restaurant openings have experienced a "honeymoon" sales period where sales may initially be 20% to 40% higher than their expected run-rate level. Additionally, our new restaurants usually require a 90-120 day period after opening to reach their targeted restaurant-level operating margin due to cost of sales and labor inefficiencies commonly associated with new, complex casual dining restaurants. As a result, a significant number of restaurant openings in any single fiscal quarter, accompanied with their associated preopening costs, could have a significant impact on our consolidated results of operations for that fiscal quarter. Therefore, our results of operations for any single fiscal quarter are not necessarily indicative of the results to be expected for any other fiscal quarter or for a full fiscal year.

Preopening Costs for New Restaurants

Preopening costs include incremental out-of-pocket costs that are directly related to the openings of new restaurants that are not otherwise capitalizable. As a result of the highly customized and operationally complex nature of our upscale, high volume concepts, the preopening process for our new restaurants is more extensive, time consuming and costly relative to that of most chain restaurant operations. The preopening cost for one of our restaurants usually includes costs to relocate and compensate an average of 11-12 restaurant management employees prior to opening; costs to recruit and train an average of 200-250 hourly restaurant employees; wages, travel and lodging costs for our opening training team and other support employees; and costs for practice service activities. Preopening costs will vary from location to location depending on a number of factors, including the proximity of our existing restaurants; the size and physical layout of each location; the number of management and hourly employees required to operate each restaurant; the relative difficulty of the restaurant staffing process; the cost of travel and lodging for different metropolitan areas; and the extent of unexpected delays, if any, in obtaining final licenses and permits to open the restaurants, which may also be dependent upon our landlords obtaining their licenses and permits, as well as completing their construction activities, for the properties that our leased premises are located within.

Our direct preopening cost for an 11,000 square foot, single-story Cheesecake Factory restaurant in an established market averages approximately $750,000. There will also be other preopening costs allocated to each restaurant opening, including costs for corporate travel and support activities. Preopening costs will usually be higher for larger restaurants, our initial entry into new markets and for new concepts such as Grand Lux Cafe. During fiscal 2004, we plan to open as many as two Grand Lux Cafe restaurants that could experience preopening costs of approximately $900,000 each. We usually incur the most significant portion of preopening costs for a typical restaurant opening within the two-month period immediately preceding and the month of the restaurant's opening. Preopening costs will fluctuate from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant, and the fluctuations could be significant. We expense preopening costs as incurred. Based on our current growth objectives for fiscal 2004 and 2005, preopening costs for each of those years will likely exceed the respective amount of preopening costs for the applicable prior year, due to the increased number of new restaurants planned to be opened in those fiscal years compared to the applicable prior year.

Restaurant Expansion Objectives

We believe that the viability of The Cheesecake Factory restaurant concept has been successfully demonstrated in a variety of site layouts, trade areas and markets across the United States. Accordingly, we intend to continue developing Cheesecake Factory restaurants in high profile locations within densely populated areas in both existing and new markets. In addition to expanding The Cheesecake Factory concept, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant operations, which may include new restaurant concepts such as Grand Lux Cafe or other concepts.

Our primary restaurant expansion objective is to increase our total restaurant productive square feet and operating weeks by approximately 20-21% and 22%, respectively, during fiscal 2004. We currently expect to open as many as 16 new restaurants during fiscal 2004, of which two have already opened as of March 4, 2004. As in past years, most of our potential restaurant openings for fiscal 2004 will likely occur during the second half of the year. Based on information available as of March 4, 2004, we currently expect to open as many as two, seven and five new restaurants during the second, third and fourth quarters of fiscal 2004, respectively. However, it is difficult for us to precisely predict the timing of our new restaurant openings due to many factors that are outside of our control. See "New Restaurant Site Selection and Development." In addition to the two restaurants that have opened during 2004 as of March 4, 2004, six leases and several letters of intent have been signed as of March 4, 2004 for potential restaurant openings during fiscal 2004 and 2005. The following table sets forth information with respect to future restaurant locations under development as of March 4, 2004 for which leases have been signed:

Future Restaurants with Signed Leases

Pittsburgh, Pennsylvania	Sacramento, California

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Virginia Beach, Virginia	Wayne, New Jersey
Alpharetta, Georgia	Oakbrook, Illinois

We are currently negotiating additional leases for potential future locations that could open during fiscal 2004 and 2005. From time to time, we will evaluate opportunities to acquire and convert other restaurant locations to The Cheesecake Factory and Grand Lux Cafe concepts. However, we currently have no binding commitments (other than the signed leases set forth in the table above) or agreements to acquire or convert any other restaurant locations to our concepts.

We generally select high profile locations for our upscale, highly customized casual dining restaurants. We believe that our large, highly customized restaurants that are usually located in high profile sites generally draw their guests from a much larger geographical area compared to most casual dining chain restaurants. The sizes of our restaurant trade areas vary from location to location, depending on a number of factors such as population density, retail traffic generators and geography. As a result, the opening of a new restaurant could impact the sales of one or more of our nearby restaurants. It is not our intention to open new restaurants that materially and permanently cannibalize the sales of our existing restaurants. However, as with most growing retail and restaurant chain operations, there can be no assurance that sales cannibalization will not inadvertently occur or become more significant in the future as we gradually increase our presence in existing markets over time to maximize our competitive position and financial performance in each market.

We developed a bakery cafe format during fiscal 1997 to extend The Cheesecake Factory brand and provide a potential additional source of operating leverage for our bakery production facility. As of March 4, 2004, there were three licensed bakery cafe outlets in operation that range in size from 250 to 2,000 square feet and feature many of our unique desserts and a limited selection of beverages, sandwiches and salads in a self-service format. The first bakery cafe opened in July 1997 in the Ontario Mills shopping mall complex near Los Angeles, followed by the opening of two kiosk-type outlets in August 1997 located in the Ronald Reagan National Airport in Washington, DC. A third licensed bakery cafe opened at the MacArthur Center in Norfolk, Virginia in August 1999. All bakery cafes are currently operated by HMSHost, formerly known as Host Marriott Services Corporation, under licensing agreements with us. The Cheesecake Factory Express is currently the exclusive foodservice operator for the DisneyQuest family entertainment center located in Orlando, Florida. DisneyQuest features innovative, interactive technologies together with Disney characters to create an entertainment adventure for families and guests of all ages. Our Company-operated foodservice operation in DisneyQuest consists of a limited selection of The Cheesecake Factory's quality menu items and desserts in a self-service format at an average check of approximately $7.50 per guest. We have no current plans to develop and operate any additional bakery cafe or express operations, as we are currently focused on expanding our full-service restaurant concepts.

Restaurant Operations and Management

Our ability to consistently and correctly execute a made-from-scratch, complex menu in an upscale, high volume casual dining environment is critical to our overall success. Detailed operating procedures, standards, controls, food line management systems, and cooking methods and processes are utilized at our restaurants to accommodate our extensive menu and facilitate our sales productivity. However, the successful day-to-day operation of our restaurants remains critically dependent on the quality, ability, dedication and enthusiasm of the general manager, executive kitchen manager and all other management and hourly employees working at each restaurant.

Excluding The Cheesecake Factory restaurant in the Forum Shops and the Grand Lux Cafe restaurant located in Las Vegas (which are both open 365 days a year), our restaurants are open every day of the year except Thanksgiving and Christmas. Hours of operation are generally from 11:00 a.m. to 11:00 p.m., except on weekends when most of our restaurants stay open past midnight, and on Sunday when our restaurants open at 10:00 a.m. for brunch. Our Grand Lux Cafe restaurant located in Las Vegas is open 24 hours a day. Outdoor patio seating is available (weather permitting) at approximately three-fourths of our restaurants.

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We believe that the high average sales volumes and popularity of our restaurants allow us to attract and retain higher quality, experienced restaurant-level management and other operational personnel. We also believe our restaurants have experienced a lower level of employee turnover than the restaurant industry in general. Each full-service restaurant is typically staffed with one general manager, one executive kitchen manager and from six to eighteen additional kitchen and front-of-the-house management personnel, depending on the size and sales volume of each restaurant. On average, general managers possess at least two years of experience with us and typically have at least five additional years of management experience with other foodservice operators. All newly recruited restaurant management personnel complete an extensive 12 week training program during which they receive both classroom and on-the-job instruction in food quality and preparation, customer service, alcoholic beverage service, liquor liability avoidance, financial management and cost controls, risk management, employee relations and our core values and culture of superior guest hospitality. We also provide our restaurant managers with detailed manuals covering food and beverage standards and the proper operation of our restaurants. We are committed to operational excellence in every component of our restaurant operations.

Efficient, attentive and friendly guest service is integral to our overall concept and brand identity. Each restaurant is staffed, on average, with approximately 200-250 hourly employees. We require each hourly employee to participate in a formal training program for his or her respective position in the restaurant. For example, new servers at each restaurant currently participate in approximately three weeks of training during which each new server works under the supervision of other experienced servers and restaurant management. We strive to instill enthusiasm and dedication in our employees and regularly solicit suggestions concerning restaurant operations and all aspects of our business.

Our future growth and financial success will be highly dependent upon our ability to attract, develop and retain qualified employees who are capable of successfully managing upscale, high volume casual dining restaurants and consistently executing our extensive and complex menu. The availability and retention of qualified restaurant management employees continues to be a significant industry-wide challenge facing restaurant operators. To enable us to more effectively compete for and retain the highest quality restaurant management personnel available, we maintain an innovative and comprehensive compensation program for our restaurant general managers and executive kitchen managers. Each participant in the program receives a competitive base salary and has the opportunity to earn an annual cash bonus (calculated and paid quarterly) based on the performance of his or her restaurant. Participating restaurant general managers also are eligible to utilize a company-leased vehicle, for which all nonbusiness use thereof is valued and added to the participants' taxable income pursuant to income tax regulations. A longer-term wealth-building program, currently based on Company stock options, is also available to participating restaurant general managers and executive kitchen managers that is dependent upon the participants' extended service with us in their respective positions (at least five years) and their achievement of certain agreed-upon performance objectives during that five-year period. Additionally, all other salaried restaurant management employees are eligible to receive annual performance-based Company stock option grants, based on their compensation and tenure with the Company and our consolidated results of operations.

Our restaurant general managers are responsible for selecting and training the hourly employees for their respective restaurants. Restaurant general managers report to area directors of operations, who typically supervise the operations of six to seven restaurants depending upon geographical and management experience factors. In turn, each area director of operations currently reports to one of two regional vice presidents of restaurant operations. Our restaurant field supervision organization also includes an executive vice president for kitchen operations, area kitchen operations managers and performance development (training) professionals who are responsible for managing new restaurant openings and training for all operational employees. As we open new restaurants, our field supervision and performance development staffs will also expand appropriately.

We maintain financial and accounting controls in our restaurants through the use of a sophisticated point-of-sale (POS) cash register system and personal computer network in each restaurant that interfaces with the computer network in the corporate office using a frame relay communication system. We also utilize an automated front desk management system that affords us the opportunity to better optimize our seating capacity and increase our speed of operations. The POS system is also utilized to authorize and transmit credit card sales transactions. The POS system and personal computer network provides our restaurant management with daily and weekly information regarding sales, cash receipts, inventory, food and beverage costs, labor costs and other controllable operating expenses. Each restaurant also has an onsite accounting technician who assists in the accumulation and processing of accounting and other administrative information. Field supervision employees also make extensive use of laptop computers that also interface with the restaurant and corporate computer networks. We prepare a detailed monthly operating budget for each restaurant and compare our actual results to the budget. We also measure the productivity and efficiency of our restaurant operations using a variety of statistical indicators such as daily table turns, guests served per labor hour worked, operating costs incurred per guest served and other activity measures.

Bakery Operations

Our bakery operations originated in 1972 when Oscar and Evelyn Overton founded a small bakery in the Los Angeles area that produced and distributed high quality cheesecakes and other baked desserts. As their business grew, the Overtons leased additional space to expand their production capacity. During 1996, all production operations were transferred to a newly constructed, highly automated production facility in Calabasas Hills, California owned by the Company. We produce approximately 50 varieties of cheesecake in our production facility based on proprietary recipes. Some of our popular cheesecakes include the Original Cheesecake, White Chocolate Raspberry Truffle®, Chocolate Peanut Butter Cookie-Dough, Dutch Apple Caramel Streusel, Fresh Strawberry and Triple Chocolate Brownie Truffle®. Other popular baked desserts include chocolate fudge cake, carrot cake, blackout cake and apple dumplings. In the aggregate, our bakery production facility currently produces approximately 300 product SKUs (stock keeping units).

High quality, wholesome baked desserts and other products are essential to the successful execution of our restaurant and bakery operations. Our bakery operates under an ongoing comprehensive food safety and quality assurance program. This program includes, among other things, supplier qualification and plant inspections, inbound raw material testing, microbiological testing of the production environment, safety and sanitation monitoring, and finished goods testing. Our in-house food safety and quality assurance staff constantly audits and monitors our manufacturing practices during operation and closely monitors our compliance with the industry standard Hazard Analysis Critical Control Points (HACCP) program. We use both internal and external quality control laboratory resources to test raw ingredients and finished products for safety. We believe that our production facility and manufacturing practices comply with all material government regulations.

The commissary role of our bakery operations is to produce innovative, high quality cheesecakes and other baked desserts for sale at our restaurants. Dessert sales represented approximately 15% of our total restaurant sales for fiscal 2003, 2002 and 2001 and are important to restaurant-level profitability. We also market some of our more popular cheesecakes and other baked products on a wholesale basis to other foodservice operators, retailers and distributors. Approximately two-thirds of the bakery's production activities is currently devoted to our outside customers, with the remaining one-third devoted to supplying our restaurants. Cheesecakes and other items produced for outside accounts are marketed under The Cheesecake Factory® mark, The Dream Factory® mark, The Cheesecake Factory Bakery® mark and private labels. Current large-account customers include the leading national warehouse club operators, institutional foodservice distributors, supermarkets and other restaurant and foodservice operators. Sales to warehouse clubs, which represented approximately 62%, 56% and 49% of our total outside bakery sales for fiscal 2003, 2002 and 2001, respectively, are concentrated with the two largest warehouse club operators in the United States. Bakery products are delivered daily to our restaurants and other customers in the Southern California area by our delivery vehicles, and are shipped to all other markets in the United States by common carrier. We also contract with an outside fulfillment company to process mail order and internet-based sales. Frozen bakery products are also shipped to international customers.

Our goal for fiscal 2004 is to increase our outside bakery sales by 5%. We strive to develop and maintain long-term, growing relationships with our bakery customers, based largely on our 31-year reputation for producing high quality, creative baked desserts. However, bakery sales volumes will always be less predictable

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than our restaurant sales. It is difficult to predict the timing of bakery product shipments and contribution margins on a quarterly basis. Additionally, the purchasing plans of our large-account customers may fluctuate from quarter to quarter. Due to the highly competitive nature of the bakery business, we are unable to enter into long-term contracts with our large-account bakery customers, who may discontinue purchasing our products without advance notice at any time for any reason.

Our bakery production facility in Calabasas Hills, California contains approximately 60,000 square feet, of which approximately 45,000 square feet is devoted to production operations and the remainder is utilized for corporate support activities. During fiscal 2003, the production facility operated at approximately two-thirds of its estimated practical capacity. During fiscal 2004, we currently plan to add equipment to our current bakery production facility that will effectively increase our productive capacity by approximately 20%. We are in the process of completing an evaluation of various alternatives to develop a second bakery facility, which will likely be located on the East Coast and which could begin initial operations during fiscal 2005. Currently, we do not expect any material preopening or capital expenditure activities related to a second production facility to be incurred during fiscal 2004.

Advertising and Promotion

Our restaurants compete in the upscale, casual dining segment of the restaurant industry. This segment is generally positioned between easily-replicated casual dining operations and expensive "fine dining" or dinnerhouse operations. We believe our commitment to providing consistent, exceptional value to consumers in an upscale, casual dining environment continues to be the most effective approach to attracting and retaining customers. Accordingly, we have historically relied on our high profile locations, operational excellence and "word of mouth" to attract and retain restaurant guests instead of using media advertising or discounting. We would consider more traditional forms of media advertising if the need arose. During fiscal 2003, our restaurant-level expenditures for advertising were less than 1% of total restaurant sales.

We believe our commitment to deliver exceptional value to consumers has enabled our newer restaurants to benefit from the brand recognition and reputation developed by our existing restaurants. We also attempt to build awareness and relationships with local hotel concierges. For restaurant openings in new markets, we generally host a high profile event for a local charity as part of our preopening practice activities that also serves to introduce our concept to the market. In new markets, we also arrange for local television and radio stations to cover our high profile restaurant openings and thereby provide us with free publicity. During fiscal 2001, the Company sponsored the formation of The Cheesecake Factory – Oscar and Evelyn Overton Charitable Foundation that, among its other intended activities, provides a vehicle for employee participation in qualified local community service and charitable programs. With respect to our bakery operations, we currently maintain a full-time staff of ten sales and marketing employees and three product development employees. Additionally, we utilize the services of professional foodservice brokers from time to time for certain bakery products and distribution channels.

Purchasing and Distribution

We strive to obtain quality menu ingredients, raw materials and other supplies and services for our operations from reliable sources at competitive prices. We continually research and evaluate various ingredients and products in an effort to maintain high quality and to be responsive to changing consumer tastes. Other than for cheesecakes and other baked products, our restaurants do not utilize a central food commissary. Substantially all menu items are prepared on each restaurant's premises daily from scratch, using fresh ingredients. In order to maximize purchasing efficiencies and to provide for the freshest ingredients for our menu items while obtaining the lowest possible prices for the required quality and consistency, each restaurant's management determines the quantities of food and supplies required and orders the items from local, regional and national suppliers on terms negotiated by our centralized purchasing staff. Restaurant-level inventories are maintained at a minimum dollar-value level in relation to sales due to the high concentration and relatively rapid turnover of the perishable produce, poultry, meat, fish and dairy commodities that we use in our

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operations, coupled with limited storage space at our restaurants.

We attempt to negotiate short-term and long-term agreements for our principal commodity, supply and equipment requirements, depending on market conditions and expected demand. However, we are currently unable to contract for long periods of time for substantially all of our fresh commodities such as produce, poultry, meat, fish and dairy items and, consequently, such commodities can be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. We believe that all essential food and beverage products are available from several qualified suppliers in all cities in which our operations are located. Most food and supply items are delivered daily to our restaurants by independent foodservice distributors, including the largest foodservice distributor in North America.

Seasonality and Quarterly Results

Our business is subject to seasonal fluctuations. Historically, our highest levels of revenues and net income for our established restaurants have occurred in the second and third quarters of the fiscal year. Over one-half of our restaurants are located in or near shopping centers and malls that typically experience seasonal fluctuations in sales. Patio seating represents approximately 17% of the total available productive seating for all restaurants open as of March 4, 2004 and can be subject to disruption from inclement weather. Holidays, severe winter weather, hurricanes, thunderstorms and similar conditions may impact restaurant sales volumes seasonally in some of the markets where we operate. Our bakery operations are seasonal to the extent that the fourth quarter's sales are typically higher due to holiday business. Additionally, bakery sales comparisons may fluctuate significantly from quarter to quarter due to the timing and size of orders from our larger bakery customers. Quarterly results have been and will continue to be significantly impacted by the timing of new restaurant openings and their associated preopening costs. As a result of these and other factors, the Company's financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

Competition

The restaurant industry is highly competitive. There are a substantial number of restaurant operations that compete directly and indirectly with us, many of which have significantly greater financial resources, higher revenues and greater economies of scale. The restaurant business is often affected by changes in consumer tastes and discretionary spending patterns; national and regional economic and public safety conditions; demographic trends; weather conditions; the cost and availability of raw materials, labor and energy; purchasing power; governmental regulations and local competitive factors. Any change in these or other related factors could adversely affect our restaurant operations. Accordingly, we must constantly evolve and refine the critical elements of our restaurant concepts over time to protect their longer-term competitiveness. Additionally, there is competition for highly qualified restaurant management employees and for attractive locations suitable for upscale, high volume restaurants.

The competitiveness of multi-unit foodservice operations such as ours can also be substantially affected by adverse publicity resulting from food quality, illness, injury, health concerns or operating issues stemming from a single restaurant or, with respect to our bakery operations, a single production run of bakery products. In particular, since we depend heavily on The Cheesecake Factory mark for a majority of our revenues, unfavorable publicity relating to our bakery operations could have a material adverse effect on our restaurant operations, and vice versa. To minimize the risk of foodborne illness, we have implemented a HACCP system for managing food safety and quality. Nevertheless, the risk of foodborne illness cannot be completely eliminated. We attempt to manage risks of this nature, but the occurrence of any one of these factors in any one of our restaurants or our bakery production facility, or elsewhere within the foodservice industry, could cause our entire Company to be adversely affected. With regard to our bakery operations, competition within the premium baked dessert market has historically been regional and fragmented. However, overall competition within that market remains intense. We believe that our restaurant and bakery operations compete favorably with consumers on the critical attributes of quality, variety, taste, service, consistency and overall value.

Government Regulation

We are subject to numerous federal, state and local laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities which may include alcoholic beverage control, health, sanitation, environmental, zoning and public safety agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development and openings of new restaurants, or could disrupt the operations of existing restaurants. However, we believe that we are in compliance in all material respects with all relevant governmental regulations, and we have not experienced abnormal difficulties or delays in obtaining the licenses or approvals required to open or operate any restaurant to date.

During fiscal 2003, approximately 13% of our restaurant sales were attributable to alcoholic beverages. Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county and municipal authorities for licenses and permits to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be subject to penalties, temporary suspension or revocation for cause at any time. The failure of a restaurant to obtain or retain its licenses would adversely affect that restaurant's operations and profitability. Alcoholic beverage control regulations impact many aspects of the daily operations of our restaurants, including the minimum ages of patrons and employees consuming or serving such beverages; employee alcoholic beverage training and certification requirements; hours of operation; advertising; wholesale purchasing and inventory control of such beverages; seating of minors and the service of food within our bar areas; and the storage and dispensing of alcoholic beverages. State and local authorities in many jurisdictions routinely monitor compliance with alcoholic beverage laws. We have not encountered any material problems relating to alcoholic beverage licenses to date. The failure to receive or retain, or a delay in obtaining, a liquor license for a particular restaurant could adversely affect our ability to obtain such licenses elsewhere.

We are subject to "dram-shop" statutes in most of the states in which we have operations, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to such person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance that we believe is consistent with coverage carried by other entities in the restaurant industry of similar size and scope of operations. Even though we are covered by general liability insurance, a settlement or judgment against us under a "dram-shop" statute in excess of our liability coverage could have a material adverse effect on our operations.

Various federal and state labor laws govern our operations and our relationships with our employees, including such matters as minimum wages, breaks, overtime, fringe benefits, safety, working conditions and citizenship requirements. We are also subject to the regulations of the Bureau of Citizenship and Immigration Services (BCIS). Even if we operate our restaurants in strict compliance with BCIS requirements, some of our employees may not meet federal citizenship or residency requirements, which could lead to a disruption in our work force. Significant government-imposed increases in minimum wages, paid or unpaid leaves of absence and mandated health benefits, or increased tax reporting, assessment or payment requirements related to our employees who receive gratuities could be detrimental to the profitability of our restaurants and bakery operations. Various proposals that would require employers to provide health insurance for all of their employees are considered from time to time in Congress and various states. Similar legislation was recently passed in California and may go into effect as early as 2006. The imposition of any requirement that we provide health insurance to all employees could have an adverse effect on our results of operations and financial position, as well as the restaurant industry in general. Our suppliers may also be affected by higher minimum wage and benefit standards, which could result in higher costs for goods and services supplied to the Company. While we carry employment practices insurance, a settlement or judgment against us in excess of our coverage limitations could have a material adverse effect on our results of operations, liquidity, financial position or business.

As a manufacturer and distributor of food products, we are subject to a number of food safety regulations, including the Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food

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and Drug Administration. This comprehensive regulatory framework governs the manufacture (including composition and ingredients), labeling, packaging and safety of food in the United States.

We are subject to federal and state environmental regulations, but these rules have not had a material effect on our operations. Various laws concerning the handling, storage, and disposal of hazardous materials, such as cleaning solvents, and the operation of restaurants in environmentally sensitive locations may impact aspects of our operations. During fiscal 2003, there were no material capital expenditures for environmental control facilities and no such expenditures are anticipated.

Our facilities must comply with the applicable requirements of the Americans With Disabilities Act of 1990 ("ADA") and related state statutes. The ADA prohibits discrimination on the basis of disability with respect to public accommodations and employment. Under the ADA and related state laws, when constructing new restaurants or undertaking significant remodeling of existing restaurants, we must make them more readily accessible to disabled persons. We must also make reasonable accommodations for the employment of disabled persons.

We have a significant number of hourly restaurant employees that receive tip income. We have elected to voluntarily participate in a Tip Rate Alternative Commitment ("TRAC") agreement with the Internal Revenue Service. By complying with the educational and other requirements of the TRAC agreement, we reduce the likelihood of potential employer-only FICA assessments for unreported or underreported tips.

Employees

As of March 4, 2004, we employed approximately 18,000 persons, of which approximately 17,300 employees worked in our restaurants, approximately 500 worked in our bakery operations and approximately 200 employees worked in our corporate center and restaurant field supervision organization. None of our employees are currently covered by collective bargaining agreements, and we have never experienced an organized work stoppage, strike or labor dispute. We believe our working conditions and compensation packages are generally comparable with those offered by our competitors and consider overall relations with our employees to be favorable.

Trademarks

We have registered, among other marks, "The Cheesecake Factory", "Grand Lux Cafe", "The Cheesecake Factory Bakery", "The Cheesecake Factory Express", "The Dream Factory" and "The Cheesecake Factory Bakery Cafe" as trademarks with the United States Patent and Trademark Office. Additional trademark applications are pending. We have also registered our ownership of the Internet domain name "www.thecheesecakefactory.com" and other Internet domain names. We regard our trademarks as having substantial value and as being important factors in the marketing of our restaurants and bakery products. We have registered, or have pending applications to register, one or more of our trademarks in more than 70 foreign countries, although there can be no assurance that our name and marks are registerable in every country for which registration is being sought. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained, and they have not been found to become generic.

Executive Officers

David Overton, age 57, serves as our Chairman of the Board and Chief Executive Officer. Mr. Overton co-founded our predecessor company in 1972 with his parents.

Gerald W. Deitchle, age 52, serves as our President. Mr. Deitchle has over 26 years of executive and financial management experience with national restaurant and retail chain operations. He joined our Company

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as Senior Vice President, Finance and Administration and Chief Financial Officer in July 1995.

Peter J. D'Amelio, age 42, was appointed President and Chief Operating Officer of our Grand Lux Cafe restaurant operations in October 2002. Mr. D'Amelio joined our Company in 1990 as a restaurant manager and has steadily advanced through our restaurant operations organization. He previously served as Senior Vice President of all of our restaurant operations.

Max S. Byfuglin, age 58, serves as Executive Vice President of The Cheesecake Factory Bakery Incorporated, our bakery subsidiary. Mr. Byfuglin joined our bakery operations in 1982 and worked closely with our founders, serving in nearly every capacity in our bakery over the past 20 years.

Debby R. Zurzolo, age 47, was appointed Executive Vice President, Secretary and General Counsel in December 2003. Ms. Zurzolo joined our Company as Senior Vice President and General Counsel in April 1999. From 1982 until joining the Company, she practiced law at Greenberg Glusker Fields Claman & Machtinger LLP in Los Angeles, California. As a partner with that firm, Ms. Zurzolo represented our Company on various real estate matters and negotiated several of our restaurant leases.

Michael J. Dixon, age 41, was appointed Senior Vice President, Finance and Chief Financial Officer in December 2003. Mr. Dixon joined our Company in September 2000 as Vice President, Finance and Controller after several years in finance and business development with The Walt Disney Company and nine years with the public accounting firm of Coopers & Lybrand LLP.

Forward-looking Statements and Risk Factors

Certain information included in this Form 10-K and other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral or written statements made by us or on our behalf), may contain forward-looking statements about our current and expected performance trends, growth plans, business goals and other matters. These statements may be contained in our filings with the Securities and Exchange Commission, in our press releases, in other written communications, and in oral statements made by or with the approval of one of our authorized officers. Words or phrases such as "believe," "plan," "will likely result," "expect," "intend," "will continue," "is anticipated," "estimate," "project", "may," "could," "would," "should" and similar expressions are intended to identify forward-looking statements. These statements, and any other statements that are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as codified in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended from time to time (the "Act").

In connection with the "safe harbor" provisions of the Act, we are filing the following summary to identify important factors, risks and uncertainties that could cause our actual results to differ materially from those projected in forward-looking statements made by us, or on our behalf. These cautionary statements are to be used as a reference in connection with any forward-looking statements. The factors, risks and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a forward-looking statement or contained in any of our subsequent filings with the Securities and Exchange Commission. Because of these factors, risks and uncertainties, we caution against placing undue reliance on forward-looking statements. Although we believe that the assumptions underlying forward-looking statements are reasonable, any of the assumptions could be incorrect, and there can be no assurance that forward-looking statements will prove to be accurate. Forward-looking statements speak only as of the date on which they are made. We do not undertake any obligation to modify or revise any forward-looking statement to take into account or otherwise reflect subsequent events, or circumstances arising after the date that the forward-looking statement was made.

The following risk factors may affect our operating results and the environment within which we conduct our business. If our projections and estimates regarding these factors differ materially from what actually occurs, our actual results could vary significantly from any results expressed or implied by forward-looking

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statements. These risk factors include, but are not limited to, changes in general economic, demographic, geopolitical or public safety conditions which affect consumer behavior and spending for restaurant dining occasions, including the ongoing ramifications of the September 11, 2001 terrorist attacks and the governmental response thereto, including the continuing armed conflict in Iraq or in other countries; changes in consumer eating habits as a result of new information regarding diet, nutrition and health that could impact demand for our menu and bakery product offerings; increasing competition in the upscale casual dining segment of the restaurant industry; adverse weather conditions which impact customer traffic at the Company's restaurants in general and which cause the temporary underutilization of outdoor patio seating available at most of the Company's restaurants; various factors which increase the cost to develop and/or affect the number and timing of the openings of new restaurants, including factors under the influence and control of government agencies, landlords, construction contractors and others; fluctuations in the availability and/or cost of raw materials, management and hourly labor, energy or other resources necessary to successfully operate the Company's restaurants and bakery production facility; the Company's ability to raise prices sufficiently to offset cost increases, including increased costs for minimum wages, employee benefits and insurance arrangements; the success of strategic and operating initiatives, including new restaurant concepts and new bakery product lines; depth of management; adverse publicity about the Company, its restaurants or bakery products resulting from a number of risks that are common to restaurant and bakery businesses; the Company's current dependence on a single bakery production facility; the Company's ability to obtain and retain large-account customers for its bakery operations; changes in timing and/or scope of the purchasing plans of large-account bakery customers which can cause fluctuations in bakery sales and the Company's consolidated operating results; our inability to enter into long-term contracts with large-account bakery customers, who may discontinue purchasing our products without advance notice at any time for any reason; the rate of growth of general and administrative expenses associated with building a strengthened corporate and field supervision infrastructure to support the Company's growing operations; relations between the Company and its employees; legal claims and litigation against the Company; the availability, amount, type, and cost of capital for the Company and the deployment of such capital, including the amounts of planned capital expenditures; changes in, or any failure to comply with, governmental regulations; the amount of, and any changes to, tax rates and the success of various initiatives to minimize taxes; changes in accounting standards or interpretations of existing standards adopted by the Financial Accounting Standards Board, the SEC, and the American Institute of Certified Public Accountants that could impact our reported financial results; and other risks and uncertainties referenced in this Annual Report on Form 10-K.

ITEM 2: PROPERTIES

All of our 78 existing Company-operated restaurants and one "express" location are located on leased properties, and we have no current plans to own the real estate underlying our restaurants. See Item 1 "Business – Existing Restaurant Locations" for information regarding the location of our restaurants. We own substantially all of the equipment, furnishings and trade fixtures in our restaurants. Existing restaurant leases have primary terms with expiration dates ranging from December 31, 2007 to January 31, 2025 (excluding existing renewal options). We do not anticipate any difficulties renewing our existing leases as they expire; however, there can be no assurance that we will be able to renew such leases after the expiration of all remaining renewal options. Most of our restaurant leases provide for contingent rent based on a percentage of restaurant sales (to the extent this amount exceeds a minimum base rental) and payment of certain lease-related expenses. See Note 6 of the Notes to the Company's Consolidated Financial Statements for information regarding the aggregate minimum and percentage rentals paid for recent periods and information regarding our obligation to pay minimum rentals in future years.

Our corporate center and bakery production facility is located in Calabasas Hills, California in a 60,000 square-foot facility on a 3.3-acre parcel of land. We currently own this entire facility (land, building and equipment) in fee simple. In October 2002, we entered into a 10-year lease for approximately one-half of an 88,000 square foot office building that is located adjacent to our existing corporate center and bakery production facility. We currently utilize this leased space for our culinary R&D kitchen, management training and other essential operational support activities. In light of our expansion plans and our eventual need for additional staff to support our restaurant and bakery operations, we are evaluating a potential purchase of that

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entire office building to ensure the long-term availability of expansion space. If consummated, such a purchase would require a capital expenditure of approximately $21 million and would be initially funded from our cash and investments balances on hand. We may seek to obtain long-term mortgage financing for such a purchase.

ITEM 3: LEGAL PROCEEDINGS

The Attorney General of the State of California (State Attorney General) filed lawsuits on or about April 10, 2003 in the Los Angeles Superior Court against the Company, as well as several other restaurant chains, alleging that the defendants violated the provisions of an initiative statute known as "Proposition 65" and California Business and Professions Code Section 17203 by offering for sale certain types of fish allegedly containing mercury and mercury compounds without providing the warnings required by Proposition 65. The Company is currently in settlement negotiations with the State Attorney General's office. The Company believes that the resolution of this matter would not have a material adverse effect on the Company's financial position, results of operations or liquidity. The Company continues to implement interim notices under Proposition 65 in order to mitigate the possibility of additional liability to the Company while the settlement of all remaining issues is pending.

In December 2002, two former hourly restaurant employees in California filed a lawsuit against the Company alleging violations of California labor laws with respect to providing meal and rest breaks. The lawsuit seeks unspecified amounts of penalties and other monetary payments on behalf of the plaintiffs and other purported class members. Discovery is currently continuing in this matter. The Company intends to vigorously defend its position. Although the outcome cannot be ascertained at this time, the Company does not believe that its disposition would have a material adverse effect on the Company's financial position, results of operations or liquidity.

In October 2003, an hourly restaurant employee in California filed a lawsuit against the Company alleging violations of California labor laws with respect to the providing of meal and rest breaks and improper deductions, among other claims. The lawsuit seeks unspecified amounts of penalties and other monetary payments on behalf of the plaintiff and other purported class members. Discovery is currently continuing in this matter. The Company intends to vigorously defend its position. Although the outcome cannot be ascertained at this time, the Company does not believe that its disposition would have a material adverse effect on the Company's financial position, results of operations or liquidity.

We are also subject to other private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. Such claims typically involve claims from guests, employees and others related to operational issues common to the foodservice industry. A number of such claims may exist at any given time. We could be affected by adverse publicity resulting from such allegations, regardless of whether or not such allegations are valid or whether we are determined to be liable. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks. We believe that the final disposition of such lawsuits, proceedings and claims will not have a material adverse effect on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, proceedings or claims.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended December 30, 2003.

PART II

ITEM 5: MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the Nasdaq Stock Market® under the symbol CAKE. The following table sets forth, for the periods indicated, the high and low sales prices as reported on the Nasdaq Stock Market.

	High	Low
Fiscal 2002:		
First Quarter	$37.85	$31.75
Second Quarter	43.55	33.29
Third Quarter	36.60	24.90
Fourth Quarter	37.70	27.95
Fiscal 2003:		
First Quarter	$37.58	$27.27
Second Quarter	36.58	30.43
Third Quarter	38.90	31.58
Fourth Quarter	44.94	35.25

Since our initial public offering in September 1992, we have not declared or paid any cash dividends on our common stock. We currently intend to retain all earnings for the operation and expansion of our business. Although we have the financial capacity to consider paying a cash dividend and remain compliant with the covenants of our revolving credit and term loan facility, we have no current plans to do so. There were approximately 755 holders of record of our common stock at March 4, 2004 and we estimate there were approximately 20,705 beneficial stockholders on that date.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth, for the periods indicated, selected consolidated financial data that has been derived from our audited Consolidated Financial Statements. The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto, and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Fiscal Year (1)			
	2003	2002	2001	2000
	(in thousands, except net income per share)			
Income Statement Data:				
Revenues:				
Restaurant sales	$731,273	$603,295	$499,519	$406,947
Bakery sales to other foodservice operators, retailers and distributors	42,562	48,675	39,611	31,334
Total revenues	773,835	651,970	539,130	438,281

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Costs and expenses:				
Restaurant cost of sales	175,654	142,998	127,005	102,994
Bakery cost of sales	19,716	22,631	19,153	14,466
Labor expenses	239,386	200,279	164,372	133,287
Other operating costs and expenses	180,725	150,617	120,706	95,941
General and administrative expenses	35,817	31,702	27,929	25,831
Depreciation and amortization expenses	27,960	22,855	17,457	13,682
Preopening costs	11,859	10,631	7,069	5,943
Total costs and expenses	691,117	581,713	483,691	392,144
Income from operations	82,718	70,257	55,439	46,137
Interest income, net	3,466	3,885	4,328	4,660
Other income (expense), net	2,944	2,178	1,654	(439)
Income before income taxes	89,128	76,320	61,421	50,358
Income tax provision	31,292	27,245	22,112	18,257
Net income	$ 57,836	$ 49,075	$ 39,309	$ 32,101
Net income per share:				
Basic	$ 1.15	$ 1.00	$ 0.83	$ 0.69
Diluted	$ 1.12	$ 0.96	$ 0.79	$ 0.64
Weighted average shares outstanding:				
Basic	50,422	49,266	47,466	46,247
Diluted	51,848	51,158	49,897	50,192
Balance Sheet Data (at end of period):				
Total cash and cash equivalents	$ 15,167	$ 11,033	$ 11,309	$ 34,284
Investments and marketable securities	$ 121,840	$ 103,453	$ 78,259	$ 51,030
Total assets	$ 584,808	$ 466,808	$ 356,927	$ 288,392
Total long-term debt (including current portion)	$ —	$ —	$ —	$ —
Stockholders' equity	$ 457,902	$ 379,564	$ 289,471	$ 240,836

(1) Fiscal 2000 consisted of 53 weeks. All other fiscal years consisted of 52 weeks.

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

General

This discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and related notes thereto found elsewhere in this Annual Report on Form 10-K.

As of March 4, 2004, we operated 75 upscale, high volume, casual dining restaurants under The Cheesecake Factory® mark. We also operated three upscale casual dining restaurants under the Grand Lux Cafe® mark in Los Angeles, California, Chicago, Illinois and Las Vegas, Nevada; one self-service, limited

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menu "express" foodservice operation under The Cheesecake Factory Express® mark inside the DisneyQuest® family entertainment center in Orlando, Florida; and a bakery production facility. We also licensed three limited menu bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator.

Our revenues consist of sales from our restaurant operations and sales from our bakery operations to other foodservice operators, retailers and distributors ("bakery sales"). Revenue from restaurant sales is recognized when payment is tendered at the point of sale. Revenue from our gift cards (also known as stored value cards) is recognized upon redemption in our restaurants. Until the redemption of gift cards occurs, all outstanding balances on such cards are included as a liability in our consolidated balance sheets. Revenue from bakery sales to other foodservice operators, retailers and distributors is recognized when the products are shipped. Sales and cost of sales are reported separately for restaurant and bakery activities. All other operating cost and expense categories are reported on a combined basis for both restaurant and bakery activities. The inclusion of supplementary analytical and related information herein may require us to make appropriate estimates and assumptions to enable us to fairly present, in all material respects, our analysis of trends and expectations with respect to our results of operations and financial position taken as a whole.

New restaurants become eligible to enter our comparable sales comparison in their nineteenth month of operation. We utilize a 52/53 week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal 2003, 2002 and 2001 each consisted of 52 weeks. Fiscal 2004 will consist of 52 weeks and will end on December 28, 2004. Our next 53-week fiscal year will occur in fiscal 2005.

Results of Operations

The following table sets forth, for the periods indicated, the Consolidated Statements of Operations of the Company expressed as percentages of total revenues.

	Fiscal Year		
	2003	2002	2001
Revenues:			
Restaurant sales	94.5%	92.5%	92.7%
Bakery sales to other foodservice operators, retailers and distributors	5.5	7.5	7.3
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant cost of sales	22.7	21.9	23.5
Bakery cost of sales	2.6	3.5	3.6
Labor expenses	30.9	30.7	30.5
Other operating costs and expenses	23.4	23.1	22.4
General and administrative expenses	4.6	4.9	5.2
Depreciation and amortization expenses	3.6	3.5	3.2
Preopening costs	1.5	1.6	1.3
Total costs and expenses	89.3	89.2	89.7
Income from operations	10.7	10.8	10.3
Interest income, net	0.4	0.6	0.8
Other income, net	0.4	0.3	0.3

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Income before income taxes	11.5	11.7	11.4
Income tax provision	4.0	4.2	4.1
Net income	7.5%	7.5%	7.3%

Fiscal 2003 Compared to Fiscal 2002

Revenues

Total revenues increased 19% to $773.8 million for fiscal 2003 compared to $652.0 million for fiscal 2002.

Restaurant sales increased 21% to $731.3 million for fiscal 2003 compared to $603.3 million for the prior fiscal year. The increase of $128.0 million for fiscal 2003 consisted of the following components: $57.0 million from the openings of fourteen new restaurants during the fiscal year; $68.4 million from restaurants opened prior to fiscal 2003 that were not considered comparable sales during fiscal 2003; and $2.6 million from comparable restaurant sales. Total estimated productive square feet and restaurant operating weeks increased approximately 24% and 21% to 896,221 and 3,531, respectively, during fiscal 2003. A single restaurant open during the full period of fiscal 2003 would have generated 52 operating weeks. Productive square feet consists of interior plus seasonally-adjusted patio square feet. We believe that measuring the changes in total restaurant operating weeks and total productive square feet from period to period is the most effective way to analyze the growth of the total productive capacity of our restaurant operations.

Average sales per restaurant operating week for restaurants open during the full fiscal year decreased slightly to $208,100 in fiscal 2003 compared to $210,400 for fiscal 2002. This slight decrease was principally due to severe weather throughout much of the country during the first six months of the year that resulted in approximately 22 lost days of restaurant sales due to restaurant closings and reduced availability of our outdoor patio seats. In addition, several of our newer restaurants experienced expected sales decreases to their sustainable run-rate levels after their "honeymoon" opening period. Refer to Part I: Business – "New Restaurant Sales and Investment Characteristics" in this Annual Report on Form 10-K. The average sales per week statistic for any period can also be impacted by the absolute size and productive capacity of new restaurants opened and the number of restaurants opened for new concepts such as Grand Lux Cafe that, by definition, could initially be less productive than our established Cheesecake Factory concept.

Comparable restaurant sales increased approximately 0.7% during fiscal 2003 and our effective price increase for the full fiscal year was approximately 1.2%. Comparable restaurant sales were impacted by the severe weather during the first six months of the year. Since most of our established restaurants currently operate close to full capacity during the peak demand periods of lunch and dinner, and given our relatively high average sales productivity per productive square foot of approximately $971 for fiscal 2003, we generally do not expect to achieve increases in comparable sales other than our effective menu price increases. We presently update and reprint the menus in our restaurants twice a year. For Cheesecake Factory restaurants, these updates generally occur during January-February (the "winter menu change") and July-August (the "summer menu change"). For our 2004 winter menu change, we are implementing an approximate 1.8-2.0% effective menu price increase for the purpose of offsetting those operating cost and expense increases that are known or expected as of March 4, 2004. We plan to review our operating cost and expense trends in the spring of 2004 and consider the need for additional menu pricing in connection with our 2004 summer menu change. All potential menu price increases must be carefully considered in light of their ultimate acceptability by our restaurant guests. Additionally, other factors outside of our control, such as inclement weather, holidays, general economic and competitive conditions and other factors referenced in this Annual Report on Form 10-K can impact comparable sales comparisons. Accordingly, there can be no assurance that increases in comparable sales will be achieved.

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Bakery sales to other foodservice operators, retailers and distributors decreased 13% to $42.6 million in fiscal 2003 compared to $48.7 million in the prior fiscal year. During the first half of fiscal 2002, bakery sales were unusually high principally as a result of the initial inventory pipeline fills for new relationships with the largest warehouse club operator and a national retailer. In addition, a former large-account foodservice industry customer discontinued purchasing our product in the third quarter of fiscal 2002 following a voluntary product withdrawal and recall. While our bakery operations have requalified to do business with this customer, purchase activity has not yet resumed. Sales to warehouse club operators represented approximately 62% of total bakery sales for fiscal 2003 compared to 56% for fiscal 2002.

Restaurant Cost of Sales

Restaurant cost of sales increased 23% to $175.7 million in fiscal 2003 compared to $143.0 million in fiscal 2002. This increase was primarily attributable to the 21% increase in restaurant sales during fiscal 2003. As a percentage of restaurant sales, these costs increased to 24.0% during fiscal 2003 compared to 23.7% for the prior fiscal year.

The menu at our restaurants is one of the most diversified in the foodservice industry and, accordingly, is not overly dependent on a single commodity. Changes in costs for one commodity are often, but not always, counterbalanced by cost changes in other commodity categories. The principal commodity categories for our restaurants include fresh produce, poultry, meat, fish and seafood, cheese, other fresh dairy products, bread and general grocery items. Compared to the prior fiscal year, we experienced increased costs for fresh poultry, fish and certain meat-related commodities during fiscal 2003. Higher costs for these commodities were partially offset by lower costs for other commodities, such as shrimp and many general grocery items, coupled with increased volume purchase discounts and purchasing power as a result of our continued growth.

We are currently able to contract for approximately two-thirds of the food commodities used in our restaurant operations for periods up to one year. Approximately one-third of our restaurant cost of sales consists of fresh produce, poultry, fish, meat and dairy commodities that are not currently contractible for periods longer than 30 days in most cases. As a result, these fresh commodities can be subject to unforeseen supply and cost fluctuations due principally to weather and other general agricultural conditions. For fiscal 2004, we currently expect generally flat costs for our grocery and domestic cheese commodities, lower costs for our shrimp and shellfish commodities, and higher costs for our beef commodities. Based on current and expected market conditions for our non-contractible commodities, we also expect higher costs for our fresh poultry and fish commodities and generally flat costs for our produce commodities.

As has been our past practice, we will carefully consider opportunities to introduce new menu items and implement selected menu price increases to help offset expected cost increases for key commodities and other goods and services utilized by our operations. While we have been successful in the past to react to inflation and other changes in the costs of key operating resources by gradually increasing prices for our menu items, coupled with more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no absolute assurance that we will be able to continue to do so in the future.

While we have taken steps to qualify multiple suppliers and enter into agreements for some of the key commodities used in our restaurant operations, there can be no assurance that future supplies and costs for commodities used in our restaurant operations will not fluctuate due to weather and other market conditions outside of our control. For new restaurants, cost of sales will typically be higher than normal during the first 90-120 days of operations until our management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by our restaurants.

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Bakery Cost of Sales

Bakery cost of sales, which include ingredient, packaging and production supply costs, were $19.7 million for fiscal 2003 compared to $22.6 million for the prior fiscal year. The decrease of $2.9 million was principally attributable to the 13% decrease in bakery sales for fiscal 2003. As a percentage of bakery sales, bakery cost of sales remained relatively unchanged at 46.3% for fiscal 2003 compared to 46.4% for fiscal 2002. While we have taken steps to qualify multiple suppliers and enter into agreements for some of the key commodities used in our bakery operations, there can be no assurance that future supplies and costs for commodities used in our bakery or restaurant operations will not fluctuate due to weather and other market conditions beyond our control. Cream cheese is the most significant commodity used in our bakery products, with an expected requirement for as much as 9-10 million pounds during fiscal 2004. During the first quarter of fiscal 2004, we executed agreements for substantially all of our cream cheese requirements for the 12-month period thereafter with two suppliers at a fixed cost per pound that is slightly higher than the actual cost per pound in fiscal 2003. We may also purchase cream cheese on the spot market as necessary to supplement our agreements.

Labor Expenses

Labor expenses, which include restaurant-level labor costs and bakery direct production labor (including associated fringe benefits), increased 19.5% to $239.4 million for fiscal 2003 compared to $200.3 million for fiscal 2002. This increase was principally due to the 19% increase in total revenues during fiscal 2003. As a percentage of total revenues, labor expenses increased slightly to 30.9% for fiscal 2003 compared to 30.7% for fiscal 2002 reflecting the reverse leverage during the first three months of fiscal 2003 from less than expected restaurant and bakery sales on the fixed portion of labor costs in both operations. Additionally, the unpredictable fluctuations in restaurant sales due to the severe winter weather during the first quarter of fiscal 2003 made it difficult for our restaurant operators to adjust hourly labor accordingly. Labor expenses were also impacted by increased costs for employee health insurance benefits. For new restaurants, labor expenses will typically be higher than normal during the first 90-120 days of operations until our management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by our restaurants.

Other Operating Costs and Expenses

Other operating costs and expenses consist of restaurant-level occupancy expenses (rent, insurance, licenses and taxes, and utilities), other operating expenses (excluding food costs and labor expenses reported separately) and bakery production overhead, selling and distribution expenses. Other operating costs and expenses increased 20.0% to $180.7 million for fiscal 2003 compared to $150.6 million for fiscal 2002. This increase was principally attributable to the 19% increase in total revenues for fiscal 2003. As a percentage of total revenues, other operating costs and expenses increased to 23.4% for fiscal 2003 versus 22.8% for fiscal 2002 (after excluding costs and expenses associated with the August 2002 bakery product withdrawal of approximately $2.1 million or 0.3% of total revenues included in the prior year amounts). This increase was due primarily to increased costs for natural gas and electric services to our restaurants amounting to approximately 30 basis points of total revenues; higher costs for our insurance arrangements of approximately 10 basis points and increased selling, distribution and promotional costs related to our outside bakery sales. Based on current conditions in the energy markets, we currently expect the costs for our natural gas and electric services to continue to increase during fiscal 2004.

General and Administrative Expenses

General and administrative ("G&A") expenses consist of the restaurant management recruiting and training program, the restaurant field supervision organization, the bakery administrative organization and the corporate support organization. G&A expenses increased 13.0% to $35.8 million for fiscal 2003 compared to $31.7 million for fiscal 2002. This increase was principally due to the planned growth of our supervision and support organizations commensurate with the growth of our restaurant and bakery operations during fiscal 2003. As a percentage of total revenues, G&A expenses decreased to 4.6% for fiscal 2003 compared to 4.9% for the prior fiscal year as the 13.0% increase in these expenses for fiscal 2003 was less than the 19% increase in total revenues for the year. During fiscal 2004, we plan to continue to add resources to the corporate support, training and field supervision activities of our business, commensurate with the planned openings of as many as 16 new restaurants during the year.

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Depreciation and Amortization Expenses

Depreciation and amortization expenses increased 22.3% to $28.0 million for fiscal 2003 compared to $22.9 million for fiscal 2002. This increase was principally due to new restaurant openings. As a percentage of total revenues, depreciation and amortization expenses were 3.6% and 3.5% for fiscal 2003 and 2002, respectively.

Preopening Costs

Preopening costs increased 12.3% to $11.9 million for fiscal 2003 compared to $10.6 million for the prior fiscal year. We opened fourteen restaurants during fiscal 2003 compared to twelve openings during fiscal 2002. In addition, preopening costs were incurred in both years for restaurant openings in progress.

Preopening costs include incremental out-of-pocket costs that are directly related to the openings of new restaurants that are not otherwise capitalizable. As a result of the highly customized and operationally complex nature of our upscale, high volume concepts, the restaurant preopening process for our new restaurants is more extensive, time consuming and costly relative to that of most chain restaurant operations. The preopening costs for one of our restaurants usually includes costs to relocate and compensate an average of 11-12 restaurant management employees prior to opening; costs to recruit and train an average of 200-250 hourly restaurant employees; wages, travel and lodging costs for our opening training team and other support employees; and costs for practice service activities. Preopening costs will vary from location to location depending on a number of factors, including the proximity of our existing restaurants; the size and physical layout of each location; the number of management and hourly employees required to open each restaurant; the relative difficulty of the restaurant staffing process; the cost of travel and lodging for different metropolitan areas; and the extent of unexpected delays, if any, in construction and/or obtaining final licenses and permits to open the restaurants, which may also be caused by landlord delays.

Our direct preopening costs for an 11,000 square foot, single-story restaurant in an established Company market averages approximately $750,000. There will also be other preopening costs associated with each restaurant opening, including costs for corporate travel and support activities. Preopening costs will usually be higher for larger restaurants, our initial entry into new markets and for new concepts such as Grand Lux Cafe. We usually incur the most significant portion of preopening costs for a typical restaurant opening within the two-month period immediately preceding and the month of the restaurant's opening. Preopening costs will fluctuate from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant, and the fluctuations could be significant. We expense preopening costs as incurred. Based on our current growth objectives for fiscal 2004 and 2005, preopening costs for each of those years will likely exceed the respective amount of preopening costs for the applicable prior year.

Interest Income, Other Income and Income Taxes

Interest income decreased to $3.5 million for fiscal 2003 compared to $3.9 million for fiscal 2002. This decrease was principally due to lower yields on our interest-bearing cash and short-term investments that, in turn, was attributable to the decline in the general level of interest rates during fiscal 2003. We generally invest our excess cash balances in U.S. Treasury and Agency securities, investment grade corporate debt securities rated "A" or better and money market mutual funds. Other income for fiscal 2003 was $2.9 million compared to $2.2 million for fiscal 2002. This increase was principally due to higher gains on the sales of investments and marketable securities that were liquidated from time to time to fund the Company's working capital requirements throughout the year. Our effective income tax rate was 35.1% for fiscal 2003 compared to 35.7% for fiscal 2002. For fiscal 2004, we currently estimate our effective tax rate to remain at 35.1%. The actual effective tax rate for fiscal 2004 may be different than our current estimate due to actual revenues, pretax income and tax credits achieved during the year.

Fiscal 2002 Compared to Fiscal 2001

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Revenues

Total revenues increased 21% to $652.0 million for fiscal 2002 compared to $539.1 million for fiscal 2001.

Restaurant sales increased 21% to $603.3 million for fiscal 2002 compared to $499.5 million for the prior fiscal year. The increase of $103.8 million for fiscal 2002 consisted of the following components: $53.4 million from the openings of twelve new restaurants during the fiscal year; $45.3 million from restaurants opened prior to fiscal 2002 that were not considered comparable sales during fiscal 2002; and $5.1 million from comparable restaurant sales. Total estimated productive square feet and restaurant operating weeks increased approximately 27% and 20% to 718,797 and 2,915, respectively, during fiscal 2002.

Average sales per restaurant operating week for restaurants open during the full fiscal year decreased slightly to $210,400 in fiscal 2002 compared to $211,900 for fiscal 2001. This slight decrease was principally due to sales for several of our newer restaurants that experienced expected sales decreases to their sustainable run-rate levels after their "honeymoon" opening period. Refer to Part I: Business – "New Restaurant Sales and Investment Characteristics" in this Annual Report on Form 10-K.

Comparable restaurant sales increased approximately 1.2% during fiscal 2002. This increase was due almost entirely to effective menu price increases totaling approximately 1.1% for the full fiscal year.

Bakery sales increased 23% to $48.7 million in fiscal 2002 compared to $39.6 million in the prior fiscal year. The increase in bakery sales was principally attributable to higher sales volumes to new and established foodservice accounts and to warehouse club operators. Sales to warehouse club operators represented approximately 56% of total bakery sales for fiscal 2002 compared to 49% for fiscal 2001. Despite the 23% increase in bakery sales for the full year, bakery sales during the second half of fiscal 2002 were impacted by a voluntary withdrawal and recall of bakery products that were produced in the Company's bakery production facility during a four-day period in July 2002 due to possible bacteria contamination. Costs and expenses associated with the product withdrawal and recall are reflected in the "Other Operating Expenses" category. As a result of the product withdrawal and recall, bakery sales of approximately $1.4 million that had been recorded prior to the product withdrawal and recall were reversed, and a large-account foodservice industry customer discontinued purchasing our products.

Restaurant Cost of Sales

Restaurant cost of sales increased 13% to $143.0 million in fiscal 2002 compared to $127.0 million in fiscal 2001. This increase was primarily attributable to the 21% increase in restaurant sales during fiscal 2002. As a percentage of restaurant sales, these costs decreased to 23.7% during fiscal 2002 compared to 25.4% for the prior fiscal year, principally as a result of lower market prices in general for most of the food commodities used in our restaurants, coupled with increased volume purchase discounts that result from our increasing purchasing power.

Bakery Cost of Sales

Bakery cost of sales were $22.6 million for fiscal 2002 compared to $19.2 million for the prior fiscal year. The increase of $3.4 million was principally attributable to the 23% increase in bakery sales for fiscal 2002. As a percentage of bakery sales, bakery cost of sales decreased to 46.4% for fiscal 2002 compared to 48.4% for fiscal 2001. This decrease was primarily attributable to a shift in the mix of sales to products with slightly lower cost of sales as a percentage of their associated price (but with slightly higher selling expenses, which are included in the "other operating costs and expenses" category).

Labor Expenses

Labor expenses increased 22.0% to $200.3 million for fiscal 2002 compared to $164.4 million for fiscal

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2001. This increase was principally due to the 21% increase in total revenues during fiscal 2002. As a percentage of total revenues, labor expenses increased slightly to 30.7% for fiscal 2002 compared to 30.5% for fiscal 2001 reflecting increased costs for employee health insurance benefits and slightly higher labor costs for our two newest Grand Lux Cafe locations, partially offset by labor productivity improvements.

Other Operating Costs and Expenses

Other operating costs and expenses increased 24.8% to $150.6 million for fiscal 2002 compared to $120.7 million for fiscal 2001. This increase was principally attributable to the 21% increase in total revenues for fiscal 2002 as well as costs and expenses related to the bakery product withdrawal. As a percentage of total revenues, other operating costs and expenses increased to 23.1% for fiscal 2002 versus 22.4% for fiscal 2001. Costs and expenses associated with the bakery product withdrawal were approximately $2.1 million or 0.3% of total revenues. Other operating expenses were also impacted by higher costs for our insurance arrangements, which increased approximately 0.4% as a percentage of total revenues.

General and Administrative Expenses

G&A expenses increased 13.6% to $31.7 million for fiscal 2002 compared to $27.9 million for fiscal 2001. This increase was principally due to the planned growth of our supervision and support organizations commensurate with the growth of our restaurant and bakery operations during fiscal 2002. As a percentage of total revenues, G&A expenses decreased to 4.9% for fiscal 2002 compared to 5.2% for the prior fiscal year as the 13.6% increase in these expenses for fiscal 2002 was less than the 21% increase in total revenues for the year.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased 30.9% to $22.9 million for fiscal 2002 compared to $17.5 million for fiscal 2001. This increase was principally due to new restaurant openings. As a percentage of total revenues, depreciation and amortization expenses were 3.5% and 3.2% for fiscal 2002 and 2001, respectively.

Preopening Costs

Preopening costs increased 49.3% to $10.6 million for fiscal 2002 compared to $7.1 million for the prior fiscal year. We opened twelve restaurants during fiscal 2002 compared to nine openings during fiscal 2001. In addition, preopening costs were incurred in both years for restaurant openings in progress.

Interest Income, Other Income (Expense), Net and Income Taxes

Interest income decreased to $3.9 million for fiscal 2002 compared to $4.3 million for fiscal 2001. This decrease was principally due to lower yields on our interest-bearing cash and short-term investments that, in turn, was attributable to the decline in the general level of interest rates during fiscal 2002. Other income for fiscal 2002 was $2.2 million compared to $1.7 million for fiscal 2001. This increase was principally due to higher gains on the sales of investments and marketable securities in order to fund the Company's working capital requirements. Our effective income tax rate was 35.7% for fiscal 2002 compared to 36.0% for fiscal 2001.

Liquidity and Capital Resources

Our corporate finance strategy is to maintain a strong, conservative balance sheet in order to support our growth plan with financial flexibility; to provide the financial resources necessary to protect and enhance the competitiveness of our restaurant and bakery operations; and to provide a prudent level of financial capacity to manage the risks and uncertainties of conducting our business operations on a much larger scale. Our ongoing

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capital requirements are principally related to our restaurant expansion plan. Similar to many restaurant and retail chain store operations, we utilize operating lease arrangements for substantially all of our restaurant locations. We believe that our operating lease arrangements continue to provide appropriate leverage for our capital structure in a financially efficient manner. However, we are not limited to the use of lease arrangements as our only method of opening new restaurants. While our operating lease obligations are not required to be reflected as indebtedness on our consolidated balance sheet, the minimum rents and related fixed obligations under our lease agreements must be satisfied by cash flows from our ongoing operations. Accordingly, our lease arrangements reduce, to some extent, our capacity to utilize funded indebtedness in our capital structure. We also require capital resources to maintain our existing base of restaurants, further expand and strengthen the capabilities of our corporate and information technology infrastructures, and maintain and expand our bakery production capacity. In the past, we have obtained capital from our ongoing operations, public stock offerings, employee stock option exercises and construction contributions from our landlords. Our requirement for working capital is not significant, since our restaurant guests pay for their food and beverage purchases in cash or cash equivalents at the time of sale, and we are able to sell many of our food inventory items before we have to pay our suppliers of such items.

The following table presents, for the periods indicated, a summary of the Company's key liquidity measurements.

	Fiscal Year		
	2003	2002	2001
	(dollar amounts in millions)		
Cash and marketable securities on hand, end of year	$ 137.0	$ 114.5	$ 89.6
Net working capital, end of year	$ 33.9	$ 18.2	$ (1.8)
Adjusted net working capital, end of year (1)	$ 121.8	$ 109.8	$ 67.5
Current ratio, end of year	1.4:1	1.3:1	1.0:1
Adjusted current ratio, end of year (1)	2.5:1	2.9:1	2.2:1
Long-term debt, end of year	$ —	$ —	$ —
Cash provided by operations	$ 116.7	$ 93.5	$ 74.4
Capital expenditures	$ 105.6	$ 86.6	$ 74.3

(1) Includes all marketable securities classified as either current assets ($34.0 million, $11.8 million and 9.0 million for fiscal year 2003, 2002 and 2001, respectively) or noncurrent assets ($87.9 million, $91.6 million and $69.3 million for fiscal 2003, 2002 and 2001, respectively).

During fiscal 2003, our total amount of cash and marketable securities on hand increased by $22.5 million to $137.0 million as of December 30, 2003. This increase was principally due to increased cash flow from operations and proceeds from the exercise of employee stock options. In the table above, we also present adjusted net working capital and current ratio calculations that include all marketable securities classified as either current or noncurrent assets. We believe these adjusted calculations provide investors with useful information regarding our overall liquidity position because all marketable securities are readily available to meet our liquidity requirements. We continue to target a weighted average maturity for our marketable securities investment portfolio between one and two years. Accordingly, a substantial portion of our investments are classified as noncurrent assets, but remain available for our liquidity requirements.

Effective December 30, 2003, we amended and extended our revolving credit and term loan facility (the "Credit Facility"). The Credit Facility was increased to $35 million from $25 million and expires on December 30, 2005. As of March 4, 2004, there were no borrowings outstanding under the Credit Facility. $11.5 million of the Credit Facility has been reserved to support standby letters of credit for our self-insurance programs. Borrowings under the Credit Facility will bear interest at variable rates based, at our option, on either the prime

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rate of interest, the lending institution's cost of funds plus 0.75%, or the applicable LIBOR rate plus 0.75%. Upon expiration of the Credit Facility, a maximum of $35 million of any borrowings outstanding under the Credit Facility automatically convert into a four-year term loan, payable in equal quarterly installments at interest rates of 0.5% higher than the applicable revolving credit rates. The Credit Facility is not collateralized and requires us to maintain certain financial ratios and to observe certain restrictive covenants with respect to the conduct of our operations, with which we are currently in compliance.

Our new restaurant development model more closely resembles that of a retail business that occupies leased space in shopping malls, office complexes, strip centers, entertainment centers and other real estate developments. We typically seek to lease our restaurant locations for primary periods of 15 to 20 years under operating lease arrangements. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum and contingent (percentage) rent based on sales, as well as other expenses related to the leases (for example our share of common area maintenance, property tax and insurance expenses). We disburse cash for leasehold improvements and furnishings, fixtures and equipment to build out our leased premises. We may also disburse cash for permanent improvements that we make to leased premises that generally are reimbursed to us by our landlords as construction contributions (also known as tenant improvement allowances) pursuant to agreed-upon terms in the respective leases. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. We initially record uncollected landlord construction contributions as other receivables. Our balance of other receivables will fluctuate from period to period, depending on the timing of cash collections from landlords and additional receivables recorded from new restaurant development activities. See Note 3, "Other Receivables" to our Consolidated Financial Statements. In the future, we may also develop more freestanding restaurant locations using both ground leases and built-to-suit leases, which are common arrangements used to finance freestanding locations in the restaurant industry. We do not have any current plans to encumber our existing leasehold interests with secured financing. We own substantially all of the equipment, furniture and trade fixtures in our restaurants and currently plan to do so in the future.

During fiscal 2003, our cash outlays and accrued liability for capital expenditures were approximately $106 million. Of that amount, approximately $90 million was related to new restaurant openings (including several restaurants under development as of December 30, 2003). The remainder consisted of approximately $11 million for maintenance and capacity addition outlays for our existing restaurants and approximately $5 million for bakery and corporate capital expenditures.

For fiscal 2004, we currently estimate our cash outlays for capital expenditures to range between $110 and $115 million, net of agreed-upon landlord construction contributions and excluding $13-$14 million of expected noncapitalizable preopening costs for new restaurants. This estimate contemplates a net outlay of $95-$98 million for as many as 16 new restaurants to be opened during fiscal 2004, estimated construction-in-progress disbursements for anticipated fiscal 2005 openings and estimated collections of tenant improvement allowances from landlords. This estimate also contemplates that two of our planned 16 openings for fiscal 2004 do not have any landlord construction contributions. Not every potential location that we seek to develop into a restaurant may have landlord construction contributions available, and we would therefore not generally incur a contingent rent obligation on such locations. Expected capital expenditures for fiscal 2004 also include approximately $10-$11 million for maintenance and capacity addition expenditures to our existing restaurants; and $5-6 million for additional bakery capacity and corporate infrastructure investments.

In October 2002, we entered into a 10-year lease for approximately one-half of an 88,000 square foot office building that is located adjacent to our existing corporate center and bakery production facility. We currently utilize this leased space for our culinary R&D kitchen, management training and other essential operational support activities. In light of our expansion plans and our eventual need for additional staff to support our restaurant and bakery operations, we are evaluating a potential purchase of that entire office building to ensure the long-term availability of expansion space. If consummated, such a purchase would require a capital expenditure of approximately $21 million and would be initially funded from our cash and investments balances on hand. We may seek to obtain long-term mortgage financing for such a purchase.

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Based on our current expansion objectives, we believe that our cash and short-term investments on hand, combined with expected cash flow provided by operations, available borrowings under our Credit Facility and expected landlord construction contributions should be sufficient in the aggregate to finance our planned capital expenditures and other operating activities through fiscal 2004. We may seek additional funds to finance our growth in the future. However, there can be no assurance that such funds will be available when needed or be available on terms acceptable to us.

During fiscal 1998, our Board of Directors authorized the Company to repurchase up to 1,687,500 shares of our common stock for reissuance upon the exercise of stock options under our current stock option plans. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. Under this authorization, we have repurchased a total of 1,077,300 shares for a total cost of $17.2 million through December 30, 2003. Our share repurchase agreement does not require us to repurchase any common stock and may be discontinued at any time.

As of March 4, 2004, we had no financing transactions, arrangements or other relationships with any unconsolidated entities or related parties. Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts.

Contractual Obligations and Commercial Commitments

The following schedules summarize our contractual obligations and commercial commitments as of December 30, 2003 (amounts in millions):

Contractual obligations	Total	2004	2005	2006	2007	2008	After 2008
Operating leases (1)	$548.4	$28.8	$30.1	$30.8	$30.7	$30.7	$ 397.3
Purchase obligations (2)	128.8	42.7	20.6	24.4	27.5	10.3	3.3
Total	$677.2	$71.5	$50.7	$55.2	$58.2	$41.0	$ 400.6

Other commercial commitments							
Standby letters of credit	$ 11.5	$ 7.7	$ 3.8	$ —	$ —	$ —	$ —

(1) Represents aggregate minimum lease payments. Most of the leases also require contingent rent in addition to the minimum rent based on a percentage of sales ranging from 3.5% to 10% and require expenses incidental to the use of the property.

(2) Amounts represent noncancelable commitments for the purchase of goods.

We expect to fund our contractual obligations primarily with operating cash flows generated in the normal course of business.

Critical Accounting Policies

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

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consolidated financial statements.

Property and Equipment

We record all property and equipment at cost less accumulated depreciation. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful life of the assets or the primary lease terms of the respective leases. The useful life of property and equipment and the determination as to what constitutes a capitalized cost versus a repair and maintenance expense involves judgments by management. These judgments may produce materially different amounts of depreciation expense if different assumptions were used.

Leases

We currently lease all of our restaurant locations. We account for our leases under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 13 "Accounting for Leases" and subsequent amendments which require that our leases be evaluated and classified as operating or capital leases for financial reporting purposes. All of our restaurant leases are classified as operating leases pursuant to the requirements of SFAS No. 13. We disburse cash for leasehold improvements and furnishings, fixtures and equipment to build out and equip our leased premises. We may also expend cash for permanent improvements that we make to leased premises that generally are reimbursed to us by our landlords as construction contributions (also known as tenant improvement allowances) pursuant to agreed-upon terms in our leases. Landlord construction contributions usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. We initially record landlord construction contributions as other receivables and reduce those receivables when cash is collected. While we are not aware of any pending authoritative changes in accounting for leases in general, any such changes in the future could have an impact on the Company's reported results of operations and financial position.

Self-Insurance Liability

We are self-insured for a significant portion of our employee health benefit, workers' compensation and general liability programs. The Company maintains stop-loss coverage with third party insurers to limit its total exposure for each of these programs. The accrued liability associated with these programs is based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us ("IBNR claims") as of the balance sheet date. Our estimated liability is not discounted and is based on information provided by our insurance brokers and insurers, combined with our judgments regarding a number of assumptions and factors, including the frequency and severity of claims, our claims development history, case jurisdiction, related legislation, and our claims settlement practice. Significant judgment is required to estimate IBNR claims as parties have yet to assert such claims. If actual claims trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

Income Taxes

We provide for income taxes based on our estimate of federal and state tax liabilities. Our estimates include, but are not limited to, effective state and local income tax rates, allowable tax credits for items such as FICA taxes paid on reported tip income, and estimates related to depreciation expense allowable for tax purposes. Our estimates are made based on the best available information at the time that we prepare our income tax provision. In making our estimates, we also consider the impact of legislative and judicial developments. As these developments evolve, we will update our estimates, which, in turn, could result in an adjustment to our effective tax rate. We usually file our income tax returns many months after our fiscal year-end. All tax returns are subject to audit by federal and state governments, usually years after the returns are filed, and could be subject to differing interpretations of the tax laws. See Note 7 to our Consolidated Financial Statements.

Recent Accounting Pronouncements

SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial statements issued after May 2003. This statement did not have any impact on our Consolidated Financial Statements.

Impact of Inflation and Changes in the Costs of Key Operating Resources

Our profitability is dependent, among other things, upon our ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, energy and other supplies and services. Substantial increases in costs and expenses could impact our operating results to the extent that such increases cannot be passed along to our restaurant and bakery customers. While we have taken steps to qualify multiple suppliers and enter into agreements for some of the commodities used in our restaurant and bakery operations, there can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control. We are currently unable to contract for substantially all of our fresh commodities such as produce, poultry, meat, fish and dairy items for long periods of time and, consequently, such commodities can be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. The impact of inflation on food, labor, energy and occupancy costs can significantly affect the profitability of our restaurant and bakery operations.

Many of our restaurant and bakery employees are paid hourly rates related to the federal minimum wage, which increased in 1988, 1991, 1996 and 1997. Proposals are currently pending in Congress to again increase the federal minimum wage. Several state and local governments have recently increased the minimum wage within their jurisdiction and others are presently considering such increases. The State of California, where we currently operate approximately one-fifth of our restaurants, increased its minimum wage by $0.50 per hour to $6.25 in January 2001, and by another $0.50 per hour to $6.75 in January 2002. Additionally, a general shortage in the availability of qualified restaurant management and hourly workers in certain geographical areas in which we operate has caused related increases in the costs of recruiting and compensating such employees. Certain operating costs, such as taxes, insurance and other outside services continue to increase with the general level of inflation or higher and may also be subject to other cost and supply fluctuations outside of our control.

While the Company has been able to react to inflation and other changes in the costs of key operating resources by gradually increasing prices for its menu items and bakery products, coupled with more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be able to continue to do so in the future. From time to time, competitive conditions could limit our menu pricing flexibility. We cannot guarantee that all future cost increases can be offset by increased menu prices or that increased menu prices will be fully absorbed by our restaurant guests without any resulting changes in their visit frequencies or purchasing patterns. Substantially all of the leases for our restaurants provide for contingent rent obligations based on a percentage of sales. As a result, rent expense will absorb a proportionate share of any menu price increases in our restaurants. There can be no assurance that we will continue to generate increases in comparable restaurant sales and bakery sales in amounts sufficient to offset inflationary or other cost pressures.

Seasonality and Quarterly Results

Our business is subject to seasonal fluctuations. Historically, our highest levels of revenues and net income for our established restaurants have occurred in the second and third quarters of the fiscal year. Over one-half of our restaurants are located in or near shopping centers and malls that typically experience seasonal fluctuations in sales. Patio seating represents approximately 17% of the total available productive seating for all restaurants open as of March 4, 2004 and can be subject to disruption from inclement weather. Holidays, severe winter weather, hurricanes, thunderstorms and similar conditions may impact restaurant sales volumes seasonally in some of the markets where we operate. Our bakery operations are seasonal to the extent that the fourth quarter's

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sales are typically higher due to holiday business. Additionally, bakery sales comparisons may fluctuate significantly from quarter to quarter due to the timing and size of orders from our larger bakery customers. Quarterly results have been and will continue to be significantly impacted by the timing of new restaurant openings and their associated preopening costs. As a result of these and other factors, the Company's financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of market risks contains forward-looking statements. Actual results may differ materially from the following discussion based on general conditions in the financial and commodity markets.

We are exposed to market risk from changes in interest rates on funded debt. This exposure relates to our $35 million revolving credit and term loan facility (the "Credit Facility"). There were no borrowings outstanding under the Credit Facility during fiscal 2001, 2002, 2003 and fiscal 2004 through March 4, 2004. Borrowings under the Credit Facility bear interest at variable rates based on either the prime rate of interest, the lending institution's cost of funds plus 0.75% or LIBOR plus 0.75%. A hypothetical 1% interest rate change would not have any current impact on our results of operations.

A change in market prices also exposes us to market risk related to our investments in marketable securities. As of December 30, 2003, we held $121.8 million in available-for-sale marketable securities. A hypothetical 10% decline in the market value of those securities would result in a $12.2 million unrealized loss and a corresponding decline in their fair value. This hypothetical decline would not affect our cash flows until the securities were disposed of.

We purchase food and other commodities for use in our operations, based upon market prices established with our suppliers. Many of the commodities purchased by us can be subject to volatility due to market supply and demand factors outside of our control. To manage this risk in part, we attempt to enter into fixed price purchase commitments, with terms typically up to one year, for many of our commodity requirements. However, we are currently unable to contract for substantially all of our fresh commodities such as produce, poultry, fish and dairy items for periods longer than 30 days. Dairy costs can also fluctuate due to government regulation. We believe that substantially all of our food and supplies are available from several sources, which helps to diversify our overall commodity cost risk. We also believe that we have the ability to increase certain menu prices, or vary certain menu items offered, in response to food commodity price increases. Some of our commodity purchase arrangements may contain contractual features that limit the price paid by establishing certain price floors or caps. The Company does not use financial instruments to hedge commodity prices, since our purchase arrangements with suppliers, to the extent that we can enter into such arrangements, help control the ultimate cost that we pay.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements required to be filed hereunder are set forth on pages 40 through 61 of this report.

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

None.

ITEM 9A: CONTROLS AND PROCEDURES

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Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) promulgated under the Secu;·ties Exchange Act of 1934 (the "Exchange Act"), as amended. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

During the fiscal quarter ended December 30, 2003, there was no change in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item (other than the following information concerning our code of ethics) is hereby incorporated by reference from the section entitled "Proposal 1 Election of Directors" in the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 18, 2004 (the "Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference to the sections entitled "Meetings, Attendance and Fees," "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is hereby incorporated by reference to the sections entitled "Equity Compensation Plan Information and "Beneficial Ownership of Principal Stockholders and Management" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is hereby incorporated by reference to the section entitled "Executive Compensation" in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is hereby incorporated by reference to the section entitled "Independent Auditors" in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following documents are filed as a part of this Report:

(a) 1. Financial Statements:

The Consolidated Financial Statements required to be filed hereunder are listed in the Index to Consolidated Financial Statements on page 40 of this report.

2. Financial Statement Schedules:

None.

3. Exhibits:

The Exhibits required to be filed hereunder are listed in the exhibit index included herein at page 62.

(b) The Company filed the following reports on Form 8-K during the fourth quarter:

On October 6, 2003, the Company filed a current report on Form 8-K announcing the opening of The Cheesecake Factory restaurant in San Jose, California.

On October 21, 2003, the Company filed a current report on Form 8-K announcing the opening of The Cheesecake Factory restaurant in The Woodlands, Texas.

On October 21, 2003, the Company filed a current report on Form 8-K announcing the third quarter financial results.

On October 27, 2003, the Company filed a current report on Form 8-K announcing the opening of The Cheesecake Factory restaurant in Cleveland, Ohio.

On November 4, 2003, the Company filed a current report on Form 8-K announcing the opening of The Cheesecake Factory restaurant in Arlington, Virginia.

On November 13, 2003, the Company filed a current report on Form 8-K announcing the appointment of a Coordinating Director.

On November 18, 2003, the Company filed a current report on Form 8-K announcing the opening of The Cheesecake Factory restaurant in Peoria, Arizona.

On November 24, 2003, the Company filed a current report on Form 8-K announcing the Senior Vice President, General Counsel and Secretary of The Cheesecake Factory Incorporated entered into a stock trading plan in accordance with Rule 10b5-1.

On December 11, 2003, the Company filed a current report on Form 8-K announcing the opening of The Cheesecake Factory restaurant in Honolulu, Hawaii.

On December 18, 2003, the Company filed a current report on Form 8-K announcing the opening of The Cheesecake Factory restaurant in Palo Alto, California.

The Company filed the following reports on Form 8-K subsequent to the close of the fourth quarter:

On January 7, 2004, the Company filed a current report on Form 8-K announcing their presentation at the SG Cowen Consumer Conference.

On January 7, 2004, the Company filed a current report on Form 8-K announcing executive officer promotions.

On January 27, 2004, the Company filed a current report on Form 8-K announcing the date and time of their fourth quarter and fiscal 2003 earnings conference call.

On January 28, 2004, the Company filed a current report on Form 8-K announcing the opening of The Cheesecake Factory restaurant in Birmingham, Alabama.

On February 4, 2004, the Company filed a current report on Form 8-K announcing the fourth quarter financial results.

On February 11, 2004, the Company filed a current report on Form 8-K announcing that it had entered into a $35 million credit facility with Bank of the West to replace an existing facility with that institution.

On February 17, 2004, the Company filed a current report on Form 8-K announcing the opening of The Cheesecake Factory restaurant in Cincinnati, Ohio and their presentation at the Bear Stearns Conference.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors of
The Cheesecake Factory Incorporated:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of The Cheesecake Factory Incorporated and Subsidiaries (the "Company") at December 30, 2003 and December 31, 2002, and the consolidated results of their operations and their cash flows for each of the three fiscal years

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in the period ended December 30, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
February 3, 2004

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	December 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,167	$ 11,033
Investments and marketable securities	33,988	11,819
Accounts receivable	7,360	5,490
Other receivables	23,416	20,717
Inventories	20,434	17,985
Prepaid expenses	10,403	7,050
Deferred income taxes	4,725	2,160
Total current assets	115,493	76,254
Property and equipment, net	359,969	282,213
Other assets:		
Marketable securities	87,852	91,634
Other receivables	7,371	5,868
Trademarks	2,046	1,940
Other	12,077	8,899
Total other assets	109,346	108,341
Total assets	$ 584,808	$ 466,808
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 25,996	$ 14,839
Other accrued expenses	55,558	43,239

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Total current liabilities	81,554	58,078
Deferred income taxes	35,721	22,285
Other noncurrent liabilities	9,631	6,881
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued and outstanding	—	—
Junior participating cumulative preferred stock, $.01 par value, 150,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value, 150,000,000 shares authorized; 52,126,185 and 50,995,890 shares issued at December 30, 2003 and December 31, 2002, respectively	521	510
Additional paid-in capital	229,157	205,994
Retained earnings	245,612	187,776
Unrealized gain/(loss) on available-for-sale securities	(161)	1,664
Treasury stock, 1,077,300 and 1,047,300 shares at cost at December 30, 2003 and December 31, 2002, respectively	(17,227)	(16,380
Total stockholders' equity	457,902	379,564
Total liabilities and stockholders' equity	$ 584,808	$ 466,808

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Fiscal Year		
	2003	**2002**	**2001**
Revenues:			
Restaurant sales	$731,273	$603,295	$499,519
Bakery sales to other foodservice operators, retailers and distributors	42,562	48,675	39,611
Total revenues	773,835	651,970	539,130
Costs and expenses:			
Restaurant cost of sales	175,654	142,998	127,005
Bakery cost of sales	19,716	22,631	19,153
Labor expenses	239,386	200,279	164,372
Other operating costs and expenses	180,725	150,617	120,706
General and administrative expenses	35,817	31,702	27,929
Depreciation and amortization expenses	27,960	22,855	17,457
Preopening costs	11,859	10,631	7,069
Total costs and expenses	691,117	581,713	483,691
Income from operations	82,718	70,257	55,439

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Interest income, net	3,466	3,885	4,328
Other income	2,944	2,178	1,654
Income before income taxes	89,128	76,320	61,421
Income tax provision	31,292	27,245	22,112
Net income	$ 57,836	$ 49,075	$ 39,309
Net income per share:			
Basic	$ 1.15	$ 1.00	$ 0.83
Diluted	$ 1.12	$ 0.96	$ 0.79
Weighted average shares outstanding:			
Basic	50,422	49,266	47,466
Diluted	51,848	51,158	49,897

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (In Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Tot
Balances, January 2, 2001	$ 319	$ 147,694	$ 99,581	$ 365	$ (7,123)	$240.
Comprehensive income:						
Net income	—	—	39,309	—	—	
Net unrealized gain	—	—	—	165	—	
Total comprehensive income						39.
Three-for-two stock split	161	—	(161)	—	—	
Issuance of common stock from exercise of stock options	6	5,854	—	—	—	5.
Tax benefit related to stock options exercised	—	5,527	—	—	—	5.
Purchase of treasury stock	—	—	—	—	(2,198)	(2.
Dividends paid for fractional shares	—	—	(28)	—	—	
Balances, January 1, 2002	486	159,075	138,701	530	(9,321)	289.
Comprehensive income:						
Net income	—	—	49,075	—	—	
Net unrealized gain	—	—	—	1,134	—	
Total comprehensive income						50.
Issuance of common stock from exercise of stock options	24	21,558	—	—	—	21.
Tax benefit related to stock options exercised	—	25,361	—	—	—	25.
Purchase of treasury stock	—	—	—	—	(7,059)	(7.
Balances, December 31, 2002	510	205,994	187,776	1,664	(16,380)	379.
Comprehensive income:						
Net income	—	—	57,836	—	—	
Net unrealized loss	—	—	—	(1,825)	—	
Total comprehensive income						56.
Issuance of common stock from exercise of stock options	11	12,644	—	—	—	12.

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Tax benefit related to stock options exercised	—	10,519	—	—	—	10.
Purchase of treasury stock	—	—	—	—	(847)	(
Balances, December 30, 2003	$ 521	$ 229,157	$245,612	$ (161)	$ (17,227)	$457.

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Fiscal Year		
	2003	2002	2001
Cash flows from operating activities:			
Net income	$ 57,836	$ 49,075	$ 39,309
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	27,960	22,855	17,457
Gain on available-for-sale securities	(2,456)	(1,797)	(1,549)
Deferred income taxes	11,884	11,358	4,388
Tax benefit related to stock options exercised	10,519	25,361	5,527
Changes in assets and liabilities:			
Accounts receivable	(1,870)	255	(868)
Other receivables	(4,202)	(7,810)	1,613
Inventories	(2,449)	(7,214)	(1,443)
Prepaid expenses	(3,353)	(3,976)	(1,663)
Trademarks	(106)	(66)	(145)
Other	(3,335)	(2,441)	(2,181)
Accounts payable	11,157	(4,046)	1,173
Income taxes payable	—	(2,837)	1,844
Other accrued expenses	15,069	14,735	10,963
Cash provided by operating activities	116,654	93,452	74,425
Cash flows from investing activities:			
Additions to property and equipment	(105,560)	(86,618)	(74,324)
Investments in available-for-sale securities	(174,203)	(119,971)	(121,670)
Sales of available-for-sale securities	155,435	98,338	96,248
Cash used in investing activities	(124,328)	(108,251)	(99,746)
Cash flows from financing activities:			
Issuance of common stock	11	24	6
Dividends paid for fractional shares	—	—	(28)
Proceeds from exercise of employee stock options	12,644	21,558	5,854
Purchase of treasury stock	(847)	(7,059)	(2,198)
Cash provided by financing activities	11,808	14,523	3,634
Net change in cash and cash equivalents	4,134	(276)	(21,687)
Cash and cash equivalents at beginning of period	11,033	11,309	32,996

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Cash and cash equivalents at end of period	$ 15,167	$ 11,033	$ 11,309

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Description of Business:

The Cheesecake Factory Incorporated (referred to herein as the "Company" or in the first person notations "we", "us" and "our") operates full-service, casual dining restaurants under The Cheesecake Factory® and Grand Lux Cafe® marks. We also operate one self-service, limited menu "express" foodservice operation under The Cheesecake Factory Express® mark. Additionally, we operate a bakery production facility in Calabasas Hills, California that produces baked desserts and other products for our restaurants and for other foodservice operators, retailers and distributors. We also license three bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator. All of our company-operated and licensed restaurants and our bakery production facility are located within the United States of America.

Basis of Presentation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions for the periods presented have been eliminated in consolidation.

Fiscal Year:

We utilize a 52/53 week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal 2003, 2002 and 2001 each consisted of 52 weeks. Fiscal 2004 will consist of 52 weeks and will end on Tuesday, December 28, 2004. Fiscal 2005 will consist of 53 weeks.

Cash and Cash Equivalents:

We consider all highly liquid investments with an original maturity of three months or less at date of purchase to be cash equivalents. Amounts receivable from credit card processors are also considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction. Our centralized cash management system provides for the reimbursement of all major bank disbursement accounts on a daily basis. Checks issued but not yet presented for payment to our bank are reflected as a reduction of cash and cash equivalents in our accompanying consolidated balance sheets.

Investments and Marketable Securities:

We principally invest our excess cash balances in U.S. Treasury and Agency securities, investment grade corporate debt securities rated "A" or better and money market mutual funds. We record investments and marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 establishes accounting and reporting requirements for investments in equity securities that have readily determinable fair values and for all investments in debt securities. We generally classify all of our investments and marketable securities as

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available-for-sale securities, even though our current liquidity position and requirements provide us with the ability to hold a substantial amount of such securities to maturity. Debt securities classified as available-for-sale securities are reported at their fair value, with unrealized gains and losses excluded from net income and reported as a separate component of stockholders' equity (net of the related tax effect) until realized. Fair value is determined by the most recently traded price of each security at the balance sheet date, plus any accrued interest. Net realized gains or losses are determined on the specific identification cost method. At December 30, 2003 and December 31, 2002, all of our investments and marketable securities were classified in the available-for-sale category.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Accounts and Other Receivables:

Our accounts receivable principally result from credit sales to outside bakery customers. Other receivables consist of accrued interest on investments and marketable securities and various amounts due from landlords, insurance providers and others in the ordinary course of business.

Concentration of Credit Risk:

Financial instruments that potentially subject us to a concentration of credit risk are cash and cash equivalents, investments and marketable securities, and accounts receivable. We currently maintain a majority of our day-to-day operating cash balances with two major financial institutions. At times, cash balances may be in excess of FDIC insurance limits. We place our temporary excess cash with major financial institutions that, in turn, invest in investment-grade commercial paper and other corporate obligations rated "A" or higher, certificates of deposit, government obligations and other investments and marketable securities. Our investment policy limits the amount of exposure to any one financial institution or investment. With respect to marketable securities, the net unrealized gain or loss on our investment portfolio as of December 30, 2003 and December 31, 2002 has been reported (net of the related tax effect) as a separate component within the stockholders' equity section of our consolidated balance sheets. We consider the concentration of credit risk for accounts receivable to be minimal as a result of our large number of outside bakery customers, as well as the payment histories and general financial condition of our larger outside bakery customers.

Inventories:

Inventories are stated at the lower of cost (first-in, first-out) or market.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Property and Equipment:

Property and equipment are recorded at cost. Improvements are capitalized while repair and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated economic lives of the assets or the primary terms of the respective leases. Depreciation periods are as follows:

Land improvements	25 years
Buildings	30 years
Leasehold improvements	Primary term of lease, including exercised options
Restaurant fixtures and equipment	10 years
Bakery equipment	15 years
Automotive equipment	5 years
Computer equipment	3 years

Accounting for Long-lived Assets:

We review our property and equipment assets whenever events or changes in circumstances indicate that the carrying value of those assets might not be recoverable. In evaluating whether an asset has been impaired, we compare the expected undiscounted future cash flows to be generated by the asset to the asset's carrying value. If the sum of the undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized to the extent the carrying value exceeds the fair value of the asset.

Preopening Costs:

Preopening costs are expensed as incurred.

Self-Insurance Liability:

We are self-insured for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability and employee health benefits. The Company maintains stop-loss coverage with third party insurers to limit its total exposure for each of these risks. The accrued liabilities associated with these risks is based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us ("IBNR claims") as of the balance sheet date. Our estimated liabilities are not discounted and are based on information provided by our insurance brokers and insurers, combined with our judgments regarding a number of assumptions and factors, including the frequency and severity of claims, claims development history, case jurisdiction, applicable legislation and our claims settlement practices. Significant judgment is required to estimate IBNR claims as parties have yet to assert such claims.

Income Taxes:

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under the asset and liability method of SFAS No. 109, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under SFAS No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Income tax benefits credited to stockholders' equity relate to tax benefits associated with amounts that are deductible for income tax purposes but do not impact net income. These benefits are principally generated from employee exercises of non-qualified stock options.

1. Summary of Significant Accounting Policies: (Continued)

Stock-Based Compensation:

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We maintain stock option plans under which incentive stock options and non-qualified stock options may be granted to employees, consultants and non-employee directors. We account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Our policy is to grant all stock options at the fair market value of the underlying stock at the date of grant. Accordingly, we do not recognize compensation expense for company-issued stock options. In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for voluntary change to the fair value method of accounting for stock-based compensation. In addition, SFAS No. 148 requires more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. We adopted the annual and interim disclosure requirements of SFAS No. 148 as of the first quarter of fiscal 2003.

Had compensation expense for our stock option plans been determined based on the fair value at the grant date for awards in fiscal 2003, 2002 and 2001 consistent with the provisions of SFAS No. 123, our after-tax net income and after-tax net income per share would have been reduced to the pro forma amounts indicated below (in thousands, except net income per share):

	Fiscal 2003	Fiscal 2002	Fiscal 2001
Net income, as reported	$ 57,836	$ 49,075	$ 39,309
Net income, pro forma	$ 50,343	$ 42,726	$ 33,028
Basic net income per share, as reported	$ 1.15	$ 1.00	$ 0.83
Basic net income per share, pro forma	$ 1.00	$ 0.87	$ 0.70
Diluted net income per share, as reported	$ 1.12	$ 0.96	$ 0.79
Diluted net income per share, pro forma	$ 0.97	$ 0.84	$ 0.66

The weighted average fair value at date of grant for options issued in fiscal 2003, 2002 and 2001 was $16.01, $16.70 and $11.15 per option, respectively. The fair value of options at date of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions for each respective fiscal year: (a) no dividend yield on our stock, (b) expected volatility of our stock of 48.91%, 49.20% and 49.50%, (c) a risk-free interest rate of 3.78%, 4.19% and 4.94%, and (d) expected option lives of six years in fiscal 2003 and fiscal 2002 and seven years in 2001.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

The Black-Scholes option pricing model was developed to estimate the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models also require the input of highly subjective assumptions including the expected stock price volatility. Since company-issued stock options have characteristics significantly different from those of traded options, and since changes in the subjective input assumptions utilized by option pricing models can materially affect the fair value estimate of stock options derived from such models, management believes that existing option valuation models do not necessarily provide a reliable single measure of the fair value of company-issued stock options. Since company–issued stock options do not trade on a secondary exchange, their holders cannot receive any value or derive any benefit unless the market price of the underlying stock has increased above the grant price of the stock option at the time the option becomes exercisable.

Net Income Per Share:

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In accordance with the provisions of SFAS No. 128, "Earnings Per Share," basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share includes the dilutive effect of potential stock option exercises, calculated using the treasury stock method. Outstanding stock options issued by the Company represent the only dilutive effect reflected in diluted weighted average shares outstanding. Options do not impact the numerator of the diluted net income per share computation.

Recent Accounting Pronouncements:

SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial statements issued after May 2003. This statement did not have any impact on our Consolidated Financial Statements.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Revenue Recognition:

Revenue from restaurant sales is recognized when payment is tendered at the point of sale. Revenues from our gift cards (also known as stored value cards) are recognized upon redemption in our restaurants. Until the redemption of gift cards occurs, all outstanding balances on such cards are included in "other accrued expenses" on our accompanying consolidated balance sheets. Revenue from bakery sales to other foodservice operators, retailers and distributors is recognized when the products are shipped. Our consolidated revenues are net of all intercompany eliminations.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Advertising Costs:

Advertising costs are expensed as incurred. Advertising expenses for fiscal 2003, 2002 and 2001 were insignificant.

Comprehensive Income:

Comprehensive income includes net income and other comprehensive income items that are excluded from net income under accounting principles generally accepted in the United States of America. Unrealized gains or losses on available-for-sale securities are our only comprehensive income item in addition to net income.

Reclassifications:

Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Investments and Marketable Securities:

Investments and marketable securities consisted of (in thousands):

Classification	Cost	Fair Value	Unrealized Gain/ (Loss)	Balance Sheet Amount	Maturity
At December 30, 2003:					
Current assets:					
Available-for-sale securities:					
Corporate debt securities	$11,331	$11,347	$ 16	$11,347	January 2004 to December 2004
U.S. Treasury securities	22,604	22,641	37	22,641	February 2004 to November 2004
Total	$33,935	$33,988	$ 53	$33,988	
Other assets:					
Available-for-sale securities:					
Corporate debt securities	$28,469	$28,535	$ 66	$28,535	February 2005 to March 2009
U.S. Treasury securities	59,687	59,317	(370)	59,317	January 2005 to February 2019
Total	$88,156	$87,852	$ (304)	$87,852	
At December 31, 2002:					
Current assets:					
Available-for-sale securities:					
Corporate debt securities	$10,177	$10,296	$ 119	$10,296	February 2003 to December 2003
U.S. Treasury securities	1,500	1,523	23	1,523	November 2003
Total	$11,677	$11,819	$ 142	$11,819	
Other assets:					
Available-for-sale securities:					
Corporate debt securities	$25,061	$26,052	$ 991	$26,052	April 2004 to August 2006
U.S. Treasury securities	64,129	65,582	1,453	65,582	February 2004 to November 2007
Total	$89,190	$91,634	$ 2,444	$91,634	

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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3. Other Receivables:

Other receivables consisted of (in thousands):

	December 30, 2003	December 31, 2002
Tenant improvement allowances from landlords	$ 20,240	$ 15,415
Income tax receivable	5,879	8,476
Accrued interest on investments	1,079	1,126
Other	3,589	1,568
Total other receivables	30,787	26,585
Less: current portion	(23,416)	(20,717)
Other receivables	$ 7,371	$ 5,868

4. Inventories:

Inventories consisted of (in thousands):

	December 30, 2003	December 31, 2002
Restaurant food and supplies	$ 15,593	$ 12,362
Bakery finished goods	3,641	3,960
Bakery raw materials	1,200	1,663
Total	$ 20,434	$ 17,985

The amounts for restaurant food and supplies as of December 30, 2003 and December 31, 2002 include $8.7 million and $6.2 million, respectively, for certain smallware inventories in our restaurants.

5. Property and Equipment:

Property and equipment consisted of (in thousands):

	December 30, 2003	December 31, 200
Land and related improvements	$ 1,783	$ 1,783
Buildings	6,464	6,464
Fixtures and equipment	140,416	120,863
Leasehold improvements	271,650	209,065
Computer equipment	20,352	16,735
Automotive equipment	249	390
Construction in progress	37,509	20,460
Property and equipment, total	478,423	375,760
Less: accumulated depreciation and amortization	(118,454)	(93,547)
Property and equipment, net	$ 359,969	$ 282,213

Repair and maintenance expenses for fiscal 2003, 2002 and 2001 were $10.5 million, $9.0 million and $5.8 million, respectively.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Commitments and Contingencies:

We lease all of our restaurant locations under operating leases, with primary terms ranging from 10 to 20 years. The restaurant leases typically include land and building shells, require contingent rent above the minimum lease payments based on a percentage of sales ranging from 3.5% to 10%, and require various expenses incidental to the use of the property. Most leases have renewal options. We have always exercised our renewal options in the past. We also lease certain restaurant and bakery equipment under operating lease agreements.

The aggregate minimum annual lease payments under operating leases (including those for five restaurants with executed leases as of December 30, 2003 that are planned for fiscal 2004 openings) are as follows (in thousands):

2004	$ 28,832
2005	30,143
2006	30,775
2007	30,694
2008	30,717
Thereafter	397,233
Total minimum lease commitments	$ 548,394

Rent expenses charged to operations on all operating leases were as follows (in thousands):

	Fiscal 2003	Fiscal 2002	Fiscal 2001
Base rent	$ 23,139	$ 17,358	$ 13,355
Contingent rent	17,654	16,426	15,006
Other charges	9,829	7,795	6,299
Total	$ 50,622	$ 41,579	$ 34,660

With respect to the five potential restaurant locations with executed leases as of December 30, 2003 that are currently planned for openings in fiscal 2004, we have estimated construction commitments (leasehold improvements and fixtures and equipment), net of agreed-upon landlord construction contributions, totaling approximately $28 million.

As credit guarantees to insurers, the Company is contingently liable under standby letters of credit issued under the Credit Facility. As of December 30, 2003, the Company had $11.5 million of standby letters of credit related to self-insurance liabilities accrued in the Company's Consolidated Financial Statements. All standby letters of credit are renewable annually.

We are self-insured for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability and employee health benefits. The Company maintains stop-loss coverage with third party insurers to limit its total exposure for each of these risks. The accrued liabilities associated with these risks is based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet

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reported to us ("IBNR claims") as of the balance sheet date. Our estimated liabilities are not discounted and are based on information provided by our insurance brokers and insurers, combined with our judgments regarding a number of assumptions and factors, including the frequency and severity of claims, claims development history, case jurisdiction, applicable legislation and our claims settlement practices.

6. Commitments and Contingencies (continued):

In December 2002, two former hourly restaurant employees in California filed a lawsuit against the Company alleging violations of California labor laws with respect to providing meal and rest breaks. The lawsuit seeks unspecified amounts of penalties and other monetary payments on behalf of the plaintiffs and other purported class members. Discovery is currently continuing in this matter. The Company intends to vigorously defend its position. Although the outcome cannot be ascertained at this time, the Company does not believe that its disposition would have a material adverse effect on the Company's financial position, results of operations or liquidity.

In October 2003, an hourly restaurant employee in California filed a lawsuit against the Company alleging violations of California labor laws with respect to the providing of meal and rest breaks and improper deductions, among other claims. The lawsuit seeks unspecified amounts of penalties and other monetary payments on behalf of the plaintiff and other purported class members. Discovery is currently continuing in this matter. The Company intends to vigorously defend its position. Although the outcome cannot be ascertained at this time, the Company does not believe that its disposition would have a material adverse effect on the Company's financial position, results of operations or liquidity.

The Attorney General of the State of California (State Attorney General) filed lawsuits on or about April 10, 2003 in the Los Angeles Superior Court against the Company, as well as several other restaurant chains, alleging that the defendants violated the provisions of an initiative statute known as "Proposition 65" and California Business and Professions Code Section 17203 by offering for sale certain types of fish allegedly containing mercury and mercury compounds without providing the warnings required by Proposition 65. The Company is currently in settlement negotiations with the State Attorney General's office. The Company believes that the resolution of this matter would not have a material adverse effect on the Company's financial position, results of operations or liquidity. The Company continues to implement interim notices under Proposition 65 in order to mitigate the possibility of additional liability to the Company while the settlement of all remaining issues is pending.

We are also subject to other private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. Such claims typically involve claims from guests, employees and others related to operational issues common to the foodservice industry. A number of such claims may exist at any given time. From time to time, we are also involved in lawsuits with respect to contractual disputes and infringements of, or challenges to, our registered trademarks. We believe that the final disposition of such lawsuits and claims will not have a material adverse effect on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, proceedings and claims.

We have severance and employment agreements with certain of our executive officers that provide for payments to those officers in the event of a termination of their employment as a result of a change in control of the Company or without cause, as defined in those agreements. Aggregate payments totaling approximately $3.4 million would have been required by those agreements had all such officers terminated their employment for those reasons as of December 30, 2003.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income Taxes:

The provision for income taxes consisted of the following (in thousands):

	Fiscal 2003	Fiscal 2002	Fiscal 2001
Income before income taxes	$ 89,128	$ 76,320	$ 61,421
Income tax provision:			
Current:			
Federal	$ 16,064	$ 13,385	$ 15,595
State	3,344	2,502	2,129
Total current	19,408	15,887	17,724
Deferred	11,884	11,358	4,388
Total	$ 31,292	$ 27,245	$ 22,112

The following is a reconciliation between the U.S. federal statutory rate and the effective tax rate:

	Fiscal 2003	Fiscal 2002	Fiscal 2001
Tax at U.S. federal statutory rate	35.0%	35.0%	35.0%
State and district income taxes net of federal income tax benefit	3.6	3.7	3.3
FICA tip credit and other credits	(3.7)	(3.4)	(2.6)
Deferred compensation, dividends received deduction and other	0.2	0.4	0.3
Effective tax rate	35.1%	35.7%	36.0%

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income Taxes: (Continued)

The temporary differences which give rise to deferred income tax assets and liabilities are as follows (in thousands):

	December 30, 2003	December 31, 2002
Current deferred tax assets/(liabilities):		
Employee benefits	$ 4,055	$ 2,885
Insurance	4,803	2,866

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Inventory		(3,112)		(2,506)
Other, net		(1,021)		(1,085)
Total	$	4,725	$	2,160
Noncurrent deferred tax assets/(liabilities):				
Property and equipment	$	(40,634)	$	(24,560)
Tax credit carryforwards		3,271		2,348
Other, net		1,642		(73)
Total	$	(35,721)	$	(22,285)

The Company's tax credit carryforwards, representing primarily FICA tip credits, begin to expire in 2021. We have not recorded a valuation allowance against these credits as we believe it is more likely than not that future taxable income will be sufficient to fully realize the benefit of these credits.

8. Long-term Debt:

We maintain a $35 million revolving credit and term loan facility (the "Credit Facility") with a major financial institution. As of December 30, 2003 and December 31, 2002, there were no borrowings outstanding under the Credit Facility. $11.5 million of the Credit Facility has been reserved to support standby letters of credit for our insurance programs, which reduces the limit available for borrowing under the Credit Facility by an equal amount. The terms of the Credit Facility provide for, among other things, borrowings under the Credit Facility to bear interest at variable rates based, at our option, on either the prime rate of interest, the lending institution's cost of funds rate plus 0.75% or the applicable LIBOR rate plus 0.75%. The Credit Facility expires on December 31, 2005. On that date, a maximum of $35 million of any borrowings outstanding under the Credit Facility automatically convert into a four-year term loan payable in equal quarterly installments at interest rates of 0.5% higher than the applicable revolving credit rates. The Credit Facility is not collateralized and requires us to maintain certain financial ratios and to observe certain restrictive covenants with respect to the conduct of our operations, with which we are currently in compliance.

9. Stockholders' Equity:

We effected a stock dividend in the form of a three-for-two stock split on June 18, 2001. In connection with this stock dividend and split, $161,000 was transferred to common stock from retained earnings and $28,000 was paid to shareholders for fractional shares. All references in the Consolidated Financial Statements to shares of common stock and related prices, weighted average number of shares, per share amounts and stock option plan data have been adjusted to reflect the stock split.

9. Stockholders' Equity: (Continued)

The Company is authorized by its Board of Directors to repurchase up to 1,687,500 shares of our common stock for reissuance upon the exercise of stock options under our current stock option plans. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. As of December 30, 2003, we had repurchased a total of 1,077,300 shares for a total cost of $17.2 million under this authorization.

10. Stock Options:

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The Company maintains stock option plans under which incentive stock options and non-qualified stock options may be granted to employees, consultants and non-employee directors. All stock options are granted at the fair market value of the underlying stock on the date of the grant, generally vest at 20% per year, and become exercisable provided the Company meets or exceeds certain performance criteria approved by our Board of Directors. Our stock options generally expire ten years from the date of grant. Transactions during fiscal 2003, 2002 and 2001 under our stock option plans were as follows:

	Fiscal 2003	Fiscal 2002	Fiscal 2001
Options outstanding at start of year	5,213,742	6,383,526	6,712,467
Options granted	1,335,005	1,458,967	540,418
Options exercised	(1,130,295)	(2,385,587)	(729,561)
Options cancelled	(385,397)	(243,164)	(139,798)
Options outstanding at end of year	5,033,055	5,213,742	6,383,526
Options exercisable at end of year	1,364,660	1,358,122	3,024,166
Options available for grant at end of year	2,272,095	3,221,703	1,740,706

Weighted average option exercise price information for fiscal 2003, 2002 and 2001 was as follows:

	Fiscal 2003	Fiscal 2002	Fiscal 2001
Options outstanding at start of year	$ 18.65	$ 12.03	$ 10.74
Options granted	$ 31.34	$ 32.69	$ 22.83
Options exercised	$ 11.20	$ 9.02	$ 8.07
Options cancelled	$ 31.52	$ 23.59	$ 12.44
Options outstanding at end of year	$ 22.71	$ 18.65	$ 12.03

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Stock Options: (Continued)

The following table sets forth information with respect to fixed stock options as of December 30, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Amount Outstanding as of 12/30/03	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Amount Exercisable as of 12/30/03	Weighted Average Exercise Price
$ 5.37 - $11.71	909,066	4.53 years	$ 8.49	727,266	$ 8.18
$12.00 - $16.31	848,125	6.03	$ 13.04	344,125	$ 13.09
$17.08 - $25.45	947,056	7.12	$ 22.77	160,469	$ 23.46
$25.83 - $30.00	977,000	8.96	$ 29.34	46,000	$ 29.47
$30.62 - $33.83	1,062,808	8.54	$ 32.86	86,300	$ 33.66
$33.86 - $40.02	289,000	9.46	$ 35.85	500	$ 38.10
$ 5.37 - $40.02	5,033,055	7.26	$ 22.71	1,364,660	$ 13.56

11. Other Supplemental Data:

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Other accrued expenses consisted of (in thousands):

	December 30, 2003	December 31, 2002
Insurance	$ 14,670	$ 11,520
Gift cards and certificates	12,943	8,450
Salaries and wages	7,124	6,381
Employee benefits	5,674	4,488
Payroll and sales taxes	5,399	5,215
Rent and related expenses	3,895	3,906
Other	5,853	3,279
Total	$ 55,558	$ 43,239

12. Supplemental Cash Flow Disclosures:

Supplemental cash flow disclosures consisted of (in thousands):

	Fiscal 2003	Fiscal 2002	Fiscal 2001
Interest paid	$ —	$ —	$ —
Income taxes paid	$ 12,730	$ 283	$ 10,343

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Employee Benefit Plans:

We have established two defined contribution benefit plans (the "401(k) Plans"), one for our Cheesecake Factory restaurant and corporate support employees, and another for our Grand Lux Cafe restaurant employees, in accordance with section 401(k) of the Internal Revenue Code. The 401(k) Plans are open to all employees who meet certain compensation and eligibility requirements. The 401(k) Plans allow participating employees to defer the receipt of a portion of their compensation and contribute such amount to one or more investment options. We currently match in cash a certain percentage of the employee contributions to the 401(k) Plans and also pay for related administrative expenses, neither of which were significant amounts during fiscal 2003, 2002 and 2001.

We have also established an Executive Savings Plan (the "ESP"). The ESP is a nonqualified deferred compensation plan for our highly compensated employees as defined in the ESP and who are otherwise ineligible for participation in our 401(k) plans. The ESP allows participating employees to defer the receipt of a portion of their base compensation and up to 100% of their eligible bonuses. Non-employee directors can also participate in the ESP and defer the receipt of their fees. We match in cash a certain percentage of the base compensation deferred by participating employees and also pay for related administrative expenses, neither of which were significant amounts during fiscal 2003, 2002 and 2001. Employee deferrals and our match are deposited into a "rabbi" trust established by the Company, and the funds are generally invested in individual variable life insurance contracts owned by the Company that are specifically designed to informally fund savings plans of this nature. The accounts of the rabbi trust are required to be included in our consolidated financial statements. Our consolidated balance sheets reflect the Company's investment in variable life insurance contracts in the "other assets" category. The Company's obligation to participating employees is reflected in the "other noncurrent liabilities" category. All income and expenses related to the rabbi trust are

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reflected in our consolidated statements of operations.

Effective May 1999, we adopted a self-insured medical and dental benefit plan for our employees. We have purchased both individual and aggregate stop-loss coverage in order to limit our exposure to any significant medical claims. Self-insured medical benefit plan expenses are accrued based upon our estimate of the aggregate liability for uninsured claims incurred using actuarial methods commonly followed in the insurance industry and our historical experience. The accrued liability for our self-insured medical benefit plan (included in "other accrued expenses") as of December 30, 2003 and December 31, 2002 was $2,088,000 and $3,097,000, respectively.

14. Stockholder Rights Plan:

During fiscal 1998, our Board of Directors adopted a stockholder rights plan (the "Rights Plan"). The Rights Plan provides for the distribution to stockholders of one right to purchase a unit equal to 1/100 of a share of a newly created series of junior participating cumulative preferred stock. The rights are evidenced by our common stock certificates and automatically trade with our common stock. The rights are not exercisable unless a person or group acquires (or commences a tender or exchange offer or announces an intention to acquire) 15% or more of our common stock without the approval of our Board of Directors. When declared exercisable, holders of the rights (other than the acquiring person or group) would have the right to purchase units of junior participating cumulative preferred stock having a market value equal to two times the exercise price of each right, which is $110. Additionally, if we are thereafter merged into another entity, or more than 50% of our consolidated assets or earnings power is sold or transferred, holders of the rights will be entitled to buy common stock of the acquiring person or group equal to two times the exercise price of each right. The rights expire on August 4, 2008, unless redeemed earlier by us. In November 2003, our Board of Directors approved certain amendments to the Rights Plan that, among other things, eliminated a provision in the Rights Plan that would have prohibited the redemption of the rights in specified circumstances, including when a majority of the Board of Directors is comprised of persons who were not nominated by the Board of Directors in office immediately prior to the election of the new directors.

**THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

15. Quarterly Financial Data (unaudited):

Summarized unaudited quarterly financial data (in thousands, except diluted net income per share) for fiscal 2003 and 2002 is as follows:

Quarter Ended:	April 1, 2003	July 1, 2003	September 30, 2003	December 30, 2003
Total revenues	$ 172,860	$ 188,620	$ 197,832	$ 214,523
Income from operations	$ 18,006	$ 21,994	$ 20,678	$ 22,040
Net income	$ 12,639	$ 15,269	$ 14,358	$ 15,570
Diluted net income per share (1)	$ 0.25	$ 0.30	$ 0.28	$ 0.30

Quarter Ended:	April 2, 2002	July 2, 2002	October 1, 2002	December 31, 2002
Total revenues	$ 150,234	$ 165,360	$ 161,982	$ 174,394
Income from operations	$ 15,022	$ 19,187	$ 17,243	$ 18,805
Net income	$ 10,564	$ 13,248	$ 12,082	$ 13,181
Diluted net income per share (1)	$ 0.21	$ 0.26	$ 0.24	$ 0.26

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(1) Diluted net income per share calculations for each quarter are based on the weighted average diluted shares outstanding for that quarter and may not total to the full year amount.

EXHIBIT INDEX

2.1	Form of Reorganization Agreement(1)
3.1	Certificate of Incorporation of the Company(1)
3.2	Bylaws of the Company(2)
3.3	Certificate of Designation of Series A Junior Participating Cumulative Preferred Stock, $.01 par value(3)
3.4	Form of Rights Agreement dated as of August 4, 1998 between the Company and U.S. Stock Transfer Corporation(3)
3.5	Amendment No. 1 to Rights Agreement dated as of November 4, 2003 between The Cheesecake Factory Incorporated and U.S. Stock Transfer Corporation(4)
10.1	David Overton Employment Agreement(1)
10.2	Gerald Deitchle Employment Agreement(5)
10.3	The Cheesecake Factory Incorporated 1992 Performance Employee Stock Option Plan(1)
10.4	Performance Incentive Plan(1)
10.6	The Cheesecake Factory Incorporated Non-Employee Director Stock Option Plan(6)
10.7	David Overton Employment Contract(7)
10.9	Amendment to The Cheesecake Factory Incorporated 1992 Performance Employee Stock Option Plan(8)
10.10	Debby R. Zurzolo Employment Agreement(9)
10.11	2001 Stock Option Plan(10)
10.12	Peter J. D'Amelio Employment Agreement (11)
10.13	Credit Facility (12)
10.14	The Cheesecake Factory Incorporated Year 2000 Performance Stock Option Plan (13)
10.15	Amendment No. 1 to The Cheesecake Factory Incorporated Year 2000 Performance Stock Option Plan (14)
10.16	Amendment No. 2 to The Cheesecake Factory Incorporated Year 2000 Performance Stock Option Plan (15)

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10.17 Amendment No. 3 to The Cheesecake Factory Incorporated Year 2000 Performance Stock Option Plan (16)

10.18 Executive Savings Plan

10.19 First Amendment to the Executive Savings Plan

10.20 Second Amendment to the Executive Savings Plan

10.21 Third Amendment to the Executive Savings Plan

10.22 Form of Indemnification Agreement

11.0 Statement Regarding Computation of Net Income Per Share

14.0 Code of Ethics for Senior Financial Officers

21.0 Subsidiaries of the Company

23.0 Consent of Independent Accountants

31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for David Overton

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Michael J. Dixon

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(1) Previously filed and incorporated by reference herein from the Registrant's Registration Statement on Form S-1 (No. 33-47936).

(2) Previously filed and incorporated by reference herein from the Registrant's Form 10-Q for the quarterly period ended September 30, 2003.

(3) Previously filed and incorporated by reference herein from the Registrant's Form 8-A dated August 19, 1998.

(4) Previously filed and incorporated by reference herein from the Registrant's post-effective amendment No. 1 to its registration statement on Form 8-A.

(5) Previously filed and incorporated by reference herein from the Registrant's Form 10-K for the fiscal year ended December 29, 1996.

(6) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated August 8, 1997.

(7) Previously filed and incorporated by reference herein from the Registrant's Form 10-Q for the

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quarterly period ended June 30, 1998.

(8) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated January 8, 1999.

(9) Previously filed and incorporated by reference herein from the Registrant's Form 10-Q for the quarterly period ended June 29, 1999.

(10) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated July 3, 2001.

(11) Previously filed and incorporated by reference herein from the Registrant's Form 10-Q for the quarterly period ended July 1, 2003.

(12) Previously filed and incorporated by reference herein from the Registrant's Form 8-K dated February 11, 2004.

(13) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated April 5, 2000.

(14) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated January 3, 2001.

(15) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated April 25, 2002.

(16) Previously filed and incorporated by reference herein from the Registrant's Form S-8 dated dated December 6, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 4th day of March 2004.

THE CHEESECAKE FACTORY INCORPORATED

By: /s/ DAVID OVERTON

David Overton
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, in the capacities indicated, on this 4th day of March 2004.

Name	Title	Date
/s/ DAVID OVERTON	Chairman of the Board and Chief Executive Officer	March 4, 2004

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David Overton	(Principal Executive Officer)	
/s/ MICHAEL J. DIXON Michael J. Dixon	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 4, 2004
/s/ THOMAS L. GREGORY Thomas L. Gregory	Coordinating Director	March 4, 2004
/s/ WAYNE H. WHITE Wayne H. White	Director	March 4, 2004
/s/ JEROME I. KRANSDORF Jerome I. Kransdorf	Director	March 4, 2004
/s/ KARL L. MATTHIES Karl L. Matthies	Director	March 4, 2004

EX-10.18 3 d58694_ex10-18.htm MATERIAL CONTRACTS

EXHIBIT 10.18

THE CHEESECAKE FACTORY INCORPORATED

EXECUTIVE SAVINGS PLAN

As Adopted

Effective October 1, 1999

THE CHEESECAKE FACTORY INCORPORATED
EXECUTIVE SAVINGS PLAN

The Cheesecake Factory Incorporated desires to establish an unfunded deferred compensation plan entitled, Executive Savings Plan, effective as of October 1, 1999, which provides supplemental retirement income benefits for a select group of management who are considered highly compensated employees through deferrals of salary and bonuses, and through discretionary company contributions under such plan.

NOW, THEREFORE, The Cheesecake Factory Incorporated hereby adopts and establishes The Cheesecake Factory Incorporated Executive Savings Plan, the terms of which are hereinafter set forth.

Article I
TITLE AND DEFINITIONS

1.1 *Title.*

The name of this plan is the The Cheesecake Factory Incorporated Executive Savings Plan.

1.2 *Definitions.*

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

(a) Account or Accounts shall mean a Participant's Deferral Account and/or Company Contribution Account.

(b) Beneficiary or Beneficiaries shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Committee to receive the benefits specified hereunder in the event of the Participant's death. No beneficiary designation shall become effective until it is filed with the Committee. If there is no Beneficiary designation in effect, or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then the Beneficiary or Beneficiaries shall be the person or persons who can verify by affidavit or court order to the satisfaction of the Committee that such person or persons are legally entitled to receive the benefits specified hereunder. In the event any amount is payable under

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the Plan to a minor, payment shall not be made to the minor, but instead be paid (1) to that person's living parent(s) to act as custodian, (2) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (3) if no parent of that person is then living, to a custodian selected by the Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor.

(c) Board of Directors or Board shall mean the Board of Directors of The Cheesecake Factory Incorporated.

(d) Bonus shall mean any cash incentive or other compensation, which is awarded by a Company in its discretion to a Participant as remuneration in addition to the Participant's Salary. Bonus for purposes of the Plan shall be determined without regard to any reductions (1) for any salary deferral contributions to a plan qualified under Section 125 or Section 401(k) of the Code or (2) pursuant to any deferral election in accordance with Article III of the Plan.

(e) Code shall mean the Internal Revenue Code of 1986~ as amended.

(f) Committee or Administrative Committee refers to the officers or employees of the Company who act on behalf of the Company in discharging the Company's duties as the Plan Administrator. Notwithstanding any other provision of the Plan document, any member of the Committee or any other officer or employee of the Company who exercises discretion or authority on behalf of the Company shall not be a fiduciary of the Plan merely by virtue of his or her exercise of such discretion or authority. The Company shall identify the Company officers or employees who shall serve as members of the Committee. Absent a designation to the contrary, the President shall act on behalf of the Company and the Committee. Because this Plan is a top hat arrangement, the Committee shall not be subject to the duties imposed by the provisions of Part 4 of Title I of ERISA.

(g) Company shall mean (1) The Cheesecake Factory Incorporated and (2) any corporation, partnership, limited liability company or other entity which has a business or other relationship with The Cheesecake Factory Incorporated and which, with the approval of the Committee, has elected to participate in the Plan.

(h) Company Contribution Amount shall mean an amount awarded by a Company pursuant to Section

(i) Disability means any medically determinable physical or mental impairment which, on the basis of competent medical opinion, may be expected to result in death or to be of long, continued and indefinite duration, and which renders the individual incapable of performing his or her duties for the Company which last employed such individual.

(j) Eligible Employee shall mean a member of the Board of Directors, an employee of the Company who has an annual base salary in excess of $80,000 (which sum may be adjusted by the Committee) or who is a member of a select group of management or highly compensated employees of that Company and eligible to participate in the Plan by decision of the Committee, and all General Managers and Executive Kitchen managers of full-service restaurants, regardless of base salary. Once an employee becomes an Eligible Employee such employee remains an Eligible Employee regardless if base salary fails to meet the minimum base salary in any subsequent Plan year. Employees may not elect to participate in the Plan while currently enrolled in the Company s 401(k) Plan.

(k) Initial Election Period for an Eligible Employee shall mean the latest of (1) September 24, 1999, or (2) the period ending thirty (30) days after such employee first becomes an Eligible Employee.

(l) Interest Rate shall mean, for each Investment Alternative, an amount equal to the net rate of gain or loss or appreciation or depreciation on the assets of such Investment Alternative.

(m) Investment Alternative shall mean an investment alternative selected by the Committee pursuant to Section 3.2(b).

(n) The Cheesecake Factory Incorporated shall mean The Cheesecake Factory Incorporated and any successor corporations.

(o) Open Enrollment Period for an Eligible Employee shall mean the period commencing November 1 and ending November 30 of each Plan Year after the first Plan Year.

(p) Participant shall mean any Eligible Employee who becomes a Participant in accordance with Section 2.1.

(q) Payment Eligibility Date shall mean, with respect to a Participant, the first day of the first calendar quarter following the Participant's termination of employment with the Company.

(r) Retirement Age shall mean attainment of age 60 years.

(s) Plan shall mean The Cheesecake Factory Incorporated Executive Savings Plan set forth herein, now in effect or as amended from time to time.

(t) Plan Year shall mean the 12 consecutive month period beginning on January 1, provided, however, that the first Plan Year shall be a short year beginning on October 1, 1999, and ending on December 31, 1999.

(u) Salary shall mean the Participant's director s fees or base salary paid by the Company. Salary for purposes of the Plan shall be determined without regard to any reduction (1) for any salary deferral contributions to a plan qualified under Section 125 or Section 401(k) of the Code or (2) pursuant to any deferral election in accordance with Article III of the Plan.

(v) Trust shall mean the trust referred to in Section 6.7 of the Plan.

(w) Trustee shall mean the trustee of the Trust.

(x) Year of Service shall mean, with respect to a Participant, a period of twelve consecutive months (including months prior to the time he or she was a Participant) during which he or she was employed by the Company. For purposes of the preceding sentence, a Participant shall be considered as employed by the Company during a leave of absence, but only if that leave of absence is due to short-term disability or is approved by the Company. Year of Service Condition shall occur when a Participant has 15 years of service with the Company.

(y) Year of Vesting Credit shall mean, with respect to any Company Contribution Amount for a Participant for a Plan Year (as adjusted by the rate of gain or loss or appreciation or depreciation with regard to such amount), a period of twelve consecutive months commencing during or after such Plan Year as to the amount of any Company Contribution amount for such Plan Year and during which the Participant was employed by the Company; provided, however that for any Eligible Employee who became a Participant during the first Plan Year, the first Year of Vesting Credit shall commence as of October 1, 1999 and continue until December 31, 1999. For purposes of the preceding sentence, a Participant shall be considered as employed by the Company during a leave of absence, but only if that leave of absence is due to short-term disability or is approved by that Company.

Article II
PARTICIPATION

2.1 Participation.

The Committee shall notify all Eligible Employees of their eligibility on or before October 31 of each year for the next Plan Year. Provided, however if an employee becomes an Eligible Employee prior to October 31 of any Plan Year, the committee shall use reasonable efforts to notify such employee within thirty (30) days after such employee becomes an Eligible Employee. An Eligible Employee shall become a Participant in the Plan by (1) electing to defer a portion of his or her Salary and/or Bonus in accordance with Section 3.1, or (2) being awarded a Company Contribution Amount in accordance with Section 3.2. An eligible employee or director must complete all election forms including the insurance application. Participants may be required to undergo medical underwriting. Notwithstanding any provision to the contrary herein, if in the reasonable opinion of the Company's legal counsel, or if it is determined by a judicial or administrative decision, that a Plan Participant is not an Eligible Employee or his/her status changes such that a former Eligible Employee is no longer an Eligible Employee, such individual shall cease to be a Participant, and the vested amount in his/her Accounts shall be distributed in a lump sum as soon as practicable after such determination is made or opinion is rendered.

Article III
DEFERRAL ELECTIONS AND COMPANY CONTRIBUTIONS

3.1 *Elections to Defer Salary and/or Bonus.*

(a) *Initial Election Period and Open Enrollment Period.* Subject to Section 2.1, each Eligible Employee may elect to defer Salary and/or Bonus by filing with the Committee an election that conforms to the requirements of this Section 3.1, on a form provided by the Committee, no later than the last day of his or her Initial Election Period. If the compensation deferred is subject to federal or state employment taxes, said taxes shall be withheld and deducted from a portion of the employee s compensation not deferred under the Plan. For all subsequent Plan Years, such employee may elect to defer Salary and/or Bonus by filing with the committee an election that conforms to the requirements of Section 3.1 during the Open Enrollment Period.

(b) *General Rule.* The amount of Salary and/or Bonus, which an Eligible Employee may elect to defer, is as follows:

(1) Any whole-number percentage of Salary up to 15%; and/or

(2) Any whole-number percentage of Bonus and Director s Fees up to 100%.

(3) No deferral election shall reduce a Participant s compensation below the amount necessary to satisfy the following obligations:

Applicable employment taxes (e.g., FICA/Medicare) on amounts deferred.

Benefit Plan withholding requirements.

Income tax withholding for compensation that cannot be deferred.

(c) *Minimum Deferrals.* The minimum aggregate amount that may be deferred by an Eligible Employee during a Plan Year is (1) $2,000 for the Plan's first Plan Year and (2) $5,000 for any other Plan Year. Deferring Salary and/or Bonus payable for services rendered for such Plan Year (even though such Bonus may not be paid until the next Plan Year) may satisfy such minimum. Accordingly, if no Salary is deferred for a Plan Year and the total amount of the Bonus elected to be deferred with respect to that Plan Year is in fact less than the applicable minimum amount for that Plan Year, then no portion of Bonus shall be deferred.

(d) *Effect of Initial Election.* An election to defer Salary and/or Bonus during an Initial Election Period shall be effective with respect to Salary earned during the first pay period beginning after the end of the Initial Election Period. Notwithstanding anything in of this Section 3.1 to the contrary, for the first Plan Year only, an Eligible Employee may elect, no later than the end of the Initial Election Period to defer any Bonus which is subsequently awarded in the discretion of the Company for services performed during the first Plan Year. All elections must be entered into prior to the time the compensation is earned and accrued.

(e) *Duration of Salary Deferral Election.* Any Salary deferral election made under subsection (a) or subsection (g) of this Section 3.1 shall remain in effect, notwithstanding any change in the Participant's Salary, until changed or terminated in accordance with the terms of this subsection (e). Deferral elections, once made, are irrevocable for a plan year. Subject to the minimum deferral requirement of Section 3.1(c) and the limitations of Section 3.1(b), a Participant may increase, decrease or terminate his or her Salary deferral election for subsequent Plan Year(s), effective for Salary earned during pay periods beginning after any January 1, by filing a new election, in accordance with the terms of this Section 3.1, with the Committee during the Open Enrollment Period. Deferral amounts shall be credited within five (5) business days after the deferred amount is withheld.

(f) *Duration of Bonus Deferral Election.* Any Bonus deferral election made under paragraph (a) or paragraph (g) of this Section 3.1 shall be irrevocable and, except as provided in paragraph (a), shall apply only to the Bonus payable with respect to services performed during the Plan Year for which the election is made. For each subsequent Plan Year, an Eligible Employee may make a new election, subject to the limitations set forth in this Section 3. 1, to defer a percentage of his or her Bonus. Such election shall be on a form provided by the Committee and shall be made during the Open Enrollment Period preceding the Plan Year for which the election is to apply.

(g) *Elections Other Than Elections During the Initial Election Period.* Subject to the minimum deferral requirement of paragraph (c) above, any Eligible Employee who fails to elect to defer Salary or Bonus during his or her Initial Election Period may subsequently elect to do so, and any Eligible Employee who has terminated or changed a prior Salary or Bonus deferral election may elect to do so again for any Plan Year, by filing an election, on a form provided by the Committee, to defer Salary and/or Bonus as described in subsection (b) above during the Open Enrollment Period. Except as provided in subsection (d) above an election to defer Salary and/or Bonus must be filed between the period of November 1 through November 30 and will be effective for Salary earned during pay periods beginning after the following January 1 and the Bonus paid beginning on the following January 1 with respect to services performed in said Plan Year.

3.2 *Company Contribution Amounts.*

The Company may, but is not required to, for any Plan Year award to any Eligible Employee or Eligible Employees an additional percentage of his or her Salary or other amount. The determination of whether, and what percentage or amount, to so award for a Plan Year shall be determined by the Company. With respect the first Plan Year and Second Plan Year, the Company has elected to make a Company contribution to all Eligible Employees equal to 25% of the first four percent of base salary deferred.

3.3 *Investment Elections.*

(a) For each Plan Year, the Participant shall select the amount of deferrals of Salary and/or Bonus and designate the Investment Alternatives in which amounts credited to the Participant's Account with respect to such Plan Year will be deemed to be invested for purposes of determining the amount of earnings to be credited to the Participant's Accounts. The Investment Alternatives from which the Participant shall make such designation shall be selected by the Committee. The designation shall be made on a form provided to the Participant by the Committee. The Committee may from time to time eliminate or add new Investment Alternatives and shall communicate any elimination or additions to Participants.

In making the designation pursuant to this Section 3.3, the Participant may specify that all or any multiple of the aggregate of amounts deferred and Company Contribution Amounts (in a whole-number percentage of at least 1%) be deemed to be invested in an Investment Alternative. Effective as of the end of any calendar month, a Participant may change the designation made under this Section 3.3 by filing an election, on a form provided by the Committee, at least five (5) days prior to the end of such month. Any change of designation shall specify that all or any multiple of the aggregate amounts covered by the designation being changed (in a whole-number percentage if at least one percent (1%)) are deemed to be invested in another Investment Alternative. If a Participant fails to elect an Investment Alternative under this Section 3.3, he or she shall be deemed to have elected an Investment Alternative designated by the Committee on the Investment Alternative designation form provided to the Participant. The Committee may adopt such further rules applicable to a Participant's designation or change of designation of Investment Alternatives.

(b) The Committee may, but is not required to, direct the Trustee to invest amounts credited to the Participant's Accounts in accordance with the Investment Alternative designations of the Participant. The Company may invest assets allocable to the Participant s Accounts in any manner, in any amount and for any period of time which the Company in its sole discretion may select; but the Company must credit or charge the Participant s Accounts with the same earnings, gains or losses that the Participant would have incurred if the Company had invested the assets allocable to the Participant's Accounts in the specific investments, in the specific amounts and for the specific periods directed by the Participant.

(c) The Participant understands and agrees that he or she assumes all risk in connection with any decrease in the value of the compensation deferred under the Plan and invested with these investment elections.

Article IV
ACCOUNTS

4.1 *Deferral Account.*

The Committee shall establish and maintain a Deferral Account for each Participant under the Plan. Each Participant's Deferral Account shall be further divided into separate subaccounts (Fund Subaccounts), each of which corresponds to Plan Year(s) and Investment Alternative elected by the Participant pursuant to Section 3.3 (a). A Participant's Deferral Account shall be credited as follows:

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(a) On or before 5 business days after a pay period, (or as soon thereafter as is administratively feasible) the Committee shall credit the Fund Subaccounts of the Participant's Deferral Account with an amount equal to Salary deferred by the Participant during each pay period in accordance with the Participant's election under Section 3.3(a); that is, the portion of the Participant's deferred Salary that the Participant has elected to be deemed to be invested in a certain type of fund shall be credited to the Fund Subaccount corresponding to that Investment Alternative;

(b) As of the last day of the month (or as soon thereafter as is administratively feasible) coincident with or next following the date on which the Bonus or partial Bonus would have been paid, the Committee shall credit the Fund Subaccounts of the Participant's Deferral Account with an amount equal to the portion of the Bonus deferred by the Participant's election under Section 3.3(a); that is, the portion of the Participant's deferred Bonus that the Participant has elected to be deemed to be invested in a particular Investment Alternative shall be credited to the Fund Subaccount corresponding to that Investment Alternative; and

(c) As of the last day of each month (or such additional day or days as the Committee may direct) (Valuation Date) each Fund Subaccount of a Participant's Deferral Account shall be credited with earnings or losses or appreciation or depreciation in an amount equal to that determined by multiplying the balance credited to such Fund Subaccount as of the previous Valuation Date by the Interest Rate for the Investment Alternative selected by the Participant pursuant to Section 3.3(a).

4.2 *Company Contribution Account.*

The Committee shall establish and maintain a Company Contribution Account for each Participant under the Plan. Each Participant's Company Contribution Account shall be further divided into separate Fund Subaccounts, each of which corresponds, to an Investment Alternative elected by the Participant pursuant to Section 3.3(a).

A Participant's Company Contribution Account shall be credited as follows:

(a) The Committee shall credit the Fund Subaccounts of the Participant's Company Contribution Account with an amount equal to the Company Contribution Amount, if any, applicable to that Participant pursuant to Section 3.3(a) prorata, concurrently with the crediting of salary deferrals; that is, a prorata share of the portion of the Company Contribution Amount, if any, which the Participant elected to be deemed to be invested in a certain type of Investment Alternative shall be credited to the corresponding Fund Subaccount as and when salary deferral is credited; and

(b) As of each Valuation Date, each Fund Subaccount of a Participant's Company Contribution Account shall be credited with earnings or losses or appreciation or depreciation in an amount equal to that determined by multiplying the balance credited to such Fund Subaccount as of the previous Valuation Date by the Interest Rate for the corresponding Investment Alternative selected by the Participant pursuant to Section 3.3(a).

Article V
VESTING

5.1 *Deferral Account.*

Subject to Sections 6.4 and 6.6, a Participant's Deferral Account shall be 100% vested at all times.

5.2 *Company Contribution Account.*

Subject to Section 6.6,

(a) A Company Contribution Amount awarded to a Participant for a Plan Year (as adjusted for the net rate of gain or loss or appreciation with respect to such Amount) shall vest, on a monthly basis based upon the date that a Participant s Deferral Account is credited, and become non-forfeitable as follows:

Years of Vesting Credit	PercentageVested
Less than 1	0
1	0
2	25%
3	50%
4	75%
5	100%

(b) After the second Plan Year, the Committee, in its discretion, may award a Participant a greater or lesser vesting schedule in his or her Company Contribution Account than is provided for under subsection (a).

Article VI
DISTRIBUTIONS

6.1 *Distribution of Deferred Compensation.*

(a) In the case of a Participant whose employment with the Company is terminated as the result of Disability or after the attainment of Retirement Age, or after satisfaction of the Year of Service condition, the vested portion of his or her Accounts shall be paid to the Participant in the form of substantially equal quarterly installments over 5, 10 or 15 years beginning on his or her Payment Eligibility Date (or as soon thereafter as is administratively feasible), as designated by such Participant in his/her deferral election. A Participant described in the preceding sentence may change his/her deferral election and select one of the following optional forms of distribution provided that his or her change in election is filed with the Committee at least one year prior to his or her Payment Eligibility Date:

(1) a cash lump sum payable on the Participant's Payment Eligibility Date (or as soon thereafter as is administratively feasible), or

(2) substantially equal quarterly installments over 5, 10 or 15 years beginning on the Participant s Payment Eligibility Date (or as soon thereafter as is administratively feasible).

Notwithstanding this subsection, if the value of the vested portion of the Participant's Accounts as of the most recent Valuation Date prior to the Payment Eligibility Date is $50,000 or less, then such vested portion shall automatically be distributed in the form of a cash lump sum on the Participant's Payment Eligibility Date (or as soon thereafter as is administratively feasible) regardless of the Participant's election. The Participant's Accounts shall continue to be credited with earnings pursuant to Section 4.1 of the Plan until all vested amounts credited to his or her Accounts under the Plan have been distributed. For all purposes under this Plan, a Participant shall not be considered terminated from employment if the Participant remains employed by another Company or by a member of a Company's controlled group of corporations (within the meaning of Section 414 (b) of the Code but by substituting more than 50 percent for at least 80 percent each place it appears in such section, Section 1 563(a) of the Code and the regulations under either such section) or by a member of a group of trades or businesses which are under common control (within the meaning of Section 414(c) of the Code but by substituting more than 50 percent for at least 80 percent each place it appears in such section, Section 1 563

(a) of the Code and the regulations under either such section) which includes the Company which last employed the Participant. However, if the Participant is employed by an entity which is a member of a group described in the preceding sentence and such entity ceases to be a member of such group as a result of a sale or other reorganization, such sale or other reorganization shall be treated as termination of employment unless immediately following such event and without any break in employment the Participant is employed by a Company or another entity which is a member of a group described in the preceding sentence which includes a Company and such entity assumes liability for the payment of benefits of the Participant.

(b) In the case of a Participant who terminates employment prior to Retirement Age and prior to satisfaction of the Years of Service condition (and for reasons other than Disability or death), the vested portion of the Participant's Accounts shall be paid to the Participant in the form of a cash lump sum as soon as practicable following the end of quarter in which the event of termination occurs.

(c) If so designated by the Participant in his/her election to defer, the Beneficiaries of a Participant who dies while employed by the Company may elect that amounts credited to the Participant's Accounts shall be paid to the Participant's Beneficiary in a lump sum as soon as is administratively feasible provided that such Participant designated in his/her election deferral that his/her Beneficiaries may elect a lump sum death payment. If a Participant dies after terminating employment while receiving installment payments of his or her Accounts, the balance of the Participant's Accounts will be paid to the Participant's Beneficiary in the form of a lump sum as soon as is administratively feasible.

(d) A Participant whose employment with a Company has not been terminated may change his or her form of payment applicable to the portion of the amounts credited to his or her Accounts attributable to one or more Plan Years to one of the payment forms permitted by the Plan and, in the case of any scheduled early distributions elected pursuant to Section 6.5, may defer the scheduled distribution dates in accordance with Section 6.5.

6.2 *Forfeitures.*

When a Participant terminates employment with the Company for any reason, the portion of the Participant's Company Contribution Account, which is not vested, shall be forfeited, and the Company shall have no obligation to the Participant (or his or her Beneficiary) with respect to such forfeited amount. Such forfeited amounts shall be held in a suspense account until returned to the Company, in accordance with the decision of the Committee.

6.3 *Unforeseeable Emergency Withdrawals.*

(a) The Committee may, pursuant to rules adopted by it and applied in a uniform manner, accelerate the date of distribution of all or any portion of the vested portion of a Participant's Deferral Account balance because of an unforeseeable emergency. An unforeseeable emergency means a severe financial hardship resulting from (1) a sudden and unexpected illness or accident of the Participant or his or her dependent (as defined in Section 152(a) of the Code); (2) loss of the Participant's property due to casualty; or (3) any other similar extraordinary and unforeseeable circumstances arising out of an event beyond the control of the Participant.

(b) Payment under this Section 6.3 may be made only to the extent reasonably needed to satisfy the emergency need, and may not be made to the extent such hardship is or may be relieved: (1) through reimbursement or compensation by insurance or otherwise; (2) by liquidation of the Participant's assets to the extent that the liquidation of such assets would not itself cause severe financial hardship or (3) by cessation of deferrals of Salary and/or Bonus under the Plan.

(c) Distribution pursuant to this Section 6.3 of less than the Participant's entire Deferral Account balance shall be made pro rata from the Fund Subaccounts of his or her Deferral Account according to the

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balances in such Fund Subaccounts. Subject to the foregoing, payment of any amount with respect to which a Participant has filed a request under this Section 6.3 shall be made as soon as is administratively feasible after approval of such request by the Committee.

6.4 *Unscheduled Early Distributions.*

A Participant shall be permitted to elect to withdraw amounts from his or her Deferral Account prior to termination of employment with the Company (Early Distributions) subject to the following restrictions:

(a) The election to take an Early Distribution of all or part of a Participant's Deferral Account shall be made by filing a form provided by and filed with the Committee prior to the end of any calendar month.

(b) The amount of the Early Distribution actually paid to the Participant shall in all cases equal 90% of the requested vested amount of the Early Distribution.

(c) The amount described in subsection (b) above shall be paid in a single cash lump sum as soon as practicable after the end of the calendar month in which the Early Distribution election is made.

(d) If a Participant receives an Early Distribution, 10% of the requested amount shall be permanently forfeited and the Company shall have no obligation to the Participant or his or her Beneficiary with respect to such forfeited amount. Such forfeited portion shall be disposed of in accordance with the second sentence of Section 6.2.

(e) If a Participant receives an Early Distribution, the following rules will apply for the balance of the Plan Year and for the following Plan Year: (1) the Participant will be ineligible to defer any Salary or Bonus for any part of such Plan Years and (2) the Participant will not receive any award of any Company Contribution Amount.

(f) A distribution pursuant to this Section 6.4 of less than the Participant's entire Deferral Account balance shall be made pro rata from the Fund Subaccounts of his or her Deferral Account according to the balances in such Fund Subaccounts.

6.5 *Scheduled Early Distributions.*

A Participant may elect in accordance with this Section 6.5 to have a portion of his or her Deferral Account paid on a future date while still employed, provided the payment date is at least 2 years from the date that the election form applicable to such Plan Year is received by the Committee. This election shall apply to the Salary and/or Bonus deferred for the Plan Year specified by the Participant on his or her payment election for such Plan Year and the earnings credited thereto until the payment date. A Participant may elect a different payment date for the Salary and/or Bonus deferred for each Plan Year. In addition, payment dates elected pursuant to this Section 6.5 may be deferred by at least one year, by filing with the Committee written notice at least one year prior to the payment date to be deferred. A distribution may be postponed to a later date only twice. However, the second postponement is subject to the Administrative Committee's approval. A distribution pursuant to this Section 6.5 of less than the Participant's entire Deferral Account balance shall be made pro rata from the Fund Subaccounts according to the balances in such Fund Subaccounts. Distributions shall be made in quarterly installments over a 2, 3, 4 or 5 year period as designated by the Participant provided that the total amount to be distributed as of the first distribution date equals at least $25,000. Otherwise, a lump sum distribution will be made on the first distribution date. Notwithstanding the foregoing, if a Participant terminates employment with a Company for any reason prior to the date on which a payment is scheduled to be made pursuant to this Section 6.5, the Participant's entire Deferral Account balance will be paid pursuant to the provisions of Section 6.1.

6.6 *Inability to Locate Participant.*

In the event a distribution of part or all of an Account is required to be made from the Plan to an Employee, Participant, Inactive Participant or Beneficiary, and such person cannot be located, the relevant portion of the Account shall be forfeited to the Company unless otherwise required by law. If the affected Employee, Participant, Inactive Participant or Beneficiary later contacts the Company, his or her portion of the Account shall be reinstated and distributed as soon as administratively feasible. The Company shall reinstate the amount forfeited, and allocating it to the Account of the affected Employee, Participant, Inactive Participant or Beneficiary. Prior to forfeiting any Account, the Company shall attempt to contact the Employee, Participant, Inactive Participant or Beneficiary by return receipt mail (or other carrier) at his or her last known address according to the Company s records, and, where practical, by letter-forwarding services offered through the Internal Revenue Service, or the Social Security Administration, or such other means as the Plan Administrator deems appropriate.

6.7 *Suspension of Payments Upon Company's Insolvency*.

At all times during the continuance of any trust established in connection with this Plan (Trust), if the Plan Administrator determines that the Company's financial condition is likely to result in the suspension of benefit payments from the Trust, the Plan Administrator shall advise Participants, Inactive Participants and Beneficiaries that payments from the Trust shall be suspended during the Company's insolvency. If the Trustee subsequently resumes such payments, the Administrator shall advise Participants, Inactive Participants and Beneficiaries that, if Trust assets are sufficient, the first payment following such discontinuance shall include the aggregate amount of all payments due to Participants, Inactive Participants and Beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made directly by the Company during any period of discontinuance. No insufficiency of Trust assets shall relieve the Company of its obligation to make payments when due under the Plan.

6.8 *Best Payments.*

(a) If the gross amount of any payment or benefit under this Plan, either separately or in combination with any other payment or benefit payable by the Company or any other payment or benefit payable by the Company or any of its affiliates or pursuant to a plan of the Company or an affiliate, would constitute a parachute payment within the meaning of the Code Section 280G, then the total payments and benefits accrued and payable under this Plan shall not exceed the amount necessary to maximize the amount receivable by the Employee after payment of all employment, income and excise taxes imposed on the Employee with respect to such payment or benefits.

(b) The Employee may elect by written notice which items of compensation, if any, shall be reduced so as to meet the requirements of Section 6.8 above. If there is a dispute between the Company and the Employee regarding (i) the extent, if any, to which any payments or benefits to the Employee are parachute payments or excess parachute payments, under Code Section 280G, or (ii) the base amount of such Employee's Compensation under Code Section 280G, or (iii) the status of such Employee as a disqualified individual, under Code Section 280G, such dispute shall be resolved in the same manner as a claim for benefits under this Plan.

(c) Within sixty (60) days of a Change in Control or, if later, within thirty (30) days of the Employee's receiving notice of termination of employment from the Company or the Company's receiving notice of termination of employment from the Employee, either the Employee or the Company may request (i) a determination of the amount of any parachute payment, excess parachute payment, or base amount of

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compensation, or (ii) a determination of the reduction necessary to maximize the net receipts of the Employee as described in Section 6.8 above. Any fees, costs or expenses incurred by the Employee in connection with such determinations shall be paid equally by the Employee and the Company.

6.9 *Trust.*

(a) The Cheesecake Factory Incorporated shall establish the Trust, which may be used to pay for benefits arising under this Plan.

(b) The Committee shall direct the Trustee to pay for benefits of the Participant or his or her Beneficiary at the time and in the amount described in this Article VI. In the event the amounts held under the Trust which are attributable to contributions made by or on behalf of the Company are not sufficient to provide the full amount payable to the Participant or Beneficiary, the Company shall pay for the remainder of such amount at the time set forth in Article VI.

Article VII
ADMINISTRATION

7.1 *Plan Administrator.*

The Plan Administrator shall be the Company. The Company may establish an Administrative Committee composed of any persons, including officers or employees of the Company, who act on behalf of the Company in discharging the duties of the Company in administering the Plan. No Administrative Committee member who is a full-time officer or employee of the Company shall receive compensation with respect to his or her service on the Administrative Committee. Any member of the Administrative Committee may resign by delivering his or her written resignation to the Company. The Chief Executive Officer of the Company may remove any Committee member by providing him or her with written notice of the removal. The Company shall be the administrator as defined in Section 3(16)(A) of ERISA for purposes of the reporting and disclosure requirements of ERISA and the Code. The Chief Executive Officer of the Company (CEO) or related officer of the Company shall be the agent for service of process on the Plan.

7.2 *Committee Organization and Procedures.*

(a) The CEO or related officer of the Company may designate a chairperson from the members of the Administrative Committee. The Administrative Committee may appoint a secretary, who may or may not be a member of the Administrative Committee. The secretary shall have the primary responsibility for keeping a record of all meetings and acts of the Administrative Committee and shall have custody of all documents, the preservation of which shall be necessary or convenient to the efficient functioning of the Administrative Committee. All reports required by law may be signed by the Chairperson or another member of the Administrative Committee, as designated by the Chairperson, on behalf of the Company.

(b) The Administrative Committee shall act by a majority of its members in office and may adopt such rules and regulations, as it deems desirable for the conduct of its affairs. If the Company, the Plan, any Participant or Inactive participant is or becomes subject to any rules of the Securities and Exchange Commission or any national or regional securities exchange, the Company and the members of the Administrative Committee shall take any actions which are necessary or desirable for the maintenance, modification or operation of the Plan in accordance with those rules.

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7.3 *Powers and Duties of the Committee.*

The Committee, on behalf of the Participants and their Beneficiaries, shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

(a) To select Investment Alternatives in accordance with Section 3.3(b) hereof;

(b) To construe and interpret the terms and provisions of this Plan;

(c) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;

(d) To maintain all records that may be necessary for the administration of the Plan;

(e) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;

(f) To make and publish such rules and procedures for the administration of the Plan as are not inconsistent with the terms hereof;

(g) To appoint a plan administrator or any other agent, and to delegate to such administrator or agent such powers and duties in connection with the administration of the Plan as the Committee may from time to time prescribe;

(h) To direct and instruct the Trustee to the extent The Cheesecake Factory Incorporated is authorized or required to do so under any document including with respect to investment of assets of the Trust;

(i) To take all actions set forth in this Plan document; and

(j) Employ and engage such persons, counsel and agents and to obtain such administrative, clerical, medical, legal, audit and actuarial services as it may deem necessary in carrying out the provisions of the Plan.

7.4 *Construction and Interpretation.*

The Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, which interpretation or construction shall be final and binding on all parties, including but not limited to the Company and any Participant or Beneficiary. The Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

7.5 *Information.*

To enable the Committee to perform its functions, the Company shall supply full and timely information to the Committee on all matters relating to the Salary and/or Bonus of all Participants, their death or other cause of termination of employment, and such other pertinent facts as the Committee may require.

7.6 *Indemnification.*

(a) The members of the Committee shall serve without compensation for their services hereunder.

(b) The Committee is authorized at the expense of the Company to employ such legal counsel and other agents, as it may deem advisable to assist in the performance of its duties hereunder. The Company shall pay expenses and fees in connection with the administration of the Plan.

(c) To the extent permitted by law, the Company shall, and hereby does, indemnify and hold harmless any director, officer or employee of the Company who is or may be deemed to be responsible for the operation of the Plan, from and against any and all losses, claims, damages or liabilities (including attorney's fees and amounts paid, with the approval of the Board, in settlement of any claim) arising out of or resulting from a duty, act, omission or decision with respect to the Plan, so long as such duty, act, omission or decision does not involve willful misconduct on the part of such director, officer or employee. Any individual so indemnified shall, within ten (10) days after receipt of notice of any action, suit or proceeding, notify the CEO of the Company and offer in writing to the CEO the opportunity, at the Company's expense, to handle and defend such action, suit or proceeding, and the Company shall have the right, but not the obligation, to conduct the defense in any such action, suit or proceeding. An individual's failure to give the CEO such notice and opportunity shall relieve the Company of any liability to said individual under this Section 7.6. The Company may satisfy its obligations under this provision (in whole or in part) by the purchase of insurance. Any payment by an insurance carrier to or on behalf of such individual shall, to the extent of such payment, discharge any obligation of the Company to the individual under this indemnification.

7.7 *Periodic Statements.*

Under procedures established by the Committee, a Participant shall receive a statement with respect to such Participant's Accounts as of each March 31, June 30, September 30 and December 31 or as of such additional day or days as the Committee in its discretion shall determine.

7.8 *Disputes.*

(a) A person who believes that he or she is being denied a benefit to which he or she is entitled under the Plan (hereinafter referred to as Claimant) may file a written request for such benefit with the Committee, setting forth his or her claim.

(b) Upon receipt of a claim, the Committee shall advise the Claimant that a reply will be forthcoming within ninety (90) days and shall, in fact, deliver such reply within such period. The Committee may, however, extend the reply period for an additional ninety- (90) day for special circumstances.

If the claim is denied in whole or in part, the Committee shall inform the Claimant in writing, using language calculated to be understood by the Claimant, setting forth: (1) the specific reason or reasons for such denial; (2) the specific reference to pertinent provisions of the Plan on which such denial is based; (3) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation why such material or such information is necessary; (4) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (5) the time limits for requesting a review under subsection (c).

(c) Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may make a request in writing for review of the determination of the Committee. Such request must be addressed to the Committee. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Committee. If the Claimant does not request a review within such sixty- (60) day period, he or she shall be barred and stopped from challenging the Committee's determination.

(d) Within sixty (60) days after the Committee's receipt of a request for review, the Board shall appoint a special review committee, none of whose members shall be members of the Committee, to review the request after considering all materials presented by the Claimant. The special review committee will inform the Claimant in writing, in a manner calculated to be understood by the Claimant, of its decision setting forth the specific reasons for the decision and containing specific references to the pertinent provisions of the Plan on which the decision is based. If special circumstances require that the sixty (60) day time period be extended, the special review committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review. The decision shall be final and binding upon the Claimant and the Plan Administrator and all other persons having or claiming to have an interest in the Plan or in any Account established under the Plan.

7.9 *Arbitration.*

(a) Any Participant's, Inactive Participant's or Beneficiary's claim remaining unresolved after exhaustion of the procedures in Section 7.8 (and to the extent permitted by law any dispute concerning any breach or claimed breach of duty regarding the Plan) shall be settled solely by binding arbitration at the Employer's principal place of business at the time of the arbitration, in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment on any award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Each party to any dispute regarding the Plan shall pay the fees and costs of presenting his, her or its case in arbitration. All other costs of arbitration, including the costs of any transcript of the proceedings, administrative fees, and the arbitrator's fees shall be paid by the Plan Administrator.

(b) Except as otherwise specifically provided in this Plan, the provisions of this Section 7.9 shall be absolutely exclusive for any and all purposes and fully applicable to each and every dispute regarding the Plan including any claim which, if pursued through any state or federal court or administrative proceeding, would arise at law, in equity or pursuant to statutory, regulatory or common law rules, regardless of whether such claim would arise in contract, tort or under any other legal or equitable theory or basis. The arbitrator who hears or decides any claim under the Plan shall have jurisdiction and authority to award only Plan benefits and prejudgment interest; and apart from such benefits and interest, the arbitrator shall not have any authority or jurisdiction to make any award of any kind including, without limitation, compensatory damages, punitive damages, foreseeable or unforeseeable economic damages, damages for pain and suffering or emotional distress, adverse tax consequences or any other kind or form of damages. The remedy, if any, awarded by such arbitrator shall be the sole and exclusive remedy for each and every claim, which is subject to arbitration pursuant to this Section 7.9. Any limitations on the relief that can be awarded by the arbitrator are in no way intended (i) to create rights or claims that can be asserted outside arbitration or (ii) in any other way to reduce the exclusivity of arbitration as the sole dispute resolution mechanism with respect to this Plan.

(c) The Plan and the Company will be the necessary parties to any action or proceeding involving the Plan. No person employed by the Company, no Participant, Inactive Participant or Beneficiary or any other person having or claiming to have an interest in the Plan will be entitled to any notice or process, unless such person is a named party to the action or proceeding. In any arbitration proceeding all relevant statutes of limitation shall apply. Any final judgment or decision that may be entered in any such action or proceeding will be binding and conclusive on all persons having or claiming to have any interest in the Plan.

Article VIII
MISCELLANEOUS

8.1 *Unsecured General Creditor.*

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Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Company or the Trust. Any and all of a Company's assets and the Trust assets which are attributable to amounts paid into the Trust by the Company shall be, and remain, the general unpledged, unrestricted assets of the Company, which shall be subject to the claims of the Company's general creditors. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of The Cheesecake Factory Incorporated that the Plan (and the Trust described in Section 6.9) be unfunded for purposes of the Code and for purposes of Title I of the Employee Retirement Income Security Act of l 974, as amended.

8.2 *Restriction Against Assignment.*

The Committee shall direct payment of all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any Participant, Beneficiary or successor in interest have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Committee shall direct

8.3 *Withholding.*

There shall be deducted from each payment made under the Plan or any other compensation payable to the Participant or Beneficiary all taxes, which are required to be withheld by a Company in respect to such payment. The Company shall have the right to reduce any payment (or compensation), and the Committee shall have the right to direct reduction of any payment, by the amount of cash sufficient to provide the amount of said taxes.

8.4 *Amendment, Modification, Suspension or Termination.*

The Committee, may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination shall have any retroactive effect to reduce any vested amounts allocated to a Participant's Accounts. In the event that this Plan is terminated, the vested amounts allocated to a Participant's Accounts shall be distributed to the Participant or, in the event of his or her death, his or her Beneficiary, in a lump sum within thirty (30) days following the date of termination. This Plan shall terminate immediately if a court of competent jurisdiction determines that this Plan is not exempt from the fiduciary provisions of Part 4 of Title I of ERISA. The Plan shall terminate as of the date it ceased to be exempt.

8.5 *Governing Law.*

This Plan shall be construed, governed and administered in accordance with applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, and, to the extent not preempted by applicable federal law, the laws of the State of California.

8.6 *Receipt or Release.*

Any payment to a Participant or the Participant's Beneficiary in accordance with the provisions of the Plan shall to the extent thereof, be in full satisfaction of all claims arising under, or with respect to, the Plan against the Committee and the Company. The Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

8.7 *Limitation of Rights.*

Nothing in this Plan document or in any related instrument shall cause this Plan to be treated as a contract of employment within the meaning of the Federal Arbitration Act, 9 U.S.C. 1 et seq., or shall be construed as evidence of any agreement or understanding, express or implied, that the Company (a) will employ any person in any particular position or level of compensation, (b) will offer any person initial or continued participation or awards in any commission, bonus or other compensation program, or (c) will continue any person's employment with the Company.

8.8 *Correction of Errors.*

Any crediting of compensation or interest accruals to the account of any Employee, Participant, Inactive Participant or Beneficiary under a mistake of fact or law shall be returned to the Company. If an Employee, Participant, Inactive Participant or Beneficiary in an application for a benefit or in response to any request by the Company or the Plan Administrator for information, makes any erroneous statement, omits any material fact, or fails to correct any information previously furnished incorrectly to the Company or the Plan Administrator, or if the Plan Administrator makes an error in determining the amount payable to an Employee, Participant, Inactive Participant or Beneficiary, the Company or the Plan Administrator may correct its error and adjust any payment on the basis of correct facts. The amount of any overpayment or underpayment may be deducted from or added to the next succeeding payments, as directed by the Plan Administrator. The Plan Administrator and the Company reserve the right to maintain any action, suit or proceeding to recover any amounts improperly or incorrectly paid to any person under the Plan or in settlement of a claim or satisfaction of a judgment involving the Plan.

8.9 *Status of Participants.*

In accordance with Revenue Procedure 92-65 Section 3.01(d), this Plan hereby provides:

(a) Employees, Participants and Inactive Participants under this Plan shall have the status of general unsecured creditors of the Company;

(b) This Plan constitutes a mere promise by the Company to make benefit payments in the future;

(c) Any trust to which this Plan refers (i.e., any trust created by the Company and any assets held by the trust to assist the Company in meeting its obligations under the Plan) shall conform to the terms of the model trust described in Revenue Procedure 92-64; and

(d) It is the intention of the parties that the arrangements under this Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

8.10 *Change in Control.*

Notwithstanding anything contained in this Plan, in the event of a Change in Control as defined in the Trust executed concurrently herewith, the provisions of the Trust with respect to the actions to be taken in the event of a Change in Control shall prevail over the terms and conditions set forth in this Plan, specifically including, without limitation, Trust Sections 1.8, 1.10, 1.12. 2.4, 2.5, 3.2(n), 4.6, 4.7, 6.1, 6.2 , 7.2 and 10.11. The Change in Control provisions (Section 7.2) with respect to amendment of the Plan and Trust shall become effective upon the occurrence of any Potential Change in Control (as defined in the Trust), but in the event a Change in Control does not occur pursuant to such Potential Change in Control within one year of the event constituting a Potential Change in Control, then such provisions shall no longer apply. In the event a Change in Control does occur, the provisions of the Plan and Trust with respect to Change in Control shall apply to the period from and after the Change in Control. Notwithstanding anything contained in this Plan and the Trust, and notwithstanding any election made by any Participant, all deferral elections with respect to either Salary or Bonus for all future earnings shall terminate and be of no force and effect upon a Change in Control.

8.11 *Employee and Spouse Acknowledgment.*

By executing this Plan document or related enrollment or election form, each Participant and, if a Participant is married, such Participant's spouse hereby acknowledge that each of them has read and understood this Plan document. Participant and his or her spouse also acknowledge that they knowingly and voluntarily agree to be bound by the provisions of the Plan, as amended from time to time, including those Plan provisions, which require the resolution of disputes by binding out-of-court arbitration, which the Participant acknowledges is a waiver of any right to a jury trial. Participant and his or her spouse further acknowledge that they have had the opportunity to consult with counsel of their own choosing with respect to all of the financial, tax and legal consequences of participating in this Plan, including in particular the effects of participation on any community property or other interest which the Participant's spouse may have in the compensation deferred under this Plan.

IN WITNESS WHEREOF, The Cheesecake Factory Incorporated has caused the Plan to be executed effective as of October 1, 1999.

THE CHEESECAKE FACTORY INCORPORATED

By: */S/ DAVID OVERTON*

David Overton
Its: President and Chief Executive Officer

By: */S/ JERRY DEITCHLE*

Jerry Deitchle
Its: Executive Vice President and Chief Financial Officer

The Cheesecake Factory Inc.

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EXHIBIT 10.19

FIRST AMENDMENT TO THE CHEESECAKE FACTORY INCORPORATED EXECUTIVE SAVINGS PLAN

This First Amendment to The Cheesecake Factory Incorporated Executive Savings Plan, is effective as of December 1, 2000.

RECITALS

1. The Cheesecake Factory Incorporated (the "Company") established an unfunded deferred compensation plan entitled The Cheesecake Factory Executive Savings Plan (the "Plan"), with an effective date of October 1, 1999.

2. All capitalized terms used in this First Amendment shall have the meaning giving such term in the Plan.

3. The Administrative Committee of the Plan, by unanimous decision desires to amend Section 6.1(c) of the Plan, effective December 1, 2000, in order to provide more flexibility in the method of distribution of payments to beneficiaries of deceased Participants in the Plan.

AMENDMENT

The Plan is hereby amended by deleting Section 6.1(c) of the Plan in its entirety and replacing such section with the following:

If so designated by the Participant in his/her election to defer, the Beneficiaries of a Participant who dies while employed by the Company may elect that amounts credited to the Participant's Accounts shall be paid to the Participant's Beneficiary in a lump sum as soon as is administratively feasible provided that such Participant designated in his/her election deferral that his/her Beneficiaries may elect a lump sum death payment. If a Participant dies either before or after terminating employment and while receiving installment payments of his or her Accounts, the balance of the Participant's Accounts will be paid to the Participant's Beneficiary in the form of a lump sum as soon as is administratively feasible; provided, however, if the remaining balance of such a deceased Participant's account equals or exceeds $50,000, then within sixty (60) days of the death of such Participant, his/her Beneficiary may elect to continue installment payments over either 5, 10, or 15 years by written election to the Plan Administrator.

Except as herein modified, all other terms and conditions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed as of this 1st day of December, 2000.

The Cheesecake Factory Incorporated

By: */S/ DAVID OVERTON*

David Overton

Its: President and Chief Executive Officer

CFA 0462

By: */S/ GERALD W. DEITCHLE*

Gerald W. Deitchle

Its: Executive Vice President and Chief Financial Officer

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EXHIBIT NO. 10.20

SECOND AMENDMENT TO THE CHEESECAKE FACTORY INCORPORATED EXECUTIVE SAVINGS PLAN

This Second Amendment to The Cheesecake Factory Incorporated Executive Savings Plan, is effective as of October 1, 2001.

A. RECITALS

1. The Cheesecake Factory Incorporated (the "Company") established an unfunded deferred compensation plan entitled The Cheesecake Factory Executive Savings Plan, with an effective date of October 1, 1999.

2. The Company amended The Cheesecake Factory Executive Savings Plan, by a First Amendment, effective December 1, 2000 (collectively, the "Plan").

3. All capitalized terms used in this Second Amendment shall have the meaning given such term in the Plan.

4. The Administrative Committee of the Plan, by unanimous decision, desires to further amend the Plan, effective October 1, 2001, in order to clarify, amend and provide (a) an increase in the Salary eligibility requirements and maximum Salary deferral for Participants; (b) reduce the minimum Salary and Bonus deferral for newly Eligible Employees, pro rata, based upon the number of full calendar months remaining in the Plan Year during which such employee first becomes eligible; (c) in the event a hardship withdrawal request is authorized by the Administrative Committee, the Participant granted such withdrawal request is precluded from contributing to the Plan for the reminder of the Plan Year during which the withdrawal is made; (d) the date upon which a distribution to a terminated Employee shall be made (other than in the case of death or disability); and (e) the form of distributions available upon the death of a Participant.

B. AMENDMENT

The Plan is hereby amended in the following respects:

1. Section 1.2 (j). Section 1.2(j) of the Plan is deleted in its entirety and replaced by the following:

   1.2(j) Eligible Employee shall mean a member of the Board of Directors, an employee of the Company who earns an annual base salary in excess of $85,000 (which sum may be adjusted from time to time by the Committee) or who is a member of a select group of management or highly compensated employees of that Company and eligible to participate in the Plan by decision of the Committee, and all General Managers and Executive Kitchen managers of full-service restaurants, regardless of base salary. Once an employee becomes an Eligible Employee, such employee remains an Eligible Employee regardless if their base salary fails to meet the minimum base salary in any Plan Year. Employees may not elect to participate in the Plan while currently enrolled in the Company's 401(k) Plan.

2. Section 3.1(b)(1). Section 3.1(b)(1) is deleted in its entirety and replaced with the following:

   3.1(b)(1) Any whole-number percentage of salary up to twenty-five percent (25%).

3. Section 3.1(c). Section 3.1(c) is deleted in its entirety and replaced by the following:

3.1 *(c) Minimum Deferrals.*

(i) The minimum aggregate amount ("Minimum Plan Year Deferral") that may be deferred by an Eligible Employee during a Plan Year is (1) $2,000 for the Plan's first Plan Year, and (2) $5,000 for any other Plan Year. Notwithstanding the foregoing, for the first Plan Year after Plan Year 1999 during which an employee becomes an Eligible Employee, the Minimum Plan Year Deferral that may be deferred by such employee shall be reduced to an amount equal to $5000 multiplied by a fraction, the numerator of which is the total number of full calendar months remaining in the Plan Year following the date that such employee first became an Eligible Employee, and the denominator of which is 12. For example, if an employee first becomes an Eligible Employee on May 12th of any Plan Year after 1999, the Minimum Plan Year Deferral applicable to such employee for such Plan Year shall be $2500 (i.e., $5000 multiplied by 6/12).

(ii) In calculating whether or not a Participant has elected to defer a sufficient amount to satisfy the Minimum Plan Year Deferral, an election to defer either Salary and/or Bonus payable for services rendered for such Plan Year (even though such Bonus is not payable until the next Plan Year) may be used to satisfy such Minimum Plan Year Deferral. If a Participant does not elect to defer any Bonus, the Minimum Plan Year Deferral must be satisfied solely by deferred Salary. Accordingly, if less than the Minimum Plan Year Deferral is deferred in Salary, or no Salary is deferred for a Plan Year, and the total amount of the Bonus elected to be deferred with respect to that Plan Year (plus deferred Salary, if any) is determined to be less than the applicable Minimum Plan Year Deferral required for that Plan Year, then no portion of such Bonus shall be deferred. However, the election to defer Salary shall be deemed to be satisfied, even if the total aggregate deferral, after Bonus is determined, is less, in fact, than the Minimum Plan Year Deferral for such year. For example, if a Participant elects to defer $3000 in Salary and ten percent (10%) of Bonus, but ultimately receives Bonus equal to only $10,000 for that Plan Year, the election to defer $3000 in Salary shall be irreversible; however, no Bonus shall be deferred since the aggregate deferral elected by such Participant is less than the Minimum Plan Year Deferral.

(iii) The Administrative Committee shall not be required to accept any election to defer Salary in an amount less than the Minimum Plan Year Deferral if the Participant fails to also elect to defer a portion of Bonus for that Plan Year, such that the aggregate elected deferral of Bonus and Salary is in an amount reasonably anticipated to be sufficient to satisfy the Minimum Plan Year Deferral requirement.

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3. Section 6.1(b). Section 6.1(b) is deleted in its entirety and replaced with the following:

   6.1 (b) In the case of a Participant who terminates employment prior to Retirement Age and prior to satisfaction of the Years of Service condition (and for reasons other than Disability or death), the vested portion of the Participant's Accounts shall be paid to the Participant in the form of a cash lump sum payment, less applicable employment taxes and withholdings, on or before the later of thirty (30) days after the date of termination of employment or the last day of the calendar quarter in which the date of termination occurs.

4. Section 6.1(c). Section 6.1(c) of the Plan is deleted in its entirety and replaced with the following:

   6.1(c). If a Participant dies, either before or after terminating employment, and regardless whether or not such Participant is receiving installment payments of his or her Accounts at the date of death, the vested balance of such Participant's Accounts will be distributed to the Participant's Beneficiary in a lump sum; provided, however, if the remaining vested Account balances at the date of death exceed $50,000, in the aggregate, then the Participant's beneficiary may petition the Committee, within sixty (60) days of the date of death and prior to the lump sum distribution from such Account(s), to receive the vested balance of the deceased Participant's account(s) in quarterly installments, over five (5), ten (10), or fifteen (15) years. The Committee, in its sole discretion, may grant or deny such request.

5. Section 6.3. Section 6.3 is amended by adding the following provision as a new Section 6.3(d):

6.3(d). If a Participant receives a hardship withdrawal under this Section 6.3, the Participant will be ineligible to defer any Salary or Bonus for the balance of the Plan Year in which the hardship withdrawal occurs and will not receive an award of any Company Contribution Amount for that Plan Year.

Except as herein modified, all other terms and conditions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Second Amendment to be executed as of this 1st day of October, 2001.

The Cheesecake Factory Incorporated

By: */S/ DAVID OVERTON*

David Overton

Its: President and Chief Executive Officer

By: */S/ GERALD W. DEITCHLE*

Gerald W. Deitchle

Its: Executive Vice President and Chief Financial Officer

EX-10.21 6 d58694_ex10-21.htm MATERIAL CONTRACTS

EXHIBIT 10.21

THIRD AMENDMENT TO THE CHEESECAKE FACTORY INCORPORATED EXECUTIVE SAVINGS PLAN

This Third Amendment to The Cheesecake Factory Incorporated Executive Savings Plan, is effective as of January 1, 2003.

A. RECITALS

1. The Cheesecake Factory Incorporated (the "Company") established an unfunded deferred compensation plan entitled The Cheesecake Factory Executive Savings Plan, with an effective date of October 1, 1999.

2. The Company amended The Cheesecake Factory Executive Savings Plan, by a First Amendment, effective December 1, 2000 and a Second Amendment, effective October 1, 2001 (collectively, the "Plan").

3. All capitalized terms used in this Third Amendment shall have the meaning given such term in the Plan.

4. The Administrative Committee of the Plan, by unanimous decision, desires to further amend the Plan, effective January 1, 2003, in order to clarify, amend and provide (a) an increase in the Salary eligibility requirements and maximum Salary deferral for Participants.

B. AMENDMENT

The Plan is hereby amended in the following respects:

1. Section 1.2 (j). Section 1.2(j) of the Plan is deleted in its entirety and replaced by the following:

1.2(j) Eligible Employee shall mean a member of the Board of Directors, an employee of the Company who earns an annual base salary in excess of the Highly Compensated Employees definition in code Sec. 414(Q), as amended from time to time by the IRS, including with respect to cost-of-living adjustments (for 2003 this amount is defined to be $90,000), or who is a member of a select group of management or highly compensated employees of that Company and eligible to participate in the Plan by decision of the Committee, and all General Managers and Executive Kitchen managers of full-service restaurants, regardless of base salary. Once an employee becomes an Eligible Employee, such employee remains an Eligible Employee regardless if their base salary fails to meet the minimum base salary in any Plan Year. Employees may not elect to participate in the Plan while currently enrolled in the Company's 401(k) Plan.

Except as herein modified, all other terms and conditions of the Plan shall remain in full force and effect.

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IN WITNESS WHEREOF, the Company has caused this Second Amendment to be executed as of this 1st day of January, 2003.

By: */S/ GERALD W. DEITCHLE*

Gerald W. Deitchle

Its: President and Chief Financial Officer

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CFA 0468

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EXHIBIT 10.22

The Cheesecake Factory Incorporated has entered into an indemnification agreement with each of its directors and officers substantially and materially in the form as follows:

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is made and entered into as of the ____ day of ________, ____, by and between THE CHEESECAKE FACTORY INCORPORATED, a Delaware corporation (the "Corporation"), and_______________, an individual ("Officer"), with reference to the following:

RECITALS

A. Officer is ____ of The Cheesecake Factory Incorporated, a Delaware corporation serving in such position at the request of the Corporation.

B. The Certificate of Incorporation of the Corporation, filed with the Delaware Secretary of State on February 13, 1992, (the "Certificate"), provides that the Corporation shall indemnify all directors and officers of the Corporation to the fullest extent permitted by the State Statutes (as hereinafter defined) and that a director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

C. The Board of Directors of the Corporation has adopted Bylaws (the "Bylaws") providing for the indemnification of the officers and directors of the Corporation pursuant to Section 145 of the Delaware Corporation Law, as amended to date (the "State Statue(s)").

D. Such Bylaws and State Statutes specifically provide that they are not exclusive, and thereby contemplate that contracts may be entered into between the Corporation and members of its Board of Directors with respect to indemnification of such officers and directors.

E. The Board of Directors, by unanimous written consent dated September 17, 1992, has resolved that it is in the best interests of the Corporation to obtain Directors and Officers Liability Insurance ("D & O Insurance") in amounts determined by the Chief Executive Officer of the Corporation and with limits customary for the size and nature of the Corporation.

F. In order to induce Officer to continue to serve as ____ of the Corporation, the Corporation has determined and agreed to enter into this Agreement with Officer.

AGREEMENT

NOW, THEREFORE, in consideration of the Officer's continued service as an officer of the Corporation after the date hereof, the parties hereto agree as follows:

1. *Indemnity*. The Corporation hereby agrees to hold harmless and indemnify Officer to the fullest extent permitted by law, as soon as practicable but in any event no later than thirty days after written demand to the Corporation, against any and all costs, charges, Expenses (including attorneys' fees), judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) actually and reasonably incurred by Officer in connection with any threatened, pending or completed action,

suit or proceeding, or any inquiry or investigation, whether conducted by the Corporation or by any other party, that the Officer in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other ("Claim") (including an action by or in the right of the Corporation) to which Officer is, was or at any time becomes a party to, or witness or other participant in, or is threatened to be made a party to, or witness or other participant in, by reason of the fact that Officer is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise or relating to anything done or not done by the Officer in any such capacity ("Indemnifiable Event"). If so requested by the Officer, the Corporation shall advance (within two business days of such request) any and all Expenses ("Expense Advance"). "Expenses" shall mean attorneys' fees and other costs, expenses, and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including an appeal), or preparing to defend, be a witness in or participate in any Claim.

2. *Limitations on Additional Indemnity.* Notwithstanding the foregoing, no indemnity pursuant to Section 1 hereof shall be paid by the Corporation:

(a) in respect to remuneration paid to Officer if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law; and

(b) on account of Officer's conduct which is finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct.

3. *Liability Insurance.* The Corporation shall maintain an insurance policy or policies providing directors' and officers' liability insurance and Officer shall be covered by such policy or policies, in accordance with its or their terms, in amounts determined by the Chief Executive Officer of the Corporation and with limits customary for the size and nature of the Corporation.

4. *Continuation of Indemnity.* All agreements and obligations of the Corporation contained herein shall continue during the period Officer is a director, officer, employee or agent of the Corporation (or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and shall continue thereafter so long as Officer shall be subject to any Claim resulting from an Indemnifiable Event, and such agreements and obligations shall inure to the benefit of the heirs, executors and administrators of Officer.

5. *Notification and Defense of Claim.* Within a reasonable time after receipt by Officer of notice of the commencement of any action, suit or proceeding, Officer will, if a claim in respect thereof is to be made against the Corporation under this Agreement, notify the Corporation of the commencement thereof, but the omission so to notify the Corporation will not relieve it from any liability which it may have to Officer otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Officer notifies the Corporation of the commencement thereof:

(a) the Corporation will be entitled to participate therein at its own expense; and

(b) except as otherwise provided below, to the extent that it may wish, the Corporation jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel satisfactory to Officer. After notice from the Corporation to Officer of its election so to assume the defense thereof, the Corporation will not be liable to Officer under this Agreement for any legal or other expenses subsequently incurred by Officer in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Officer shall have the right to employ its counsel in such action, suit or proceeding, but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of Officer unless: (i) the employment of counsel by Officer has been authorized by the Corporation; (ii) Officer shall have reasonably concluded that there may be a conflict of interest between the Corporation and Officer in the conduct of the defense of such action; or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Corporation. The Corporation shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Corporation or as to which Officer shall have made the conclusion provided for in (ii) above.

6. *Expenses Payable in Advance.* Expenses incurred by Officer in defending any Claim shall be paid by the Corporation in advance of the final disposition of such Claim in accordance with Section 1 hereof, upon receipt of an undertaking by or on behalf of Officer to repay such amount, in accordance with Section 7 hereof, if it shall ultimately be determined that Officer is not entitled to be indemnified by the Corporation.

7. *Repayment of Expenses*. Officer agrees that Officer will reimburse the Corporation for all reasonable expenses paid the Corporation in defending any Claim against Officer in the event and only to the extent that it shall be ultimately determined that Officer is not entitled to be indemnified by the Corporation for such expenses under the provisions of the State Statute, Certificate, the Bylaws, this Agreement or otherwise.

8. *Period of Limitations.* No legal action shall be brought and no cause of action shall be asserted by or on behalf of the Corporation or any affiliate of the Corporation against Officer or Officer's spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Corporation or its affiliates shall be extinguished and deemed released unless asserted by timely filing of a legal action within such two-year period; provided, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

9. *Additional Rights.* The rights of Officer hereunder shall be in addition to any other rights Officer may have under the Corporation's Certificate and Bylaws, as in effect on the date hereof, and the State Statutes or otherwise. To the extent that a change in Delaware General Corporation Law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Corporation's Certificate, Bylaws or this Agreement, it is the intent of the parties hereto that the Officer shall enjoy by virtue of this Agreement the greater benefits so afforded by such change.

10. *Enforcement.*

(a) The Corporation expressly confirms and agrees that it has entered into this Agreement and assumes the obligations imposed on the Corporation hereby in order to induce Officer to continue as a director and/or officer of the Corporation, and acknowledges that Officer is relying upon this Agreement in continuing in such capacity.

(b) In the event that Officer is required to bring any action to enforce rights or to collect moneys due under this Agreement and is successful in such action, the Corporation shall reimburse Officer for all of Officer's reasonable fees and expenses in bringing and pursuing such action.

11. *Governing Law.* This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware without regard to conflicts of law principles.

12. *Modifications or Waivers*. No modification, supplement, or amendment of this Agreement or of any covenant, condition, or limitation herein contained shall be valid unless the same is made in writing and duly executed by the parties hereto. No waiver of any covenant, condition, or limitation herein contained shall be valid unless the same is made in writing and duly executed by the party making the waiver.

13. *Counterparts.* This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

14. *Rule of Construction.* Each party and counsel for each party have reviewed this Agreement. The parties hereto hereby agree that the normal rule of construction which requires a court to resolve any ambiguities

against the drafting party shall not apply in interpreting this Agreement.

15. *Severability*. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the other provisions hereof which shall continue in full force and effect.

16. *Entire Agreement*. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter contained herein and supersedes all prior and contemporaneous written or oral agreements, representations, and understandings of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

The Corporation:

THE CHEESECAKE FACTORY INCORPORATED,
a Delaware corporation

By: ______________________________

DAVID OVERTON
Chairman of the Board and Chief Executive Officer

Officer:

By: ______________________________

____

EX-11 8 d58694_ex11.htm STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

EXHIBIT 11

STATEMENT REGARDING COMPUTATION OF NET INCOME PER SHARE

	Fiscal Year		
	2003	**2002**	**2001**
	(in thousands, except per share data)		
Net Income Per Common Share–Basic			
Weighted average shares outstanding	50,422	49,266	47,466
Net income	$57,836	$49,075	$39,309
Net income per share–basic	$ 1.15	$ 1.00	$ 0.83
Net Income Per Common Share–Diluted			
Weighted average shares outstanding	50,422	49,266	47,466
Net effect of dilutive stock options based on the treasury stock method using average market price	1,426	1,892	2,431
Total shares outstanding for computation of per share earnings	51,848	51,158	49,897
Net income	$57,836	$49,075	$39,309
Net income per share–diluted	$ 1.12	$ 0.96	$ 0.79

CFA 0473

EX-14 9 d58694_ex14.htm MATERIAL CONTRACTS

EXHIBIT 14.0

The Board of Directors of The Cheesecake Factory Incorporated adopted the Code of Ethics for Senior Financial Officers dated May 12, 2003 in the form as follows:

THE CHEESECAKE FACTORY INCORPORATED

CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

(Adopted May 12, 2003)

ARTICLE I

Statements of Purpose and Applicability

The Board of Directors of The Cheesecake Factory Incorporated (the "Company") has established this Code of Ethics for the purpose of deterring wrongdoing and promoting:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and other public communications of the Company;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting to the audit committee of the Company's Board of Directors (the "Audit Committee") of violations of this Code of Ethics; and
- Accountability for adherence to this Code of Ethics.

This Code of Ethics applies to the Company's Chief Executive Officer, Chief Financial Officer, and Vice President – Finance and Controller who are the Company's principal executive, financial and accounting officers, respectively (individually a "Senior Financial Officer" and collectively "Senior Financial Officers"). The provisions contained in this Code of Ethics are designed to serve as guidelines for our Senior Financial Officers in the performance of their duties on behalf of the Company. Accordingly, this Code of Ethics does not create any new rights in any employee, customer, supplier, competitor, shareholder or any other person or entity.

ARTICLE II

Administration

The Audit Committee shall administer this Code of Ethics and shall determine, or shall designate appropriate individuals to determine, appropriate action in response to violations of this Code. However, it is the individual responsibility of each Senior Financial Officer to comply with this Code of Ethics.

ARTICLE III

CFA 0474

Standards

It is the policy of the Company to comply with all applicable laws, regulations, and judicial and administrative orders. The Company expects that each of its Senior Financial Officers will obey all such laws, regulations and orders when acting on behalf of the Company. The Company expects that each of its Senior Financial Officers shall in the performance of his or her duties:

- Engage in honest and ethical conduct in accordance with prevailing standards of business conduct; and
- Deal fairly with the Company's customers, suppliers, competitors and employees in accordance with prevailing standards of business conduct.

ARTICLE IV

Conflicts of Interest

1. *Transactions and Investments*. A Senior Financial Officer should avoid participating in any transaction or investment that conflicts with, or gives the appearance of a conflict with, the interests of the Company.

2. *Use of Position or Company Property or Information*. A Senior Financial Officer shall not use his or her position or the Company's property or information for personal gain or the personal gain of members of his or her family or a business in which he or she has a material financial interest.

3. *Competition with the Company*. A Senior Financial Officer shall not compete directly with the Company while serving as an officer of the Company, if such competition causes injury to or has a substantial detrimental effect on the Company.

4. *Business Opportunities*. A Senior Financial Officer shall not appropriate any business opportunity belonging to the Company while serving as an officer of the Company. The following factors should be considered when considering whether a business opportunity belongs to the Company:

- The relationship between the Company's line of business and the business opportunity;
- The Company's financial ability to take the business opportunity;
- The availability of the business opportunity to the Company;
- Whether the business opportunity entails competition with the Company;
- The capacity in which the business opportunity was presented to the Senior Financial Officer;
- The Company's interest or expectancy of the Company in the business opportunity;
- Whether the Senior Financial Officer utilized the Company's resources in pursuing the opportunity; and
- The practical advantage to the Company of the business opportunity.

5. *Prompt Disclosure of Potential Conflicts*. A Senior Financial Officer shall promptly disclose to the Audit Committee any transaction or investment that is the subject of, or could be construed as the subject of, this Article IV.

ARTICLE V

Compliance with Company Policies and Procedures

1. *Confidential Information.* A Senior Financial Officer shall maintain the confidentiality of the Company's confidential information and any confidential information of third parties in accordance with the Company's confidentiality policies and any confidentiality agreements entered into by the Company.

2. *Policy Prohibiting Insider Trading.* A Senior Financial Officer shall observe the Company's policy prohibiting trading on the basis of material, non-public information.

3. *Public Company Reporting.* A Senior Financial Officer shall observe the Company's disclosure controls and procedures for filings made with the Securities and Exchange Commission.

4. *Other Policies and Procedures.* A Senior Financial Officer shall observe the Company's policies and procedures prohibiting retaliation, discrimination or harassment.

ARTICLE VI

Reporting and Consequences of Violations

1. *Reporting of Violations.* A Senior Financial Officer shall report promptly to the Audit Committee any violations or suspected violations of this Code of Ethics.

2. *No Retaliation.* The Company shall not discharge, demote, suspend, threaten, harass, or in any other manner discriminate against any employee in the terms of conditions of employment because of any lawful act done by the employee:

(a) to provide information, cause information to be provided, or otherwise assist in an investigation regarding any conduct which the employee reasonably believes constitutes a violation or a suspected violation of this Code of Ethics, any law, rule, regulation or judicial order including, without limitation, Federal mail fraud statutes, any rule or regulation of the Securities and Exchange Commission, or any provision of Federal law relating to fraud against shareholders (a "Violation"), and in particular when the information or assistance is provided to or the investigation is conducted by –

(i) A Federal or state regulatory or law enforcement agency;

(ii) Any member of Congress or any committee of Congress;

(iii) A person with supervisory authority over the employee (or such other person working for the employer who is designated or has the authority to investigate, discover, or terminate misconduct); or

(b) to file, cause to be filed, testify, participate in, or otherwise assist in a proceeding filed or about to be filed (with knowledge of the Company) relating to an alleged Violation.

3. *Waivers.* The provisions of this Code of Ethics may be waived only by the Board of Directors, the Audit Committee, or other committee of the Board of Directors to which the Board of Directors has delegated such authority. The Company may not waive the provisions of Section 2 of this Article VI.

4. *Consequences of Violation.* Violations of this Code of Ethics shall subject the Senior Financial Officer

to disciplinary action, including, without limitation, suspension, demotion or discharge.

Compliance Certification

I have read and understand the Company's Code of Ethics for Senior Financial Officers. I agree that I will comply with this Code. I agree that violations of the code will subject me to disciplinary action, including, without limitation, suspension, demotion or discharge. I understand that nothing in this Code of Ethics should be construed to be a promise of employment for any specified term or duration.

I certify that I am not currently in violation of the Code of Ethics for Senior Financial Officers.

Dated: ______ __, 200_.

____

Name

EX-21.0 10 d58694_ex21-0.htm SUBSIDIARIES OF THE REGISTRANT

EXHIBIT 21.0

LIST OF SUBSIDIARIES:

The Cheesecake Factory Restaurants, Inc., a California corporation

The Cheesecake Factory Bakery Incorporated, a California corporation

The Cheesecake Factory Assets Co. LLC, a Nevada limited liability company

C.F.I. Promotions Co. LLC, a Colorado limited liability company

C.F.R.I. Asset Holdings LLC, a Nevada limited liability company

C.F.R.I. Texas Restaurants LP, a Texas limited partnership

The Houston Cheesecake Factory Corporation, a Texas corporation

Cheesecake Factory Restaurants of Kansas LLC

Grand Lux Cafe LLC, a Nevada limited liability company

CFA 0478

EX-23.0 11 d58694_ex23-0.htm CONSENTS OF EXPERTS AND COUNSEL

EXHIBIT 23.0

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File Nos. 033-88414, 333-33173, 333-87070 and 333-64464) of The Cheesecake Factory Incorporated of our report dated February 3, 2004 relating to the consolidated financial statements, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Los Angeles, California
March 4, 2004

EX-31.1 12 d58694_ex31-1.htm CERTIFICATIONS REQUIRED UNDER SECTION 302

EXHIBIT 31.1

THE CHEESECAKE FACTORY INCORPORATED

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, David Overton, certify that:

1. I have reviewed this annual report on Form 10-K of The Cheesecake Factory Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)4 and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 4, 2004

/s/ DAVID OVERTON

David Overton
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

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CFA 0481

EX-31.2 13 d58694_ex31-2.htm CERTIFICATIONS REQUIRED UNDER SECTION 302

EXHIBIT 31.2

THE CHEESECAKE FACTORY INCORPORATED

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Michael J. Dixon, certify that:

1. I have reviewed this annual report on Form 10-K of The Cheesecake Factory Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)4 and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 4, 2004

/s/ MICHAEL J. DIXON

Michael J. Dixon
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

CFA 0482

CFA 0483

EX-32.1 14 d58694_ex32-1.htm CERTIFICATIONS REQUIRED UNDER SECTION 906

EXHIBIT 32.1

THE CHEESECAKE FACTORY INCORPORATED

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of The Cheesecake Factory Incorporated (the "Company") on Form 10-K for the period ended December 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Overton, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID OVERTON

David Overton
Chairman of the Board and
Chief Executive Officer

EX-32.2 15 d58694_ex32-2.htm CERTIFICATIONS REQUIRED UNDER SECTION 906

EXHIBIT 32.2

THE CHEESECAKE FACTORY INCORPORATED

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of The Cheesecake Factory Incorporated (the "Company") on Form 10-K for the period ended December 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Dixon, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL J. DIXON

Michael J. Dixon
Senior Vice President and
Chief Financial Officer

10kWIZARD
SEC POWER SEARCH

FORM 10-K

CHEESECAKE FACTORY INCORPORATED - CAKE

Filed: April 04, 2005 (period: December 28, 2004)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10–K

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

For the fiscal year ended December 28, 2004

or

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

Commission File Number 0–20574

THE CHEESECAKE FACTORY INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**51–0340466** (IRS Employer Identification No.)
26950 Agoura Road **Calabasas Hills, California** (Address of principal executive offices)	**91301** (Zip Code)

Registrant's telephone number, including area code: (818) 871–3000

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
Preferred Stock Purchase Rights

Indicate by check mark whether the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S–K (Section 229.405 of this chapter) 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 this Form 10–K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as determined 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 business day of the second fiscal quarter, June 29, 2004, was $1,940,146,982 (based on the last reported sales on the Nasdaq Stock Market on that date). As of April 1, 2005, 78,096,591 shares of the Registrant's Common Stock, $.01 par value per share, were outstanding.

Documents Incorporated by Reference

Part III of this Form 10–K incorporates by reference information from the Registrant's Proxy Statement for the 2005 Annual Meeting of Stockholders to be held on May 24, 2005.

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PART I

ITEM 1: BUSINESS

Restatement of Financial Statements

We have restated the Consolidated Balance Sheet at December 30, 2003 and the Consolidated Statements of Income, Stockholders' Equity and Cash Flows for the years ended December 30, 2003 and December 31, 2002 in this Annual Report on Form 10–K (see Note 1 of the Notes to Consolidated Financial Statements in Item 8 of this report). We have also restated the quarterly financial information for fiscal 2003 and the first three quarters of fiscal 2004 (see Note 15 to Notes to Consolidated Financial Statements in Item 8 of this report). The impact of the restatements on periods prior to 2002 has been reflected as an adjustment to retained earnings as of January 1, 2002 in the accompanying Consolidated Statement of Stockholders' Equity. We have also restated the applicable financial information for fiscal 2000, 2001, 2002 and 2003 in Item 6 of this report. The restatement corrects our historical accounting for operating leases and the treatment of leasehold improvements and landlord construction allowances related to these operating leases. The restatement adjustments had no impact on revenues, comparable store sales, or net cash flows of the Company.

We did not amend our previously filed Annual Reports on Form 10–K or Quarterly Reports on Form 10–Q for the restatement since none of the differences in the prior years' financial statements are considered by management to be material. However, we determined the cumulative adjustment for the above corrections to be significant to the 2004 fourth quarter results and, therefore, restated the prior quarterly and annual information included in this Annual Report on Form 10–K. Accordingly, readers of the financial statements should read the restated information in this Annual Report on Form 10–K as opposed to the previously filed information. Throughout this Form 10–K, all referenced amounts for prior periods and prior period comparisons reflect the balances and amounts on a restated basis.

General

As of April 1, 2005, The Cheesecake Factory Incorporated (referred to herein as the "Company" or in the first person notations "we", "us" and "our") operated 92 upscale, full–service, casual dining restaurants under The Cheesecake Factory® mark in 26 states and the District of Columbia. We also operated five upscale full–service casual dining restaurants under the Grand Lux Cafe® mark in Houston, Texas; Dallas, Texas; Chicago, Illinois; Los Angeles, California and Las Vegas, Nevada; and one self–service, limited menu "express" foodservice operation under The Cheesecake Factory Express® mark inside the DisneyQuest® family entertainment center in Orlando, Florida. We also operated a bakery production facility in Calabasas Hills, California that produces baked desserts and other products for our restaurants and for other foodservice operators, retailers and distributors. We also licensed three bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator. When referred to herein, the term "restaurants" includes both The Cheesecake Factory and Grand Lux Cafe full–service restaurant concepts, unless otherwise noted, and excludes the one "express" location, the three licensed bakery cafes and the bakery production facility, unless otherwise noted.

Our Cheesecake Factory restaurants offer approximately 200 menu items including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches, omelets and desserts, including approximately 40 varieties of cheesecake and other baked desserts (See "The Cheesecake Factory Restaurant Concept and Menu"). Grand Lux Cafe is an upscale, casual dining concept that we created and are evaluating for future expansion (see "The Grand Lux Cafe Restaurant Concept and Menu"). In contrast to many chain restaurant operations, substantially all of our menu items (except desserts manufactured at our bakery production facility) are prepared on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate prices. Our restaurants possess a distinctive, contemporary design and decor that creates a high–energy ambiance in a casual setting. Our restaurants currently range in size from 5,400 to 20,500 interior square feet, provide full liquor service and are generally open seven days a week for lunch and dinner, as well as Sunday brunch. Total restaurant sales represented 94.5%, 94.5% and 92.5% of our total revenues for fiscal 2004, 2003 and 2002, respectively.

We believe that our ability to select suitable locations and operate successful restaurants, coupled with the continuing popularity of our restaurant concepts with consumers, is reflected in our average food and beverage sales per restaurant which we believe are among the highest of any publicly–held restaurant company. Average sales per restaurant open for the full year were approximately $11.1 million, $10.8 million and $10.9 million for fiscal 2004, 2003 and 2002, respectively. Since each of our restaurants has a customized layout and differs in size, another way that we measure sales productivity is by average sales per productive square foot. Average sales per productive square foot (defined as interior plus seasonally–adjusted patio square feet) for restaurants open for the full year were approximately $976 for fiscal 2004, $971 for fiscal 2003 and $1,000 for fiscal 2002. Average sales per operating week for restaurants open for the full year were $213,900, $208,100 and $210,400 for fiscal 2004, 2003 and 2002, respectively. Our average sales metrics for a given fiscal year can be impacted by a number of factors, including the average size of restaurants open during the year. The estimated average productive square feet for restaurants open the full year were 12,500, 12,300 and 12,000 for fiscal 2004, 2003 and 2002, respectively. Generally, our smaller restaurants are slightly more productive than our larger restaurants on a per square foot basis.

We believe that the viability of The Cheesecake Factory concept has been successfully demonstrated in a variety of site layouts, trade areas and markets across the United States. Accordingly, we intend to continue developing Cheesecake Factory restaurants in high profile locations within densely populated areas in both existing and new markets. In addition to expanding The Cheesecake Factory concept, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant and bakery operations, which may include new restaurant concepts such as Grand Lux Cafe or other restaurant concepts and new bakery product lines and distribution channels. In order to facilitate our expansion strategy, we plan to continue building our operating and corporate support infrastructure to focus on achieving optimal leverage and efficiencies in all of our operations.

During fiscal 2004, we opened 14 restaurants under The Cheesecake Factory mark and two restaurants under the Grand Lux Cafe mark. We currently plan to open as many as 18 full–service restaurants during 2005, consisting of approximately fifteen Cheesecake Factory locations and as many as two to three Grand Lux Cafe locations. Five new Cheesecake Factory locations have opened as of April 1, 2005. As in past years, most of our potential restaurant openings for fiscal 2005 will likely occur during the second half of the year. Based on information available as of April 1, 2005, we currently expect to open as many as one, three and nine new restaurants during the second, third and fourth quarters of fiscal 2005, respectively. However, it is difficult for us to precisely predict the timing of our new restaurant openings due to many factors that are outside of our control. See "New Restaurant Site Selection and Development." In addition to the five restaurants that have already opened during fiscal 2005, six leases and several letters of intent have been signed for potential restaurant openings during fiscal 2005 and 2006.

Our business operations originated in 1972 when Oscar and Evelyn Overton founded a small bakery in the Los Angeles area. Their son, David Overton, led the creation and opening of the first Cheesecake Factory restaurant in Beverly Hills, California in 1978. Although our restaurant operations have grown substantially during recent years, we remain in the business of creating and marketing branded and private–label bakery products to other foodservice operators, retailers and distributors ("bakery sales") in order to leverage our brand identity with consumers and to take advantage of excess bakery production capacity. Bakery sales represented 5.5%, 5.5% and 7.5% of our total revenues for fiscal 2004, 2003 and 2002, respectively.

In February 1992, our Company was incorporated in Delaware to succeed the restaurant and bakery businesses of its predecessors operating under The Cheesecake Factory mark. Our initial public offering of common stock was completed in September 1992. Follow–on public offerings were completed in January 1994 and November 1997. Our executive offices are located at 26950 Agoura Road, Calabasas Hills, California 91301, and our telephone number is (818) 871–3000.

The Company maintains a website at www.thecheesecakefactory.com. We make available on our website, free of charge, our annual reports on Form 10–K, quarterly reports on Form 10–Q, current reports on Form 8–K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

Restaurant Competitive Positioning

Following are the key elements of our restaurant competitive positioning:

Extensive, Creative and Contemporary Menu and Bakery Product Offerings. Our restaurants offer a wide variety of items, including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches, omelets and desserts. Our menus are generally updated twice each year to respond to changing consumer dining preferences and trends. Our bakery production facility produces over 50 varieties of quality cheesecake and other baked desserts, of which approximately 40 varieties are offered at any one time in Cheesecake Factory restaurants.

High Quality Products. Substantially all menu items (except the desserts manufactured at the Company's bakery production facility) are prepared daily on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We use high quality dairy and other raw ingredients in our bakery products.

Exceptional Value. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate price points. The estimated average check per Cheesecake Factory restaurant guest, including beverages and desserts, was approximately $16.60, $16.09 and $15.78 for fiscal 2004, 2003 and 2002, respectively.

Commitment to Excellent Service and Hospitality. Our goal is to consistently exceed the expectations of every restaurant guest in all facets of the dining experience. We believe that our restaurant–level employee recruitment, selection, training and incentive programs allow us to attract and retain qualified employees who are motivated to provide consistent excellence in guest hospitality.

Flexible Kitchen Capabilities and Operating Systems. Our restaurants have been strategically designed with sufficient capacity, equipment and operating systems to allow for the successful preparation and delivery of an extensive, contemporary and flexible menu which requires multiple food preparation and cooking methods executed simultaneously.

Distinctive Restaurant Design and Decor. Our restaurants have a distinctive contemporary design and decor that creates a high–energy, "non–chain" image and upscale ambiance in a casual setting. Whenever possible, outdoor patio seating is also incorporated in the design of the restaurants, thus allowing for additional restaurant capacity (weather permitting) at a comparatively low occupancy cost per seat.

High Profile Restaurant Locations and Flexible Site Layouts. We generally locate our restaurants in high profile locations within densely populated areas with a balanced mix of residences, businesses, shopping and entertainment outlets. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop near each of our restaurants. We have the flexibility to design our restaurants to accommodate a wide variety of urban and suburban site layouts, including multi–level locations.

Commitment to Selecting, Training, Rewarding, and Retaining High Quality Employees. We believe our employee recruitment and selection criteria are among the most rigorous in the restaurant industry. By providing extensive training and innovative compensation programs, we believe our employees develop a sense of personal commitment to our core values and culture of excellence in restauranteuring and guest hospitality. We believe these programs have resulted in employee turnover rates that are generally lower than the average for the restaurant industry.

The Cheesecake Factory Restaurant Concept and Menu

The Cheesecake Factory restaurant concept strives to provide a distinctive, high quality dining experience at moderate prices by offering an extensive, creative and evolving menu in an upscale, high–energy casual setting with efficient, attentive and friendly service. As a result, our Cheesecake Factory restaurants appeal to a diverse customer base. The Cheesecake Factory's extensive menu enables us to compete for substantially all dining preferences and occasions, including not only lunch and dinner, but also the mid–afternoon and late–night dayparts, which are traditionally weaker dayparts for most casual dining restaurant operations. Cheesecake Factory restaurants are not open for breakfast, but do offer Sunday brunch. All of our restaurants are open seven days a week. All items on the menu, including approximately 40 varieties of cheesecake and other quality baked desserts, may be purchased for off–premise consumption, which we believe represents approximately 7–8% of our current restaurant sales.

Our menu currently consists of approximately 19 pages and features approximately 200 items including appetizers, pizza, seafood, steaks, chicken, burgers, specialty items, pastas, salads, sandwiches, omelets and desserts, including approximately 40 varieties of cheesecake and other baked desserts. Examples of menu offerings include Tex–Mex Eggrolls, Roadside Sliders, Crusted Chicken Romano, Shrimp Scampi, Cajun Jambalaya Pasta, Santa Fe Salad, Orange Chicken and Steak Diane. Menu items (except those desserts manufactured at our bakery production facility) are prepared daily on the restaurant premises with high quality, fresh ingredients using innovative and proprietary recipes. We consider the extensive selection of items on our menu to be an important factor in the differentiation of our restaurants from our competitors. In the majority of our Cheesecake Factory restaurants, menu entrees range in price from $7.95 to $26.95. Appetizers range in price from $4.50 to $10.95, and desserts range from $3.95 to $7.50.

One of our competitive strengths is the ability to anticipate consumer dining and taste preferences and adapt our menu to the latest trends in food consumption. We create new menu items to keep pace with changing consumer tastes and preferences and regularly update our ingredients and cooking methods to improve the quality and consistency of our food offerings. Generally every six months, we review the appeal and pricing of all of our menu items and typically update or replace as many as five to fifteen of the items. All new menu items are tested and selected based on uniqueness, estimated sales popularity, preparation technique and profitability.

Our ability to create, promote and attractively display our unique line of baked desserts is also important to the competitive positioning and financial success of our restaurants. We believe that our brand identity and reputation for offering high quality desserts results in a higher percentage of dessert sales relative to that of most chain restaurant operators. Dessert sales represented approximately 15% of total Cheesecake Factory restaurant sales for fiscal 2004, 2003 and 2002.

Each restaurant maintains a full–service bar where appetizers or the full menu may also be purchased. The sale of alcoholic beverages represented approximately 13% of total Cheesecake Factory restaurant sales for fiscal 2004, 2003 and 2002. We believe the majority of our alcoholic beverage sales occur with meal purchases.

We place significant emphasis on the unique interior design and decor of our restaurants, which results in a higher investment per square foot of restaurant space than is typical for the restaurant industry. However, each of our restaurants has historically generated annual sales per square foot that is also typically higher than other competitors in the industry. We believe that our stylish restaurant design and decor package contributes to the distinctive dining experience enjoyed by our guests. Each restaurant features large, open dining areas and a contemporary kitchen design featuring exhibition cooking. Six restaurants offer banquet facilities. Approximately three–fourths of our restaurants offer outdoor patio seating (weather permitting), and three of our restaurants overlook waterfronts which complement the overall dining experience. Approximately 18% of our total estimated productive seating capacity is located on outdoor patios, which can be subject to underutilization from time to time due to adverse or unseasonable weather conditions. The table and seating layouts of our restaurants are flexible, permitting tables and seats to be easily rearranged to accommodate large groups or parties, thus permitting more effective utilization of seating capacity.

The Grand Lux Cafe Restaurant Concept and Menu

In May 1999, we opened our first Grand Lux Cafe at the Venetian Resort–Hotel–Casino in Las Vegas, Nevada. Grand Lux Cafe is an upscale, casual dining concept that offers unique American and international cuisine selections in an elegant but relaxed atmosphere. The menu at Grand Lux Cafe offers approximately 150 menu items including appetizers, pasta, seafood, steaks, chicken, burgers, salads, specialty items and made–to–order desserts. Examples of specialty menu offerings include Chicken Venetian, Seared Rare Ahi Tuna Salad and Miso Glazed Salmon. Menu entrees currently range in price from $7.95 to $29.95. Appetizers range in price from $4.95 to $11.95 and desserts range from $5.95 to $7.50. A full–service bar and bakery are also included in the concept. Our location in the Venetian Resort–Hotel–Casino is open 24 hours a day and also serves a breakfast menu with items priced from $2.25 to $16.95. Based upon the initial success of the concept in Las Vegas, we have opened additional Grand Lux Cafes in Los Angeles, Chicago, Dallas and Houston. The estimated average check per restaurant guest at our Grand Lux Cafe locations outside of Las Vegas was approximately $17.45 during fiscal 2004.

Comparable sales for our Las Vegas, Los Angeles and Chicago Grand Lux Cafe locations increased approximately 12% during fiscal 2004. We continue to refine Grand Lux Cafe's menu and operations in order to prepare the concept for future growth. We currently plan to open as many as two to three additional Grand Lux Cafes during fiscal 2005. While we are optimistic that Grand Lux Cafe has the opportunity to become a profitable second growth vehicle for our restaurant operations, there are inherent risks with expanding any new restaurant concept that has not yet proven its long–term financial viability. These risks include, but are not limited to, consumer acceptance, recruiting and training qualified staff members and achieving an acceptable return on investment.

Existing Restaurant Locations

As of April 1, 2005, we operated 92 full–service restaurants under The Cheesecake Factory mark in 26 states and the District of Columbia. We also operated five Grand Lux Cafe restaurants and one self–service, limited menu "express" operation at DisneyQuest® in Orlando under The Cheesecake Factory Express mark. Additionally, we licensed three bakery cafes under The Cheesecake Factory Bakery Cafe mark to another foodservice operator. The following table sets forth information with respect to our Company–operated full–service restaurant locations as of April 1, 2005:

Existing Company–Operated Full–Service Restaurant Locations by State

State	The Cheesecake Factory	Grand Lux Cafe	Total
Alabama	1		1
Arizona	4		4
California	22	1	23
Colorado	3		3
District of Columbia	1		1
Florida	12		12
Georgia	3		3
Hawaii	1		1
Illinois	4	1	5
Indiana	1		1
Iowa	1		1
Kansas	1		1
Maryland	2		2
Massachusetts	3		3
Minnesota	1		1
Missouri	2		2
Nevada	2	1	3
New Jersey	3		3
New York	3		3
North Carolina	2		2
Ohio	3		3
Pennsylvania	2		2
Rhode Island	1		1
Texas	7	2	9
Virginia	4		4
Washington	2		2
Wisconsin	1		1
Total	92	5	97

New Restaurant Site Selection and Development

We believe the locations of our restaurants are critical to our long–term success and, accordingly, we devote significant time and resources to analyzing each prospective site. Since The Cheesecake Factory concept can be successfully executed within a variety of site locations (urban or suburban shopping malls, retail strip centers, office complexes and entertainment centers – either freestanding or in–line) and layouts (single or multi–level, generally from 7,000 to 20,000 square feet), we can be highly selective and flexible in choosing suitable locations. In general, we currently prefer to open our restaurants at high profile sites within larger metropolitan areas with dense population and above–average household incomes. While our restaurants typically share common interior decor elements, the layout of each restaurant is customized to accommodate different types of buildings and different square feet of available space. In addition to carefully analyzing demographic information for each prospective site, we consider other factors such as visibility, traffic patterns and general accessibility; the availability of suitable parking; the proximity of residences and shopping areas, office parks and tourist attractions; the degree of competition within the trade area; and the general availability of restaurant–level employees. In contrast to many "theme" restaurant operations that rely heavily on tourist traffic, our restaurants principally rely on the visit frequency and loyalty of consumers who work, reside or shop in each of our trade areas.

Historically, our new restaurant development model has more closely resembled that of a retail business that occupies leased space in shopping malls, office complexes, strip centers, entertainment centers and other real estate developments (the "retail lease" development model). While we expect the retail lease development model to continue as our principal development approach, we also expect to open more freestanding restaurants. We generally lease our restaurant locations for primary periods of 15 to 20 years. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum base rent and contingent (percentage) rent based on restaurant sales. We are also responsible for our proportionate share of common area maintenance (CAM), insurance, property tax and other occupancy–related expenses under our leases. Many of our leases provide for maximum allowable annual percentage or fixed dollar increases in CAM and insurance expenses to enable us to better predict and control future variable lease costs. Our sales volumes generally have been in excess of the threshold for percentage rent payments at substantially all of our restaurant locations that are subject to leases with percentage rent payment provisions. We expend cash for leasehold improvements and furnishings, fixtures and equipment to build out our leased premises. We may also expend cash for structural additions that we make to leased premises that will be reimbursed to us by our landlords as construction contributions pursuant to agreed–upon terms in our leases. If obtained, landlord construction contributions usually take the form of up–front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. However, there can be no assurance that such contributions will be available for every potential location that we seek to develop into a new restaurant. We are also developing freestanding restaurant locations using both ground leases and built–to–suit leases, which are commonly used to finance freestanding locations in the restaurant industry. We own substantially all of the equipment in our restaurants and currently plan to do so in the future.

We believe the relatively high and consistent sales productivity of our restaurants provides opportunities to obtain suitable leasing terms from landlords. Due to the uniquely flexible and customized nature of our restaurant operations and the complex design, construction and preopening processes for each new location, our lease negotiation and restaurant development timeframes vary. The development and opening process generally ranges from six to eighteen months after lease signing, depending largely on the availability of the leased space we intend to occupy, and can be subject to delays outside of our control. The number and timing of new restaurants actually opened during any given period, and their associated contribution to operating week growth for the period, will depend on a number of factors including, but not limited to, the identification and availability of suitable locations and leases; the availability of suitable financing to us and our landlords; the timing of the delivery of the leased premises to us from our landlords so that we can commence our build–out construction activities; the ability of our landlords and us to timely obtain all necessary governmental licenses and permits to construct and operate our restaurants; any labor shortages or disputes experienced by our landlords or our outside contractors; any unforeseen engineering or environmental problems with the leased premises; weather conditions that interfere with the construction process; our ability to successfully manage the design, construction and preopening processes for each restaurant; the availability of suitable restaurant management and hourly employees; and general economic conditions. While we attempt to manage those factors within our control, we have experienced unforeseen delays in restaurant openings from time to time in the past and could experience such delays in the future. Most other chain restaurant operations have a greater ability to predict the timing of their new openings as a result of their ability to acquire and control the underlying real estate for their locations and/or they have smaller, more standardized restaurant layouts that are less difficult and time consuming to construct and open when compared to our larger, more upscale and highly customized leased locations.

New Restaurant Sales and Investment Characteristics

Since each of our restaurants has a customized layout and differs in size, we believe an effective method to measure the unit economics of our concepts is by square foot. Average sales per productive square foot for our restaurants open during the entire period were approximately $976 for fiscal 2004, $971 for fiscal 2003 and $1,000 for fiscal 2002. Our average sales per productive square foot for a given fiscal year can be impacted by a number of factors, including the average size of restaurants open during that year. Generally, our smaller restaurants are slightly more productive than our larger restaurants on a per square foot basis. The estimated average productive square feet for restaurants open the full year were 12,500, 12,300 and 12,000 for fiscal 2004, 2003 and 2002, respectively.

We currently lease space for each of our restaurants and are required to expend cash for leasehold improvements and furnishings, fixtures and equipment to build out the leased spaces which is targeted, on average, from $500 to $550 per square foot for Cheesecake Factory restaurants (excluding preopening costs). The construction costs to build out our leased spaces vary geographically. Additionally, our investment cost per square foot will also vary from restaurant to restaurant, depending on the complexity of our build–out of the leased space. We typically seek to obtain construction contributions from our landlords for structural additions that we make to the leased premises. If obtained, landlord construction contributions usually take the form of up–front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. Such contributions vary from lease to lease, depending on the scope of construction activities and other factors. While we have been generally successful in obtaining landlord construction contributions in the past, there can be no assurance that such construction contributions will be available in similar amounts, if at all, for every potential location we seek to develop into a new restaurant. In addition, we may also seek lease arrangements that do not include construction contributions from our landlords in exchange for lower or zero percentage rent. However, there can be no assurance that such lease arrangements will be available for any potential locations we seek to develop into a new restaurant.

On average, we target between a 2.0 and 2.5 to 1 sales–to–net cash investment ratio and an approximate 50% net cash–on–cash return for Cheesecake Factory restaurant locations when they reach their mature run–rate levels of sales and profitability. Maturation periods vary from restaurant to restaurant, but generally range from two to five years. The initial ROI performance targets for new concepts such as Grand Lux Cafe will typically be lower than the average for an established, highly productive concept such as The Cheesecake Factory, since the first few locations for new concepts are typically in a refinement stage for a period of time. These cash–based performance targets for the Company's restaurant operations do not consider field supervision and corporate support expenses; exclude non–cash items such as depreciation expense; exclude income taxes and do not represent a targeted return on an investment in the Company's common stock. If we select a potential restaurant location for acquisition and development, the actual performance of the location may differ from its originally targeted performance. There can be no assurance that any new restaurant opened will have similar operating results to those of established restaurants.

It is common in the restaurant industry for new locations to initially open with sales volumes well in excess of their sustainable run–rate levels. This initial "honeymoon" effect usually results from grand opening publicity, promotional and other consumer awareness activities that generate abnormally high customer traffic, particularly in new markets for our concepts. During the several months following the opening of new restaurants, customer traffic will generally settle into its normal pattern, thus resulting in sales volumes that gradually adjust downward to their expected sustained run–rate level. Many Cheesecake Factory restaurant openings have experienced a "honeymoon" sales period where sales may initially be 20% to 40% higher than their expected run–rate level. Additionally, our new restaurants usually require a 90–120 day period after opening to reach their targeted restaurant–level operating margin due to cost of sales and labor inefficiencies commonly associated with new, complex casual dining restaurants. As a result, a significant number of restaurant openings in any single fiscal quarter, accompanied with their associated preopening costs, could have a significant impact on our consolidated results of operations for that fiscal quarter. Therefore, our results of operations for any single fiscal quarter are not necessarily indicative of the results to be expected for any other fiscal quarter nor for a full fiscal year.

Preopening Costs for New Restaurants

Preopening costs include incremental out–of–pocket costs that are directly related to the openings of new restaurants and are not otherwise capitalizable. As a result of the highly customized and operationally complex nature of our upscale, high volume concepts, the preopening process for our new restaurants is more extensive, time consuming and costly relative to that of most chain restaurant operations. The preopening cost for one of our restaurants usually includes costs to relocate and compensate an average of 11–12 restaurant management employees prior to opening; costs to recruit and train an average of 200–250 hourly restaurant employees; wages, travel and lodging costs for our opening training team and other support employees; costs for practice service activities; and straight–line minimum base rent during the in–restaurant training period. Preopening costs will vary from location to location depending on a number of factors, including the proximity of our existing restaurants; the size and physical layout of each location; the number of management and hourly employees required to operate each restaurant; the relative difficulty of the restaurant staffing process; the cost of travel and lodging for different metropolitan areas; and the extent of unexpected delays, if any, in obtaining final licenses and permits to open the restaurants, which may also be dependent upon our landlords obtaining their licenses and permits, as well as completing their construction activities, for the properties that our leased premises are located within.

Our direct preopening cost for an 11,000 square foot, single–story Cheesecake Factory restaurant in an established market averages approximately $775,000. There will also be other preopening costs allocated to each restaurant opening, including costs for corporate travel and support activities. Preopening costs will usually be higher for larger restaurants, our initial entry into new markets and for new concepts such as Grand Lux Cafe. During fiscal 2005, we plan to open as many as two to three Grand Lux Cafe restaurants that could experience direct preopening costs of approximately $825,000 each. We usually incur the most significant portion of preopening costs for a typical restaurant opening within the two–month period immediately preceding and the month of the restaurant's opening. Preopening costs will fluctuate from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant, and the fluctuations could be significant. We expense preopening costs as incurred. Based on our current growth objectives for fiscal 2005 and 2006, preopening costs for each of those years will likely exceed the respective amount of preopening costs for the applicable prior year, due to the increased number of new restaurants planned to be opened in those fiscal years compared to the applicable prior year.

Restaurant Expansion Objectives

We believe that the viability of The Cheesecake Factory restaurant concept has been successfully demonstrated in a variety of site layouts, trade areas and markets across the United States. Accordingly, we intend to continue developing Cheesecake Factory restaurants in high profile locations within densely populated areas in both existing and new markets. In addition to expanding The Cheesecake Factory concept, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant operations, which may include new restaurant concepts such as Grand Lux Cafe or other concepts.

We currently expect to open as many as 18 new restaurants during fiscal 2005, of which five have already opened as of April 1, 2005. As in past years, most of our potential restaurant openings for fiscal 2005 will likely occur during the second half of the year. Based on information available as of April 1, 2005, we currently expect to open as many as one, three and nine new restaurants during the second, third and fourth quarters of fiscal 2005, respectively. However, it is difficult for us to precisely predict the timing of our new restaurant openings due to many factors that are outside of our control. See "New Restaurant Site Selection and Development". In addition to the five restaurants that have opened during 2005 as of April 1, 2005, six leases and several letters of intent have been signed as of April 1, 2005 for potential restaurant openings during fiscal 2005 and 2006. The following table sets forth information with respect to future restaurant locations under development as of April 1, 2005 for which leases have been signed:

Future Restaurants with Signed Leases

Palm Beach Gardens, Florida	Henderson, Nevada
Louisville, Kentucky	Westlake, Ohio
Burlington, Massachusetts	Nashville, Tennessee

We are currently negotiating additional leases for potential future locations that could open during fiscal 2005 and 2006. From time to time, we will evaluate opportunities to acquire and convert other restaurant locations to The Cheesecake Factory and Grand Lux Cafe concepts. However, we currently have no binding commitments (other than the signed leases set forth in the table above) or agreements to acquire or convert any other restaurant locations to our concepts.

We generally select high profile locations for our upscale, highly customized casual dining restaurants. We believe that our large, highly customized restaurants that are usually located in high profile sites generally draw their guests from a much larger geographical area compared to most casual dining chain restaurants. The sizes of our restaurant trade areas vary from location to location, depending on a number of factors such as population density, retail traffic generators and geography. As a result, the opening of a new restaurant could impact the sales of one or more of our nearby restaurants. It is not our intention to open new restaurants that materially and permanently cannibalize the sales of our existing restaurants. However, as with most growing retail and restaurant chain operations, there can be no assurance that sales cannibalization will not inadvertently occur or become more significant in the future as we gradually increase our presence in existing markets over time to maximize our competitive position and financial performance in each market.

We developed a bakery cafe format during fiscal 1997 to extend The Cheesecake Factory brand and provide a potential additional source of operating leverage for our bakery production facility. As of April 1, 2005, there were three licensed bakery cafe outlets in operation that range in size from 250 to 2,000 square feet and feature many of our unique desserts and a limited selection of beverages, sandwiches and salads in a self-service format. The first bakery cafe opened in July 1997 in the Ontario Mills shopping mall complex near Los Angeles, followed by the opening of two kiosk-type outlets in August 1997 located in the Ronald Reagan National Airport in Arlington County, Virginia. A third licensed bakery cafe opened at the MacArthur Center in Norfolk, Virginia in August 1999. All bakery cafes are currently operated by HMSHost, formerly known as Host Marriott Services Corporation, under licensing agreements with us. The Cheesecake Factory Express is currently the exclusive foodservice operator for the DisneyQuest® family entertainment center located in Orlando, Florida. DisneyQuest® features innovative, interactive technologies together with Disney characters to create an entertainment adventure for families and guests of all ages. Our Company-operated foodservice operation in DisneyQuest® consists of a limited selection of The Cheesecake Factory's quality menu items and desserts in a self-service format. We have no current plans to develop and operate any additional bakery cafe or express operations, as we are currently focused on expanding our full-service restaurant concepts.

Restaurant Operations and Management

Our ability to consistently and correctly execute a made–from–scratch, complex menu in an upscale, high volume casual dining environment is critical to our overall success. Detailed operating procedures, standards, controls, food line management systems, and cooking methods and processes are utilized at our restaurants to accommodate our extensive menu and facilitate our sales productivity. However, the successful day–to–day operation of our restaurants remains critically dependent on the quality, ability, dedication and enthusiasm of the general manager, executive kitchen manager and all other management and hourly employees working at each restaurant.

Excluding The Cheesecake Factory restaurant in the Forum Shops and the Grand Lux Cafe restaurant located in Las Vegas (which are both open 365 days a year), our restaurants are open every day of the year except Thanksgiving and Christmas. Hours of operation are generally from 11:00 a.m. to 11:00 p.m., except on weekends when most of our restaurants stay open past midnight, and on Sunday when our restaurants open at 10:00 a.m. for brunch. Our Grand Lux Cafe restaurant located in Las Vegas is open 24 hours a day. Outdoor patio seating is available (weather permitting) at approximately three–fourths of our restaurants.

We believe that the high average sales volumes and popularity of our restaurants allow us to attract and retain higher quality, experienced restaurant–level management and other operational personnel. We also believe our restaurants have experienced a lower level of employee turnover than the restaurant industry in general. Each full–service restaurant is typically staffed with one general manager, one executive kitchen manager and from six to eighteen additional kitchen and front–of–the–house management personnel, depending on the size and sales volume of each restaurant. On average, general managers possess at least two years of experience with us and typically have at least five additional years of management experience with other foodservice operators. All newly recruited restaurant management personnel complete an extensive 12 week training program during which they receive both classroom and on–the–job instruction in food quality and preparation, customer service, alcoholic beverage service, liquor liability avoidance, financial management and cost controls, risk management, employee relations and our core values and culture of superior guest hospitality. We also provide our restaurant managers with detailed manuals covering food and beverage standards and the proper operation of our restaurants. We are committed to operational excellence in every component of our restaurant operations.

Efficient, attentive and friendly guest service is integral to our overall concept and brand identity. Each restaurant is staffed, on average, with approximately 200–250 hourly employees. We require each hourly employee to participate in a formal training program for his or her respective position in the restaurant. For example, new servers at each restaurant currently participate in approximately three weeks of training during which each new server works under the supervision of other experienced servers and restaurant management. We strive to instill enthusiasm and dedication in our employees and regularly solicit suggestions concerning restaurant operations and all aspects of our business.

Our future growth and financial success will be highly dependent upon our ability to attract, develop and retain qualified employees who are capable of successfully managing upscale, high volume casual dining restaurants and consistently executing our extensive and complex menu. The availability and retention of qualified restaurant management employees continues to be a significant industry–wide challenge facing restaurant operators. To enable us to more effectively compete for and retain the highest quality restaurant management personnel available, we maintain an innovative and comprehensive compensation program for our restaurant general managers and executive kitchen managers. Each participant in the program receives a competitive base salary and has the opportunity to earn an annual cash bonus (calculated and paid quarterly) based on the performance of his or her restaurant. Participating restaurant general managers also are eligible to utilize a company–leased vehicle, for which all non–business use thereof is valued and added to the participants' taxable income pursuant to income tax regulations. A longer–term wealth–building program, currently based on Company stock options, is also available to participating restaurant general managers and executive kitchen managers that is dependent upon the participants' extended service with us in their respective positions (at least five years) and their achievement of certain agreed–upon performance objectives during that five–year period. Additionally, all other qualified salaried restaurant management employees are eligible to receive annual performance–based Company stock option grants, based on their compensation and tenure with the Company and our consolidated results of operations.

Our restaurant general managers are responsible for selecting and training the hourly employees for their respective restaurants. Restaurant general managers report to area directors of operations, who typically supervise the operations of six to seven restaurants depending upon geographical and management experience factors. In turn, each area director of operations currently reports to one of four regional vice presidents of restaurant operations. Our restaurant field supervision organization also includes an executive vice president for kitchen operations, area kitchen operations managers and performance development (training) professionals who are responsible for managing new restaurant openings and training for all operational employees. As we open new restaurants, our field supervision and performance development staffs will also expand appropriately.

We maintain financial and accounting controls in our restaurants through the use of a sophisticated point–of–sale (POS) cash register system and personal computer network in each restaurant that interfaces with the computer network in the corporate office using a frame relay communication system. We also utilize an automated front desk management system that affords us the opportunity to better optimize our seating capacity and increase our speed of operations. The POS system is also utilized to authorize and transmit credit card sales transactions. The POS system and personal computer network provide our restaurant management with daily and weekly information regarding sales, cash receipts, inventory, food and beverage costs, labor costs and other controllable operating expenses. Each restaurant also has an onsite accounting technician who assists in the accumulation and processing of accounting and other administrative information. Field supervision employees also make extensive use of laptop computers that interface with the restaurant and corporate computer networks and handheld wireless devices to insure prompt communication. We prepare a detailed monthly operating budget for each restaurant and compare our actual results to the budget. We also measure the productivity and efficiency of our restaurant operations using a variety of statistical indicators such as daily table turns, guests served per labor hour worked, operating costs incurred per guest served and other activity measures.

Bakery Operations

Our bakery operations originated in 1972 when Oscar and Evelyn Overton founded a small bakery in the Los Angeles area that produced and distributed high quality cheesecakes and other baked desserts. As their business grew, the Overtons leased additional space to expand their production capacity. During 1996, all production operations were transferred to a newly constructed, highly automated production facility in Calabasas Hills, California owned by the Company. We produce approximately 50 varieties of cheesecake in our production facility based on proprietary recipes. Some of our popular cheesecakes include the Original Cheesecake, White Chocolate Raspberry Truffle®, Chocolate Peanut Butter Cookie–Dough, Dutch Apple Caramel Streusel, Fresh Strawberry and Triple Chocolate Brownie Truffle®. Other popular baked desserts include chocolate fudge cake, carrot cake, blackout cake and apple dumplings. In the aggregate, our bakery production facility currently produces approximately 300 product SKUs (stock keeping units).

High quality, wholesome baked desserts and other products are essential to the successful execution of our restaurant and bakery operations. Our bakery operates under an ongoing comprehensive food safety and quality assurance program. This program includes, among other things, supplier qualification and plant inspections, inbound raw material testing, microbiological testing of the production environment, safety and sanitation monitoring, and finished goods testing. Our in–house food safety and quality assurance staff constantly audits and monitors our manufacturing practices during operation and closely monitors our compliance with the industry standard Hazard Analysis Critical Control Points (HACCP) program. We use both internal and external quality control laboratory resources to test raw ingredients and finished products for safety. We believe that our production facility and manufacturing practices comply with all material government regulations.

The commissary role of our bakery operations is to produce innovative, high quality cheesecakes and other baked desserts for sale at our restaurants. Dessert sales represented approximately 15% of our total restaurant sales for fiscal 2004, 2003 and 2002 and are important to restaurant–level profitability. We also market some of our more popular cheesecakes and other baked products on a wholesale basis to other foodservice operators, retailers and distributors. Approximately two–thirds of the bakery's production activities are currently devoted to our outside customers, with the remaining one–third devoted to supplying our restaurants. Cheesecakes and other items produced for outside accounts are marketed under The Cheesecake Factory® mark, The Dream Factory® mark, The Cheesecake Factory Bakery® mark and private labels. Current large–account customers include the leading national warehouse club operators, institutional foodservice distributors, supermarkets and other restaurant and foodservice operators. Sales to warehouse clubs, which represented approximately 64%, 62% and 56% of our total outside bakery sales for fiscal 2004, 2003 and 2002, respectively, are concentrated with the two largest warehouse club operators in the United States. Bakery products are delivered daily to our restaurants and other customers in the Southern California area by our delivery vehicles, and are shipped to all other markets in the United States by common carrier. We also contract with an outside fulfillment company to process mail order and internet–based sales. Frozen bakery products are also shipped to international customers.

Our goal for fiscal 2005 is to increase our outside bakery sales by approximately 5%. We strive to develop and maintain long–term, growing relationships with our bakery customers, based largely on our 32–year reputation for producing high quality, creative baked desserts. However, bakery sales volumes will always be less predictable than our restaurant sales. It is difficult to predict the timing of bakery product shipments and contribution margins on a quarterly basis. Additionally, the purchasing plans of our large–account customers may fluctuate from quarter to quarter. Due to the highly competitive nature of the bakery business, we are unable to enter into long–term contracts with our large–account bakery customers, who may discontinue purchasing our products without advance notice at any time for any reason.

Our bakery production facility in Calabasas Hills, California contains approximately 60,000 square feet, of which approximately 45,000 square feet is devoted to production operations and the remainder is utilized for corporate support activities. During fiscal 2004, the production facility operated at approximately 80% of its estimated practical capacity. We added equipment to this facility in late 2004 to effectively increase our productive capacity by approximately 20%. We are in the final stages of evaluation and negotiation of various alternatives to develop a second bakery facility, which will likely be located on the East Coast and which could begin initial operations during late fiscal 2005 or early fiscal 2006. Currently, we expect to incur approximately $1,000,000 in associated preopening costs and approximately $13–$15 million in capital expenditures related to a second production facility during fiscal 2005.

Advertising and Promotion

Our restaurants compete in the upscale, casual dining segment of the restaurant industry. This segment is generally positioned between easily–replicated casual dining operations and expensive "fine dining" or dinnerhouse operations. We believe our commitment to providing consistent, exceptional value to consumers in an upscale, casual dining environment continues to be the most effective approach to attracting and retaining customers. Accordingly, we have historically relied on our high profile locations, operational excellence and "word of mouth" to attract and retain restaurant guests instead of using media advertising or discounting. We would consider more traditional forms of media advertising if the need arose. During fiscal 2004, our restaurant–level expenditures for advertising were less than 1% of total restaurant sales.

We believe our commitment to deliver exceptional value to consumers has enabled our newer restaurants to benefit from the brand recognition and reputation developed by our existing restaurants. We also attempt to build awareness and relationships with local hotel concierges. For restaurant openings in new markets, we generally host a high profile event for a local charity as part of our preopening practice activities that also serves to introduce our concept to the market. In new markets, we also arrange for local television and radio stations to cover our restaurant openings and thereby provide us with free publicity. During fiscal 2001, the Company sponsored the formation of The Cheesecake Factory – Oscar and Evelyn Overton Charitable Foundation that, among its other intended activities, provides a vehicle for employee participation in qualified local community service and charitable programs. With respect to our bakery operations, we currently maintain a full–time staff of ten sales and marketing employees and four product development employees. Additionally, we utilize the services of professional foodservice brokers from time to time for certain bakery products and distribution channels.

Purchasing and Distribution

We strive to obtain quality menu ingredients, raw materials and other supplies and services for our operations from reliable sources at competitive prices. We continually research and evaluate various ingredients and products in an effort to maintain high quality and to be responsive to changing consumer tastes. Other than for cheesecakes and other baked products, our restaurants do not utilize a central food commissary. Substantially all menu items are prepared on each restaurant's premises daily from scratch, using fresh ingredients. In order to maximize purchasing efficiencies and to provide for the freshest ingredients for our menu items while obtaining the lowest possible prices for the required quality and consistency, each restaurant's management determines the quantities of food and supplies required and orders the items from local, regional and national suppliers on terms negotiated by our purchasing staff. Restaurant–level inventories are maintained at a minimum dollar–value level in relation to sales due to the high concentration and relatively rapid turnover of the perishable produce, poultry, meat, fish and dairy commodities that we use in our operations, coupled with limited storage space at our restaurants.

We attempt to negotiate short–term and long–term agreements for our principal commodity, supply and equipment requirements, depending on market conditions and expected demand. However, we are currently unable to contract for long periods of time for certain of our fresh commodities such as fish and dairy items (except for cream cheese used in our bakery operations) and, consequently, such commodities can be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. We believe that all essential food and beverage products are available from several qualified suppliers in all cities in which our operations are located. Most food and supply items are delivered daily to our restaurants by independent foodservice distributors, including the largest foodservice distributor in North America.

Seasonality and Quarterly Results

Our business is subject to seasonal fluctuations. Historically, our highest levels of revenues and net income for our established restaurants have occurred in the second and third quarters of the fiscal year. Approximately two–thirds of our restaurants are located in or near shopping centers and malls that typically experience seasonal fluctuations in sales. Patio seating represents approximately 18% of the total available productive seating for all restaurants open as of April 1, 2005 and can be subject to disruption from inclement weather. Holidays, severe winter weather, hurricanes, thunderstorms and similar conditions may impact restaurant sales volumes seasonally in some of the markets where we operate. Our bakery operations are seasonal to the extent that the fourth quarter's sales are typically higher due to holiday business. Additionally, bakery sales comparisons may fluctuate significantly from quarter to quarter due to the timing and size of orders from our larger bakery customers. Quarterly results have been and will continue to be significantly impacted by the timing of new restaurant openings and their associated preopening costs. As a result of these and other factors, the Company's financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

Competition

The restaurant industry is highly competitive. There are a substantial number of restaurant operations that compete directly and indirectly with us, many of which have significantly greater financial resources, higher revenues and greater economies of scale. The restaurant business is often affected by changes in consumer tastes and discretionary spending patterns; national and regional economic and public safety conditions; demographic trends; weather conditions; the cost and availability of raw materials, labor and energy; purchasing power; governmental regulations and local competitive factors. Any change in these or other related factors could adversely affect our restaurant operations. Accordingly, we must constantly evolve and refine the critical elements of our restaurant concepts over time to protect their longer–term competitiveness. Additionally, there is competition for highly qualified restaurant management employees and for attractive locations suitable for upscale, high volume restaurants.

The competitiveness of multi–unit foodservice operations such as ours can also be substantially affected by adverse publicity resulting from food quality, illness, injury, health concerns or operating issues stemming from a single restaurant or, with respect to our bakery operations, a single production run of bakery products. In particular, since we depend heavily on The Cheesecake Factory mark for a majority of our revenues, unfavorable publicity relating to our bakery operations could have a material adverse effect on our restaurant operations, and vice versa. To minimize the risk of foodborne illness, we have implemented a HACCP system for managing food safety and quality. Nevertheless, the risk of foodborne illness cannot be completely eliminated. We attempt to manage risks of this nature, but the occurrence of any one of these factors in any one of our restaurants or our bakery production facility, or elsewhere within the foodservice industry, could cause our entire Company to be adversely affected. With regard to our bakery operations, competition within the premium baked dessert market has historically been regional and fragmented. However, overall competition within that market remains intense. We believe that our restaurant and bakery operations compete favorably with consumers on the critical attributes of quality, variety, taste, service, consistency and overall value.

Government Regulation

We are subject to numerous federal, state and local laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities which may include alcoholic beverage control, health, sanitation, environmental, zoning and public safety agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development and openings of new restaurants, or could disrupt the operations of existing restaurants. However, we believe that we are in compliance in all material respects with all relevant governmental regulations, and we have not experienced abnormal difficulties or delays in obtaining the licenses or approvals required to open or operate any restaurant to date.

During fiscal 2004, approximately 13% of our restaurant sales were attributable to alcoholic beverages. Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county and municipal authorities for licenses and permits to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be subject to penalties, temporary suspension or revocation for cause at any time. The failure of a restaurant to obtain or retain its licenses would adversely affect that restaurant's operations and profitability. Alcoholic beverage control regulations impact many aspects of the daily operations of our restaurants, including the minimum ages of patrons and employees consuming or serving such beverages; employee alcoholic beverage training and certification requirements; hours of operation; advertising; wholesale purchasing and inventory control of such beverages; seating of minors and the service of food within our bar areas; and the storage and dispensing of alcoholic beverages. State and local authorities in many jurisdictions routinely monitor compliance with alcoholic beverage laws. We have not encountered any material problems relating to alcoholic beverage licenses to date. The failure to receive or retain, or a delay in obtaining, a liquor license for a particular restaurant could adversely affect our ability to obtain such licenses elsewhere.

We are subject to "dram–shop" statutes in most of the states in which we have operations, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to such person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance that we believe is consistent with coverage carried by other entities in the restaurant industry of similar size and scope of operations. Even though we are covered by general liability insurance, a settlement or judgment against us under a "dram–shop" statute in excess of our liability coverage could have a material adverse effect on our operations.

Various federal and state labor laws govern our operations and our relationships with our employees, including such matters as minimum wages, breaks, overtime, fringe benefits, safety, working conditions and citizenship requirements. We are also subject to the regulations of the Bureau of Citizenship and Immigration Services (BCIS). Even if we operate our restaurants in strict compliance with BCIS requirements, some of our employees may not meet federal citizenship or residency requirements, which could lead to a disruption in our work force. Significant government–imposed increases in minimum wages, paid or unpaid leaves of absence and mandated health benefits, or increased tax reporting, assessment or payment requirements related to our employees who receive gratuities could be detrimental to the profitability of our restaurants and bakery operations. Various proposals that would require employers to provide health insurance for all of their employees are considered from time to time in Congress and various states. The imposition of any requirement that we provide health insurance to all employees could have an adverse effect on our results of operations and financial position, as well as the restaurant industry in general. Our suppliers may also be affected by higher minimum wage and benefit standards, which could result in higher costs for goods and services supplied to the Company. While we carry employment practices insurance, a settlement or judgment against us in excess of our coverage limitations could have a material adverse effect on our results of operations, liquidity, financial position or business.

As a manufacturer and distributor of food products, we are subject to a number of food safety regulations, including the Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration. This comprehensive regulatory framework governs the manufacture (including composition and ingredients), labeling, packaging and safety of food in the United States.

We are subject to federal and state environmental regulations, but these rules have not had a material effect on our operations. Various laws concerning the handling, storage, and disposal of hazardous materials, such as cleaning solvents, and the operation of restaurants in environmentally sensitive locations may impact aspects of our operations. During fiscal 2004, there were no material capital expenditures for environmental control facilities and no such expenditures are anticipated.

Our facilities must comply with the applicable requirements of the Americans With Disabilities Act of 1990 ("ADA") and related state statutes. The ADA prohibits discrimination on the basis of disability with respect to public accommodations and employment. Under the ADA and related state laws, when constructing new restaurants or undertaking significant remodeling of existing restaurants, we must make them more readily accessible to disabled persons. We must also make reasonable accommodations for the employment of disabled persons.

We have a significant number of hourly restaurant employees that receive tip income. We have elected to voluntarily participate in a Tip Rate Alternative Commitment ("TRAC") agreement with the Internal Revenue Service. By complying with the educational and other requirements of the TRAC agreement, we reduce the likelihood of potential employer–only FICA assessments for unreported or underreported tips.

Employees

As of April 1, 2005, we employed approximately 22,200 persons, of which approximately 21,400 employees worked in our restaurants, approximately 600 worked in our bakery operations and approximately 200 employees worked in our corporate center and restaurant field supervision organization. None of our employees are currently covered by collective bargaining agreements, and we have never experienced an organized work stoppage, strike or labor dispute. We believe our working conditions and compensation packages are generally comparable with those offered by our competitors and consider overall relations with our employees to be favorable.

Trademarks

We have registered, among other marks, "The Cheesecake Factory", "Grand Lux Cafe", "The Cheesecake Factory Bakery", "The Cheesecake Factory Express", "The Dream Factory" and "The Cheesecake Factory Bakery Cafe" as trademarks with the United States Patent and Trademark Office. Additional trademark applications are pending. We have also registered our ownership of the Internet domain name "www.thecheesecakefactory.com" and other Internet domain names. We regard our trademarks as having substantial value and as being important factors in the marketing of our restaurants and bakery products. We have registered, or have pending applications to register, one or more of our trademarks in more than 70 foreign countries, although there can be no assurance that our name and marks are registerable in every country for which registration is being sought. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained, and they have not been found to become generic.

Executive Officers

David Overton, age 58, serves as our Chairman of the Board and Chief Executive Officer. Mr. Overton co-founded our predecessor company in 1972 with his parents.

Peter J. D'Amelio, age 43, was appointed President and Chief Operating Officer of our restaurant concepts in April 2004. Mr. D'Amelio joined our Company in 1990 as a restaurant manager and has steadily advanced through our restaurant operations organization. He previously served as President and Chief Operating Officer of our Grand Lux Cafe restaurant operations.

Max S. Byfuglin, age 59, serves as Executive Vice President of The Cheesecake Factory Bakery Incorporated, our bakery subsidiary. Mr. Byfuglin joined our bakery operations in 1982 and worked closely with our founders, serving in nearly every capacity in our bakery over the past 20 years.

Debby R. Zurzolo, age 48, was appointed Executive Vice President, Secretary and General Counsel in December 2003. Ms. Zurzolo joined our Company as Senior Vice President and General Counsel in April 1999. From 1982 until joining the Company, she practiced law at Greenberg Glusker Fields Claman & Machtinger LLP in Los Angeles, California. As a partner with that firm, Ms. Zurzolo represented our Company on various real estate matters and negotiated several of our restaurant leases.

Michael J. Dixon, age 42, was appointed Senior Vice President, Finance and Chief Financial Officer in December 2003. Mr. Dixon joined our Company in September 2000 as Vice President, Finance and Controller after several years in finance and business development with The Walt Disney Company and nine years with the public accounting firm of Coopers & Lybrand LLP.

Forward-looking Statements and Risk Factors

Certain information included in this Form 10-K and other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral or written statements made by us or on our behalf), may contain forward-looking statements about our current and expected performance trends, growth plans, business goals and other matters. These statements may be contained in our filings with the Securities and Exchange Commission, in our press releases, in other written communications, and in oral statements made by or with the approval of one of our authorized officers. Words or phrases such as "believe," "plan," "will likely result," "expect," "intend," "will continue," "is anticipated," "estimate," "project", "may," "could," "would," "should" and similar expressions are intended to identify forward-looking statements. These statements, and any other statements that are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as codified in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended from time to time (the "Act").

In connection with the "safe harbor" provisions of the Act, we are filing the following summary to identify important factors, risks and uncertainties that could cause our actual results to differ materially from those projected in forward-looking statements made by us, or on our behalf. These cautionary statements are to be used as a reference in connection with any forward-looking statements. The factors, risks and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a forward-looking statement or contained in any of our subsequent filings with the Securities and Exchange Commission. Because of these factors, risks and uncertainties, we caution against placing undue reliance on forward-looking statements. Although we believe that the assumptions underlying forward-looking statements are reasonable, any of the assumptions could be incorrect, and there can be no assurance that forward-looking statements will prove to be accurate. Forward-looking statements speak only as of the date on which they are made. We do not undertake any obligation to modify or revise any forward-looking statement to take into account or otherwise reflect subsequent events, or circumstances arising after the date that the forward-looking statement was made.

The following risk factors may affect our operating results and the environment within which we conduct our business. If our projections and estimates regarding these factors differ materially from what actually occurs, our actual results could vary significantly from any results expressed or implied by forward-looking statements. These risk factors include, but are not limited to, changes in general economic, demographic, geopolitical or public safety conditions which affect consumer behavior and spending for restaurant dining occasions, including the ongoing ramifications of the September 11, 2001 terrorist attacks and the governmental response thereto, including the continuing armed conflict in Iraq or in other countries; changes in consumer eating habits as a result of new information regarding diet, nutrition and health that could impact demand for our menu and bakery product offerings; increasing competition in the upscale casual dining segment of the restaurant industry; adverse weather conditions which impact customer traffic at the Company's restaurants in general and which cause the temporary underutilization of outdoor patio seating available at most of the Company's restaurants; various factors which increase the cost to develop and/or affect the number and timing of the openings of new restaurants, including factors under the influence and control of government agencies, landlords, construction contractors and others; fluctuations in the availability and/or cost of raw materials, management and hourly labor, energy or other resources necessary to successfully build and operate the Company's restaurants and bakery production facility; the Company's ability to raise prices sufficiently to offset cost increases, including increased costs for minimum wages, employee benefits and insurance arrangements; the success of strategic and operating initiatives, including new restaurant concepts and new bakery product lines; depth of management; adverse publicity about the Company, its restaurants or bakery products resulting from a number of risks that are common to restaurant and bakery businesses; the Company's current dependence on a single bakery production facility; the Company's ability to obtain and retain large-account customers for its bakery operations; changes in timing and/or scope of the purchasing plans of large-account bakery customers which can cause fluctuations in bakery sales and the

Company's consolidated operating results; our inability to enter into long-term contracts with large-account bakery customers, who may discontinue purchasing our products without advance notice at any time for any reason; the rate of growth of general and administrative expenses associated with building a strengthened corporate and field supervision infrastructure to support the Company's growing operations; relations between the Company and its employees; legal claims and litigation against the Company; the availability, amount, type, and cost of capital for the Company and the deployment of such capital, including the amounts of planned capital expenditures; changes in, or any failure to comply with, governmental regulations; the amount of, and any changes to, tax rates and the success of various initiatives to minimize taxes; changes in accounting standards or interpretations of existing standards adopted by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Emerging Issues Task Force and the American Institute of Certified Public Accountants that could impact our reported financial results; and other risks and uncertainties referenced in this Annual Report on Form 10-K.

ITEM 2: PROPERTIES

All of our 97 existing company-operated full-service restaurants and one "express" location are located on leased properties, and we have no current plans to own the real estate underlying our restaurants. See Item 1 "Business – Existing Restaurant Locations" for information regarding the location of our restaurants. We own substantially all of the equipment, furnishings and trade fixtures in our restaurants. Existing restaurant leases have primary terms with expiration dates ranging from December 31, 2007 to January 31, 2030 (excluding existing renewal options). We do not anticipate any difficulties renewing our existing leases as they expire; however, there can be no assurance that we will be able to renew such leases after the expiration of all remaining renewal options. Most of our restaurant leases provide for contingent rent based on a percentage of restaurant sales (to the extent this amount exceeds a minimum base rental) and payment of certain lease-related expenses. See Note 7 of the Notes to the Company's Consolidated Financial Statements in Item 8 of this report for information regarding the aggregate straight-lined minimum and percentage rent expense for the last three fiscal years and information regarding our obligation to pay minimum base rentals in future years.

Our corporate support center and bakery production facility are located in Calabasas Hills, California. The corporate support center is an 88,000 square-foot facility on an approximate 5-acre parcel of land. The bakery production facility is a 60,000 square-foot facility on a 3.3-acre parcel of land. We currently own both properties (land, building and equipment) in fee simple. The corporate support center is a newly constructed two-story building contiguous to our bakery production facility which we purchased in June 2004 to accommodate our eventual need for additional support personnel and space for those personnel as we continue to grow our company. We had previously leased the first floor of this building for our culinary, training and operations support activities. The purchase price of $21 million was funded with available cash and investments. We will incur additional expenditures to finish out the interior of the building, as space is needed.

ITEM 3: LEGAL PROCEEDINGS

The Attorney General of the State of California (State Attorney General) filed lawsuits on or about April 10, 2003 in the Los Angeles County Superior Court against the Company, as well as several other restaurant chains, alleging that the defendants violated the provisions of an initiative statute known as "Proposition 65" and California Business and Professions Code Section 17200 by offering for sale in California certain types of fish allegedly containing mercury and mercury compounds without providing the warnings required by Proposition 65. The Company has reached a settlement with the State Attorney General's office, which requires the Company to pay $13,000 in settlement and penalties and $10,000 in attorney's fees and costs as well as to post a prescribed notice at its restaurants in California.

In December 2002, two former hourly restaurant employees in California filed a lawsuit in the Superior Court in Orange County, California against the Company alleging violations of California labor laws with respect to providing meal and rest breaks. In October 2003, an hourly restaurant employee in California filed a lawsuit in Superior Court in Orange County, California against the Company alleging violations of California labor laws with respect to the providing of meal and rest breaks and improper deductions, among other claims. In May 2004, an hourly restaurant employee filed a lawsuit alleging similar violations in Superior Court in Los Angeles County, California. These cases were filed on behalf of the named plaintiffs and other purported class members. The parties have completed settlement negotiations, and the designated plaintiffs in all three cases and their attorneys have executed a settlement agreement with the Company. Approval of such settlement will be sought from the Superior Court. A number of former and current employees also filed individual wage and hour claims, based upon alleged similar violations, directly with various offices of the California Division of Labor Standards Enforcement (DLSE). Hearings on most of these claims are currently being deferred by the various offices of the DLSE pending approval of the litigation settlement by the Superior Court. The DLSE claims filed by employees who joined the approved settlement will also be resolved by such settlement. In the third quarter of 2004, the Company recorded a $4.5 million reserve based on an estimate of the ultimate costs, expenses and fees which may be incurred in connection with these matters. Revisions to this estimate may be made in the future and will be reported in the periods in which additional information is known.

The Company is also subject to other private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. Such claims typically involve claims from guests, employees and others related to operational issues common to the foodservice industry. A number of such claims may exist at any given time. We could be affected by adverse publicity resulting from such allegations, regardless of whether or not such allegations are valid or whether we are determined to be liable. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks. We believe that the final disposition of such lawsuits, proceedings and claims will not have a material adverse effect on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, proceedings or claims.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended December 28, 2004.

PART II

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

Our common stock is listed on the Nasdaq Stock Market® under the symbol CAKE. The following table sets forth, for the periods indicated, the high and low sales prices as reported on the Nasdaq Stock Market.

	High*	Low*
<u>Fiscal 2003</u>:		
First Quarter	$ 25.05	$ 18.18
Second Quarter	24.39	20.29
Third Quarter	25.93	21.05
Fourth Quarter	29.96	23.50
<u>Fiscal 2004</u>:		
First Quarter	$ 32.75	$ 27.03
Second Quarter	32.25	25.01
Third Quarter	29.13	25.18
Fourth Quarter	33.50	27.58

* Prices have been adjusted to reflect a three–for–two stock split effected in the form of a 50% stock dividend payable December 8, 2004.

Since our initial public offering in September 1992, we have not declared or paid any cash dividends on our common stock. We currently intend to retain all earnings for the operation and expansion of our business. Although we have the financial capacity to consider paying a cash dividend and remain compliant with the covenants of our revolving credit and term loan facility, we have no current plans to do so. There were approximately 810 holders of record of our common stock at March 21, 2005 and we estimate there were approximately 36,000 beneficial stockholders on that date.

During the quarterly period ended December 28, 2004, the Company made no purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth, for the periods indicated, selected consolidated financial data that has been derived from our audited Consolidated Financial Statements. The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto, and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We have restated our previously reported consolidated financial statements for 2003, 2002, 2001 and 2000 to reflect certain adjustments as discussed in Note 1 of Notes to Consolidated Financial Statements in Item 8 of this report.

	Fiscal Year (1)				
	2004	2003	2002	2001	2000
		(restated)	(restated)	(restated)	(restated)
	(in thousands, except net income per share)				
Income Statement Data:					
Revenues:					
Restaurant sales	$ 916,375	$ 731,273	$ 603,295	$ 499,519	$ 406,947
Bakery sales to other foodservice operators, retailers and distributors	52,857	42,562	48,675	39,611	31,334
Total revenues	969,232	773,835	651,970	539,130	438,281
Costs and expenses:					
Restaurant cost of sales	230,854	175,654	142,998	127,005	102,994
Bakery cost of sales	26,222	19,716	22,631	19,153	14,466
Labor expenses	298,387	239,386	200,279	164,372	133,287
Other operating costs and expenses	223,519	180,963	150,458	120,235	94,213
General and administrative expenses	40,639	35,817	31,702	27,929	25,831
Depreciation and amortization expenses	35,943	28,228	23,099	17,731	13,845
Preopening costs	14,787	12,174	11,019	7,330	6,103
Total costs and expenses	870,351	691,938	582,186	483,755	390,739
Income from operations	98,881	81,897	69,784	55,375	47,542
Interest income, net	2,234	3,354	3,885	4,328	4,660
Other income (expense), net	966	2,944	2,178	1,654	(439)
Income before income taxes	102,081	88,195	75,847	61,357	51,763
Income tax provision	35,543	30,965	27,076	22,089	18,766
Net income	$ 66,538	$ 57,230	$ 48,771	$ 39,268	$ 32,997
Net income per share (2):					
Basic	$ 0.86	$ 0.76	$ 0.66	$ 0.55	$ 0.48
Diluted	$ 0.84	$ 0.74	$ 0.64	$ 0.52	$ 0.44
Weighted average shares outstanding (2):					
Basic	77,613	75,633	73,899	71,199	69,370
Diluted	79,395	77,772	76,737	74,846	75,287
Balance Sheet Data (at end of period):					
Total cash and cash equivalents	$ 14,041	$ 15,167	$ 11,033	$ 11,309	$ 32,996
Investments and marketable securities	$ 137,471	$ 121,840	$ 103,453	$ 78,259	$ 51,030
Total assets	$ 758,717	$ 609,802	$ 481,143	$ 368,417	$ 297,180
Total long-term debt (including current portion) (3)	$ 17,288	$ 6,862	$ —	$ —	$ —
Stockholders' equity	$ 542,852	$ 456,725	$ 378,993	$ 289,204	$ 240,609

(1) Fiscal 2000 consisted of 53 weeks. All other fiscal years consisted of 52 weeks.

(2) Per share amounts and outstanding share amounts have been adjusted to reflect a three-for-two stock split effected in the form of a 50% stock dividend payable December 8, 2004.

(3) Represents deemed landlord financing liability. See Note 1 of Notes to Consolidated Financial Statements in Item 8 of this report.

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

Restatement of Financial Statements

We began a review of our lease accounting policies following announcements in December 2004 that several restaurant companies were revising their accounting practices for leases. In February 2005, the Chief Accountant of the Securities and Exchange Commission ("SEC") issued a letter to the American Institute of Certified Public Accountants expressing the SEC staff's views relating to certain lease accounting issues. As a result of our review, we changed our accounting for leases in fiscal 2004 and restated our historical financial statements and certain financial information for prior periods to correct errors in our lease accounting policies. The restatement adjustments are non–cash and had no impact on revenues or net cash flows. We do not consider the differences in prior years' annual financial statements to be material.

The changes to our lease accounting policies fall into the following categories.

Contingent Rent

We lease all of our restaurant locations under operating lease agreements with terms of approximately 15 to 20 years. Most of these agreements require us to pay contractual annual rent ("minimum base rent") plus contingent rent based on a percentage of restaurant sales to the extent this amount exceeds the minimum base rent. The lease agreements also generally include scheduled increases in the minimum base rent.

In prior periods, we recorded rent expense for the greater of the minimum base rent, as adjusted for scheduled increases over the lease term, or the contingent rent based on a percentage of sales. As our restaurants have consistently operated at very high volumes, contingent rent historically was in excess of such minimum base rent. Consequently, with respect to leases requiring contingent rent payment, our accounting for rent expense reflected the contingent rent amount. We have determined that in accordance with Statement of Financial Accounting Standards ("SFAS") No. 29, "Determining Contingent Rentals," we should have recorded the straight–lined minimum base rent over the lease term plus contingent rent to the extent it exceeded minimum base rent per the lease agreement. Total rent expense over the term of the lease will not change as a result of this correction in accounting treatment. Based on our experience of consistently achieving sales requiring the payment of contingent rent, this adjustment will increase rent expense in the first half of the lease term and likewise decrease rent expense in the second half of the lease term.

Rent Holiday

Historically, we began the recognition of rent expense with the stated rent commencement date (generally the date we open to the public) according to the lease. We have determined that in accordance with SFAS No. 13, "Accounting for Leases," we should have included the rent holiday period, which is defined as the date from when we began our tenant improvements to the property until the stated rent commencement date per the lease, as part of the lease term for purposes of straight–lining minimum base rent. Of the rent allocated to the rent holiday period, the portion incurred during the tenant improvement construction phase can be capitalized. Once construction is complete and the building is ready for its intended use, rent for the remainder of the holiday period should be expensed.

Landlord Contributions

We often receive landlord contributions of monies to offset the costs of constructing structural components for the leased space. These monies can be direct cash reimbursements or offsets to minimum or percentage rent payments over the term of the lease. Historically, we have netted these reimbursements against the cost incurred by the Company for the structural components and depreciated the net amount over the lease term. In accordance with SFAS No. 13, "Accounting for Leases," Emerging Issues Task Force ("EITF") No. 97–10, "The Effect of Lessee Involvement in Asset Construction" and SFAS No. 98, "Accounting for Leases," Emerging Issues Task Force ("EITF") No. 97–10, "The Effect of Lessee Involvement in Asset Construction," SFAS No. 98, "Accounting for Leases: Sale–Leaseback Transactions Involving Real Estate, Sales–Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases," we should have accounted for each operating lease based on the following criteria:

- Landlord contributions received in the form of offsets to percentage rent should be recorded as a reduction to rent expense in the period earned.
- In those cases where we did not meet the criteria of EITF 97–10 for being deemed the owner of the structural components of the building during the construction period, we should have recorded the amounts incurred for those structural components as increases to prepaid rent and the associated landlord contributions earned as deductions to prepaid rent. Upon completion of construction, the net balance should have been amortized over the term of the lease as an increase or decrease to rent expense.
- In those cases where we did meet the criteria of EITF 97–10 for being deemed the owner of the structural components of the building, we should have been considered the owner of those structural components during the construction period and we should have recorded amounts paid for these components as construction–in–progress and the associated landlord construction contributions as a deemed landlord financing liability. Upon completion of construction, for those leases that qualified for sale–leaseback treatment in accordance with SFAS No. 98, we should have removed the deemed landlord financing liability and the associated construction–in–progress and the difference should have been reclassified to prepaid or deferred rent and amortized over the lease term as an increase or decrease to rent expense. For those leases that did not qualify for sale–leaseback treatment in accordance with SFAS No. 98, we should have amortized the deemed landlord financing liability over the lease term based on the rent payments designated in the lease agreement.

We restated our Consolidated Balance Sheet at December 30, 2003 and the Consolidated Statements of Operations, Stockholders' Equity and Cash Flows for the years ended December 30, 2003 and December 31, 2002. The adjustments associated with the above corrections in our accounting for leases reduced net income by $606,000 and $304,000 and had no impact on diluted net income per share for the years ended December 30, 2003 and December 31, 2002, respectively. These adjustments also resulted in a $267,000 reduction in retained earnings as of January 1, 2002. See Note 1 of Notes to Consolidated Financial Statements in Item 8 of this report for additional information on restatement adjustments. We also restated the quarterly financial information for fiscal 2003 and the first three quarters of fiscal 2004 (see Note 15 of the Notes to Consolidated Financial Statements).

We did not amend our previously filed Annual Reports on Form 10–K or Quarterly Reports on Form 10–Q for the restatement, since none of the differences in the prior years' financial statements are considered by management to be material. However, we determined the cumulative adjustment for the above corrections to be significant to the 2004 fourth quarter results and, therefore, restated the prior quarterly and annual information included in this Annual Report on Form 10–K. Accordingly, readers of the financial statements should read the restated information in this Annual Report on Form 10–K as opposed to the previously filed information.

General

This discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and related notes in Item 8 of this report.

As of April 1, 2005, we operated 92 upscale, high–volume, casual dining restaurants under The Cheesecake Factory® mark. We also operated five upscale casual dining restaurants under the Grand Lux Cafe® mark in Houston, Texas; Dallas, Texas; Los Angeles, California; Chicago, Illinois and Las Vegas, Nevada; one self–service, limited menu "express" foodservice operation under The Cheesecake Factory Express® mark inside the DisneyQuest® family entertainment center in Orlando, Florida; and a bakery production facility. We also licensed three limited menu bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator.

Our revenues consist of sales from our restaurant operations and sales from our bakery operations to other foodservice operators, retailers and distributors ("bakery sales"). Revenue from restaurant sales is recognized when payment is tendered at the point of sale. Revenue from our gift cards (also known as stored value cards) is recognized upon redemption in our restaurants. Until the redemption of gift cards occurs, all outstanding balances on such cards are included as a liability in our consolidated balance sheets. Revenue from bakery sales to other foodservice operators, retailers and distributors is recognized when the products are shipped. Sales and cost of sales are reported separately for restaurant and bakery activities. All other operating cost and expense categories are reported on a combined basis for both restaurant and bakery activities. The inclusion of supplementary analytical and related information herein may require us to make appropriate estimates and assumptions to enable us to fairly present, in all material respects, our analysis of trends and expectations with respect to our results of operations and financial position taken as a whole.

New restaurants become eligible to enter our comparable sales comparison in their nineteenth month of operation. We utilize a 52/53 week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal 2004, 2003 and 2002 each consisted of 52 weeks. Fiscal 2005 will consist of 53 weeks and will end on January 3, 2006.

Our Cheesecake Factory restaurants offer approximately 200 menu items including appetizers, pizza, seafood, steaks, chicken, burgers, pasta, specialty items, salads, sandwiches, omelets and desserts, including approximately 40 varieties of cheesecake and other baked desserts. Grand Lux Cafe is an upscale, casual dining concept that we created and are evaluating for future expansion. In contrast to many chain restaurant operations, substantially all of our menu items (except desserts manufactured at our bakery production facility) are prepared on the restaurant premises using high quality, fresh ingredients based on innovative and proprietary recipes. We believe our restaurants are recognized by consumers for offering exceptional value with generous food portions at moderate prices. Our restaurants possess a distinctive, contemporary design and decor that creates a high–energy ambiance in a casual setting. Our restaurants currently range in size from 5,400 to 20,500 interior square feet, provide full liquor service and are generally open seven days a week for lunch and dinner, as well as Sunday brunch. Total restaurant sales represented 94.5%, 94.5% and 92.5% of our total revenues for fiscal 2004, 2003 and 2002, respectively.

The restaurant business is often affected by changes in consumer tastes and discretionary spending patterns; national and regional economic and public safety conditions; demographic trends; weather conditions; the cost and availability of raw materials, labor and energy; purchasing power; governmental regulations and local competitive factors. Accordingly, we must constantly evolve and refine the critical elements of our restaurant concepts over time to protect their longer–term competitiveness.

Results of Operations

The following table sets forth, for the periods indicated, the Consolidated Statements of Operations of the Company expressed as percentages of total revenues.

	Fiscal Year		
	2004	2003 (restated) (1)	2002 (restated) (1)
Revenues:			
Restaurant sales	94.5%	94.5%	92.5%
Bakery sales to other foodservice operators, retailers and distributors	5.5	5.5	7.5
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant cost of sales	23.8	22.7	21.9
Bakery cost of sales	2.7	2.5	3.5
Labor expenses	30.8	30.9	30.7
Other operating costs and expenses	23.1	23.4	23.1
General and administrative expenses	4.2	4.6	4.9
Depreciation and amortization expenses	3.7	3.7	3.5
Preopening costs	1.5	1.6	1.7
Total costs and expenses	89.8	89.4	89.3
Income from operations	10.2	10.6	10.7
Interest income, net	0.2	0.4	0.6
Other income, net	0.1	0.4	0.3
Income before income taxes	10.5	11.4	11.6
Income tax provision	3.6	4.0	4.1
Net income	6.8%	7.4%	7.5%

(1) We have restated previously reported consolidated financial statements to reflect certain adjustments as discussed in Note 1 of Notes to Consolidated Financial Statements in Item 8 of this report.

Fiscal 2004 Compared to Fiscal 2003

Revenues

Total revenues increased 25% to $969.2 million for fiscal 2004 compared to $773.8 million for fiscal 2003.

Restaurant sales increased 25% to $916.4 million for fiscal 2004 compared to $731.3 million for the prior fiscal year. The increase of $185.1 million consisted of the following components: $66.9 million from the openings of sixteen new restaurants during the fiscal year; $93.1 million from restaurants opened prior to fiscal 2004 that were not considered comparable sales during fiscal 2004; and $25.1 million from comparable restaurant sales. Total restaurant operating weeks increased approximately 22% to 4,314 in fiscal 2004 compared to 3,531 during fiscal 2003. A single restaurant open during the full period of fiscal 2004 would have generated 52 operating weeks. Average sales per restaurant operating week for restaurants open during the full fiscal year increased 2.8% to $213,900 in fiscal 2004 compared to $208,100 for fiscal 2003.

Comparable restaurant sales increased approximately 3.9% during fiscal 2004. Since most of our established restaurants currently operate close to full capacity during the peak demand periods of lunch and dinner, and given our relatively high average sales productivity per productive square foot of approximately $976 for fiscal 2004, we generally do not expect to achieve increases in comparable sales other than our effective menu price increases. For fiscal 2004, the comparable restaurant sales increase slightly exceeded our effective price increase for the full fiscal year of approximately 2.5% due to the lower than expected sales in fiscal 2003 due to inclement weather. Refer to Management's Discussion and Analysis of Fiscal 2003 Compared to Fiscal 2002.

We presently update and reprint the menus in our restaurants twice a year. For Cheesecake Factory restaurants, these updates generally occur during January–February (the "winter menu change") and July–August (the "summer menu change"). For our 2005 winter menu change, we implemented an approximate 1% effective menu price increase for the purpose of offsetting those operating cost and expense increases that were known or expected as of January 2005. We plan to review our operating cost and expense trends in the spring of 2005 and consider the need for additional menu pricing in connection with our 2005 summer menu change. All potential menu price increases must be carefully considered in light of their ultimate acceptability by our restaurant guests. Additionally, other factors outside of our control, such as inclement weather, holidays, general economic and competitive conditions and other factors referenced in this Annual Report on Form 10–K can impact comparable sales comparisons. Accordingly, there can be no assurance that increases in comparable sales will be achieved.

Bakery sales to other foodservice operators, retailers and distributors increased 24% to $52.9 million in fiscal 2004 compared to $42.6 million in the prior fiscal year. This increase was primarily due to increased sales to our warehouse club customers, which accounted for approximately 64% of total bakery sales for fiscal 2004 compared to 62% for fiscal 2003, as well as increased sales of The Dream Factory and private label products.

Restaurant Cost of Sales

Restaurant cost of sales increased 31% to $230.9 million in fiscal 2004 compared to $175.7 million in fiscal 2003. This increase was primarily attributable to the 25% increase in restaurant sales during fiscal 2004. As a percentage of restaurant sales, these costs increased to 25.2% during fiscal 2004 compared to 24.0% for the prior fiscal year. This increase was primarily attributable to increased costs for fresh poultry and certain dairy–related commodities during fiscal 2004.

The menu at our restaurants is one of the most diversified in the foodservice industry and, accordingly, is not overly dependent on a single commodity. Changes in costs for one commodity are often, but not always, counterbalanced by cost changes in other commodity categories. The principal commodity categories for our restaurants include fresh produce, poultry, meat, fish and seafood, cheese, other fresh dairy products, bread and general grocery items.

We are currently able to contract for the majority of the food commodities used in our restaurant operations for periods up to one year. Many of the fresh commodities, such as fish, dairy, and certain produce and poultry products are not currently contractible for periods longer than 30 days in most cases. As a result, these fresh commodities can be subject to unforeseen supply and cost fluctuations due principally to weather and other general agricultural conditions. We currently expect food costs as a percentage of restaurant revenues for fiscal 2005 to be less than fiscal 2004. Based on contracts we have in place and current and expected market conditions, we expect generally flat costs for the majority of our commodities, including produce, meat, seafood and general grocery items. We also expect slightly lower costs for our poultry and dairy commodities and higher costs for our fresh fish commodities.

As has been our past practice, we will carefully consider opportunities to introduce new menu items and implement selected menu price increases to help offset expected cost increases for key commodities and other goods and services utilized by our operations. While we have been successful in the past in reacting to inflation and other changes in the costs of key operating resources by gradually increasing prices for our menu items, coupled with more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be able to continue to do so in the future.

While we have taken steps to qualify multiple suppliers and enter into agreements for some of the key commodities used in our restaurant operations, there can be no assurance that future supplies and costs for commodities used in our restaurant operations will not fluctuate due to weather and other market conditions outside of our control. For new restaurants, cost of sales will typically be higher than normal during the first 90–120 days of operations until our management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by our restaurants.

Bakery Cost of Sales

Bakery cost of sales includes ingredient, packaging and production supply costs and excludes depreciation, which is captured separately in depreciation and amortization expenses. Bakery cost of sales was $26.2 million for fiscal 2004 compared to $19.7 million for the prior fiscal year. The increase of $6.5 million was principally attributable to the 24% increase in bakery sales for fiscal 2004. As a percentage of bakery sales, bakery cost of sales increased to 49.6% for fiscal 2004 compared to 46.3% for fiscal 2003. This percentage increase was primarily due to increased costs for certain non–contracted dairy commodities, such as butter and manufacturers' cream. While we have taken steps to qualify multiple suppliers and enter into agreements for some of the key commodities used in our bakery operations, there can be no assurance that future supplies and costs for commodities used in our bakery or restaurant operations will not fluctuate due to weather and other market conditions beyond our control. Cream cheese is the most significant commodity used in our bakery products, with an expected requirement for as much as 11 million to 12 million pounds during fiscal 2005. We have executed contracts for all of our cream cheese requirements for the first four months of fiscal 2005 at a fixed cost per pound that is slightly higher than the actual cost per pound in fiscal 2004. We plan to contract the remainder of our cream cheese requirements for fiscal 2005 as appropriate based on market conditions and prices. We will also purchase cream cheese on the spot market as necessary to supplement our agreements.

Labor Expenses

Labor expenses, which include restaurant–level labor costs and bakery direct production labor (including associated fringe benefits), increased 24.6% to $298.4 million for fiscal 2004 compared to $239.4 million for fiscal 2003. This increase was principally due to the 25% increase in total revenues during fiscal 2004. As a percentage of total revenues, labor expenses decreased slightly to 30.8% for fiscal 2004 compared to 30.9% for fiscal 2003 reflecting the leveraging of the fixed component of our labor costs with the 25% increase in total revenues. For new restaurants, labor expenses will typically be higher than normal during the first 90–120 days of operations until our management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by our restaurants.

Other Operating Costs and Expenses

Other operating costs and expenses consist of restaurant–level occupancy expenses (rent, insurance, licenses and taxes, and utilities), other operating expenses (excluding food costs and labor expenses reported separately) and bakery production overhead, selling and distribution expenses. Other operating costs and expenses increased 23.5% to $223.5 million for fiscal 2004 compared to $181.0 million for fiscal 2003. This increase was principally attributable to the 25% increase in total revenues during fiscal 2004. During fiscal 2004, we also accrued a $4.5 million reserve for pending legal actions. As previously disclosed, the Company and a subsidiary were named in three lawsuits and in individual wage and hour claims filed directly with the California Division of Labor Standards Enforcement alleging violations of California labor laws with respect to providing meal and rest breaks to our hourly employees. While these actions are still pending, we have accrued $4.5 million based on an estimate of the ultimate costs, expenses and fees which may be incurred in connection with these matters. See Item 3, "Legal Proceedings" in this Annual Report on Form 10–K. This increase was partially offset by a $2.0 million settlement of an insurance claim, net of related expenses, associated with the fiscal 2002 voluntary withdrawal of bakery products that were produced in the Company's bakery production facility. As a percentage of total revenues, other operating costs and expenses decreased to 23.1% for fiscal 2004 (including the net costs and expenses associated with the legal reserve and the insurance settlement of approximately $2.5 million or 0.3% or total revenues) versus 23.4% for fiscal 2003, primarily due to the leveraging of the fixed component of these costs with the 25% increase in total revenues. For fiscal 2005, we currently expect other operating costs and expenses as a percent of revenues to be approximately the same as fiscal 2004 after excluding the net costs and expenses associated with the legal reserve and insurance settlement.

General and Administrative Expenses

General and administrative ("G&A") expenses consist of the restaurant management recruiting and training program, the restaurant field supervision organization, the bakery administrative organization and the corporate support organization. G&A expenses increased 13.4% to $40.6 million for fiscal 2004 compared to $35.8 million for fiscal 2003. This increase was principally due to the planned growth of our supervision and support organizations commensurate with the growth of our restaurant and bakery operations during fiscal 2004. As a percentage of total revenues, G&A expenses decreased to 4.2% for fiscal 2004 compared to 4.6% for the prior fiscal year, principally attributable to the leveraging of the fixed component of these costs with higher sales volumes. During fiscal 2005, we plan to continue to add resources to the corporate support, training and field supervision activities of our business, in conjunction with the planned openings of as many as 18 new restaurants during the year.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased 27.7% to $36.0 million for fiscal 2004 compared to $28.2 million for fiscal 2003. This increase was principally due to increases in property and equipment associated with new restaurant openings and the purchase of a new office building to house our corporate offices. As a percentage of total revenues, depreciation and amortization expenses were 3.7% in both fiscal 2004 and fiscal 2003.

Preopening Costs

Preopening costs increased 21.3% to $14.8 million for fiscal 2004 compared to $12.2 million for the prior fiscal year. We opened fourteen Cheesecake Factory restaurants and two Grand Lux Cafe restaurants during fiscal 2004 compared to fourteen Cheesecake Factory restaurants during fiscal 2003. In addition, preopening costs were incurred in both years for restaurant openings in progress.

Preopening costs include incremental out–of–pocket costs that are directly related to the openings of new restaurants that are not otherwise capitalizable. As a result of the highly customized and operationally complex nature of our upscale, high volume concepts, the restaurant preopening process for our new restaurants is more extensive, time consuming and costly relative to that of most chain restaurant operations. The preopening costs for one of our restaurants usually includes costs to relocate and compensate an average of 11–12 restaurant management employees prior to opening; costs to recruit and train an average of 200–250 hourly restaurant employees; wages, travel and lodging costs for our opening training team and other support employees; costs for practice service activities; and straight–line base rent during the in–restaurant training period. Preopening costs will vary from location to location depending on a number of factors, including the proximity of our existing restaurants; the size and physical layout of each location; the number of management and hourly employees required to open each restaurant; the relative difficulty of the restaurant staffing process; the cost of travel and lodging for different metropolitan areas; and the extent of unexpected delays, if any, in construction and/or obtaining final licenses and permits to open the restaurants, which may also be caused by landlord delays.

Our direct preopening costs for an 11,000 square foot, single–story restaurant in an established Company market averages approximately $775,000. There will also be other preopening costs associated with each restaurant opening, including costs for corporate travel and support activities. Preopening costs will usually be higher for larger restaurants, our initial entry into new markets and for new concepts such as Grand Lux Cafe. We usually incur the most significant portion of preopening costs for a typical restaurant opening within the two–month period immediately preceding and the month of the restaurant's opening. Preopening costs will fluctuate from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant, and the fluctuations could be significant. We expense preopening costs as incurred. Based on our current growth objectives for fiscal 2005 and 2006, preopening costs for each of those years will likely exceed the respective amount of preopening costs for the applicable prior year.

Interest Income, Net, Other Income and Income Tax Provision

Interest income, net decreased to $2.2 million for fiscal 2004 compared to $3.4 million for fiscal 2003. This decrease was principally due to a higher level of investment of our interest–bearing cash and short–term investments in instruments with slightly shorter maturities than in the prior year. This shift was primarily driven by the timing of funds needed for the purchase of our corporate support center and our new restaurant construction costs. We generally invest our excess cash balances in U.S. Treasury and Agency securities, investment grade corporate debt securities rated "A" or better and money market mutual funds. In addition, we recorded interest expense of approximately $0.5 million and $0.1 million in fiscal 2004 and fiscal 2003, respectively, associated with landlord construction allowances deemed to be financing in accordance with EITF 97–10, "The Effect of Lessee Involvement in Asset Construction". See Note 1 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10–K.

Other income for fiscal 2004 was $1.0 million compared to $2.9 million for fiscal 2003. This decrease was principally due to lower gains on the sales of investments and marketable securities that were liquidated from time to time to fund the Company's working capital requirements throughout the year. Our effective income tax rate was 34.8% for fiscal 2004 compared to 35.1% for fiscal 2003. For fiscal 2005, we currently estimate our effective tax rate to remain at 34.8%. The actual effective tax rate for fiscal 2005 may be different than our current estimate due to actual revenues, pretax income and tax credits achieved during the year.

Fiscal 2003 Compared to Fiscal 2002

Revenues

Total revenues increased 19% to $773.8 million for fiscal 2003 compared to $652.0 million for fiscal 2002.

Restaurant sales increased 21% to $731.3 million for fiscal 2003 compared to $603.3 million for the prior fiscal year. The increase of $128.0 million for fiscal 2003 consisted of the following components: $57.0 million from the openings of fourteen new restaurants during the fiscal year; $68.4 million from restaurants opened prior to fiscal 2003 that were not considered comparable sales during fiscal 2003; and $2.6 million from comparable restaurant sales. Total restaurant operating weeks increased approximately 21% to 3,531 during fiscal 2003.

Average sales per restaurant operating week for restaurants open during the full fiscal year decreased slightly to $208,100 in fiscal 2003 compared to $210,400 for fiscal 2002. This decline was principally due to severe weather throughout much of the country during the first six months of the year that resulted in approximately 22 lost days of restaurant sales due to restaurant closings and reduced availability of our outdoor patio seats. In addition, several of our newer restaurants experienced expected sales decreases to their sustainable run–rate levels after their "honeymoon" opening period. Refer to Item 1: Business – "New Restaurant Sales and Investment Characteristics" in this Annual Report on Form 10–K.

Comparable restaurant sales increased approximately 0.7% during fiscal 2003 and our effective price increase for the full fiscal year was approximately 1.2%. Comparable restaurant sales were also impacted by the severe weather during the first six months of the year.

Bakery sales to other foodservice operators, retailers and distributors decreased 13% to $42.6 million in fiscal 2003 compared to $48.7 million in the prior fiscal year. During the first half of fiscal 2002, bakery sales were unusually high principally as a result of the initial inventory pipeline fills for new relationships with the largest warehouse club operator and a national retailer. In addition, a former large–account foodservice industry customer discontinued purchasing our product in the third quarter of fiscal 2002 following a voluntary product withdrawal and recall. Sales to warehouse club operators represented approximately 62% of total bakery sales for fiscal 2003 compared to 56% for fiscal 2002.

Restaurant Cost of Sales

Restaurant cost of sales increased 23% to $175.7 million in fiscal 2003 compared to $143.0 million in fiscal 2002. This increase was primarily attributable to the 21% increase in restaurant sales during fiscal 2003. As a percentage of restaurant sales, these costs increased to 24.0% during fiscal 2003 compared to 23.7% for the prior fiscal year.

Bakery Cost of Sales

Bakery cost of sales were $19.7 million for fiscal 2003 compared to $22.6 million for the prior fiscal year. The decrease of $2.9 million was principally attributable to the 13% decrease in bakery sales for fiscal 2003. As a percentage of bakery sales, bakery cost of sales remained relatively unchanged at 46.3% for fiscal 2003 compared to 46.4% for fiscal 2002.

Labor Expenses

Labor expenses increased 19.5% to $239.4 million for fiscal 2003 compared to $200.3 million for fiscal 2002. This increase was principally due to the 19% increase in total revenues during fiscal 2003. As a percentage of total revenues, labor expenses increased slightly to 30.9% for fiscal 2003 compared to 30.7% for fiscal 2002 reflecting the reverse leverage from the lower than expected restaurant and bakery sales due to weather conditions during the first three months of fiscal 2003 on the fixed portion of labor costs in both operations. In addition, the severe winter weather in 2003 made it difficult for managers to adjust hourly labor. Labor expenses were also affected by increased costs for health insurance benefits.

Other Operating Costs and Expenses

Other operating costs and expenses increased 20.3% to $181.0 million for fiscal 2003 compared to $150.5 million for fiscal 2002. This increase was principally attributable to the 19% increase in total revenues for fiscal 2003. As a percentage of total revenues, other operating costs and expenses increased to 23.4% for fiscal 2003 versus 23.1% for fiscal 2002. This increase was due primarily to increased costs for natural gas and electric services to our restaurants amounting to approximately 30 basis points of total revenues; higher costs for our insurance arrangements of approximately 10 basis points and increased selling, distribution and promotional costs related to our outside bakery sales. These increases were partially offset by costs incurred only in fiscal 2002 associated with the August 2002 bakery product withdrawal of approximately $2.1 million or 0.3% of total revenues.

General and Administrative Expenses

G&A expenses increased 13.0% to $35.8 million for fiscal 2003 compared to $31.7 million for fiscal 2002. This increase was principally due to the planned growth of our supervision and support organizations commensurate with the growth of our restaurant and bakery operations during fiscal 2003. As a percentage of total revenues, G&A expenses decreased to 4.6% for fiscal 2003 compared to 4.9% for the prior fiscal year, as the 13.0% increase in these expenses for fiscal 2003 was less than the 19% increase in total revenues for the year.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased 22.1% to $28.2 million for fiscal 2003 compared to $23.1 million for fiscal 2002. This increase was principally due to new restaurant openings. As a percentage of total revenues, depreciation and amortization expenses were 3.7% and 3.5% for fiscal 2003 and 2002, respectively.

Preopening Costs

Preopening costs increased 10.9% to $12.2 million for fiscal 2003 compared to $11.0 million for the prior fiscal year. We opened fourteen restaurants during fiscal 2003 compared to twelve openings during fiscal 2002. In addition, preopening costs were incurred in both years for restaurant openings in progress.

Interest Income, Net, Other Income and Income Tax Provision

Interest income, net decreased to $3.4 million for fiscal 2003 compared to $3.9 million for fiscal 2002. This decrease was principally due to lower yields on our interest–bearing cash and short–term investments that, in turn, were attributable to the decline in the general level of interest rates during fiscal 2003. In addition, we recorded interest expense of approximately $0.1 million in fiscal 2003 associated with landlord construction allowances deemed to be financing in accordance with EITF 97–10, "The Effect of Lessee Involvement in Asset Construction". See Note 1 of Notes to Consolidated Financial Statements included in this Form 10–K.

Other income for fiscal 2003 was $2.9 million compared to $2.2 million for fiscal 2002. This increase was principally due to higher gains on the sales of investments and marketable securities in order to fund the Company's working capital requirements. Our effective income tax rate was 35.1% for fiscal 2003 compared to 35.7% for fiscal 2002.

Liquidity and Capital Resources

Our corporate finance strategy is to maintain a strong, conservative balance sheet in order to support our growth plan with financial flexibility; to provide the financial resources necessary to protect and enhance the competitiveness of our restaurant and bakery operations; and to provide a prudent level of financial capacity to manage the risks and uncertainties of conducting our business operations on a much larger scale. Our ongoing capital requirements are principally related to our restaurant expansion plan. Similar to many restaurant and retail chain store operations, we utilize operating lease arrangements for substantially all of our restaurant locations. We believe that our operating lease arrangements continue to provide appropriate leverage for our capital structure in a financially efficient manner. However, we are not limited to the use of lease arrangements as our only method of opening new restaurants. While most of our operating lease obligations are not required to be reflected as indebtedness on our consolidated balance sheet, the minimum base rents and related fixed obligations under our lease agreements must be satisfied by cash flows from our ongoing operations. Accordingly, our lease arrangements reduce, to some extent, our capacity to utilize funded indebtedness in our capital structure.

We also require capital resources to maintain our existing base of restaurants, further expand and strengthen the capabilities of our corporate and information technology infrastructures, and maintain and expand our bakery production capacity. In the past, we have obtained capital from our ongoing operations, public stock offerings, employee stock option exercises and construction contributions from our landlords. Our requirement for working capital is not significant, since our restaurant guests pay for their food and beverage purchases in cash or cash equivalents at the time of sale, and we are able to sell many of our food inventory items before payment is due to the suppliers of such items.

The following table presents, for the periods indicated, a summary of the Company's key liquidity measurements.

	Fiscal Year		
	2004	2003	2002
		(restated)	(restated)
	(dollar amounts in millions)		
Cash and marketable securities on hand, end of year	$ 151.5	$ 137.0	$ 114.5
Net working capital, end of year	$ 4.7	$ 30.9	$ 15.8
Adjusted net working capital, end of year (1)	$ 110.8	$ 118.7	$ 107.5
Current ratio, end of year	1.0:1	1.4:1	1.3:1
Adjusted current ratio, end of year (1)	2.0:1	2.5:1	2.9:1
Long–term debt, end of year (2)	$ 17.0	$ 6.7	$ —
Cash provided by operations	$ 150.1	$ 117.6	$ 91.5
Capital expenditures	$ 161.9	$ 113.3	$ 84.6

(1) Includes all marketable securities classified as either current assets ($31.4 million, $34.0 million and $11.8 million for fiscal year 2004, 2003 and 2002, respectively) or noncurrent assets ($106.1 million, $87.9 million and $91.6 million for fiscal 2004, 2003 and 2002, respectively).

(2) Represents deemed landlord financing liability. See Note 1 of Notes to Consolidated Financial Statements in Item 8 of this report.

During fiscal 2004, our total amount of cash and marketable securities on hand increased by $14.5 million to $151.5 million as of December 28, 2004. This increase was principally due to cash flow from operations, proceeds from the exercise of employee stock options and deemed landlord financing, partially offset by additions to property and equipment and purchases of treasury stock. In the table above, we also present adjusted net working capital and current ratio calculations that include all marketable securities classified as either current or noncurrent assets. We believe these adjusted calculations provide investors with useful information regarding our overall liquidity position because all marketable securities are readily available to meet our liquidity requirements. We continue to target a weighted average maturity for our marketable securities investment portfolio between one and two years. Accordingly, a substantial portion of our investments is classified as noncurrent assets, but remains available for our liquidity requirements.

We maintain a $35 million revolving credit and term loan facility (the "Credit Facility"), which expires on December 31, 2006. As of April 1, 2005, there were no borrowings outstanding under the Credit Facility. $14.3 million of the Credit Facility has been reserved to support standby letters of credit for our self–insurance programs. Borrowings under the Credit Facility will bear interest at variable rates based, at our option, on either the prime rate of interest, the lending institution's cost of funds plus 0.75%, or the applicable LIBOR rate plus 0.75%. Upon expiration of the Credit Facility, a maximum of $35 million of any borrowings outstanding under the Credit Facility automatically convert into a four–year term loan, payable in equal quarterly installments at interest rates of 0.5% higher than the applicable revolving credit rates. The Credit Facility is not collateralized and requires us to maintain certain financial ratios and to observe certain restrictive covenants with respect to the conduct of our operations, with which we are currently in compliance.

Our new restaurant development model more closely resembles that of a retail business that occupies leased space in shopping malls, office complexes, strip centers, entertainment centers and other real estate developments. We typically seek to lease our restaurant locations for primary periods of 15 to 20 years under operating lease arrangements. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum base and contingent (percentage) rent based on sales, as well as other expenses related to the leases (for example our share of common area maintenance, property tax and insurance expenses). We disburse cash for leasehold improvements and furnishings, fixtures and equipment to build out our leased premises. We may also disburse cash for structural additions that we make to leased premises that generally are reimbursed to us by our landlords as construction contributions pursuant to agreed–upon terms in the respective leases. If obtained, landlord construction contributions usually take the form of up–front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. See Note 1 of Notes to Consolidated Financial Statements in Item 8 of this report for additional discussion on the accounting treatment of amounts paid for structural components and the related landlord construction contributions. In the future, we may also develop more freestanding restaurant locations using both ground leases and built–to–suit leases, which are common arrangements used to finance freestanding locations in the restaurant industry. We do not have any current plans to encumber our existing leasehold interests with secured financing. We own substantially all of the equipment, furniture and trade fixtures in our restaurants and currently plan to do so in the future.

During fiscal 2004, our cash outlays and accrued liability for capital expenditures was approximately $162 million. Of that amount, new restaurant openings (including several restaurants under development as of December 28, 2004) accounted for approximately $119 million, approximately $14 million represented maintenance and capacity addition outlays for our existing restaurants and approximately $8 million related to bakery and corporate infrastructure investments. The remaining $21 million was utilized to purchase a newly constructed two–story building contiguous to our bakery production facility in California to accommodate our eventual need for additional support personnel and space for those personnel as we continue to grow our company. We had previously leased the first floor of this building for our culinary, training and operations support activities. The purchase price was funded with available cash and investments. We will incur additional expenditures to finish out the interior of the building, as space is needed. Although we purchased the building with available cash and investments, we may consider mortgage and other refinancing alternatives in the future.

For fiscal 2005, we currently estimate our cash outlays for capital expenditures to range between $158 and $166 million, net of agreed–upon up–front cash landlord construction contributions and excluding $17–$18 million of expected noncapitalizable preopening costs for new restaurants. This amount also excludes approximately $6 million of landlord construction contributions to be paid as reductions to minimum or percentage rent over the term of the lease. The amount reflected as additions to property and equipment in the Consolidated Statements of Cash Flows may vary from this estimate based on the accounting treatment of each operating lease. See Note 1 of Notes to Consolidated Financial Statements in Item 8 of this report. This estimate contemplates a net outlay of $125–$128 million for as many as 18 new restaurants to be opened during fiscal 2005, estimated construction–in–progress disbursements for anticipated fiscal 2006 openings and estimated collections of up–front cash landlord construction contributions. Expected capital expenditures for fiscal 2005 also include approximately $12–$13 million for maintenance and capacity addition expenditures to our existing restaurants and $7–$8 million for corporate infrastructure investments, including interior build–out of our corporate support and training center. In addition, we expect to spend approximately $1–$2 million for maintenance and enhancements to our existing bakery production facility and approximately $13–$15 million related to establishing a second bakery production facility.

Based on our current expansion objectives, we believe that our cash and short–term investments on hand, combined with expected cash flow provided by operations, available borrowings under our Credit Facility and expected landlord construction contributions should be sufficient in the aggregate to finance our planned capital expenditures and other operating activities through fiscal 2005. We may seek additional funds to finance our growth in the future. However, there can be no assurance that such funds will be available when needed or be available on terms acceptable to us.

During fiscal 2004, our Board of Directors increased the share repurchase authorization to 6,000,000 from 2,531,250. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. Under this authorization, we have repurchased a total of 1,950,967 shares for a total cost of $26.5 million through December 28, 2004. Our share repurchase agreement does not require us to repurchase any common stock and may be discontinued at any time.

As of April 1, 2005, we had no financing transactions, arrangements or other relationships with any unconsolidated entities or related parties. Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts.

Contractual Obligations and Commercial Commitments

The following schedules summarize our contractual obligations and commercial commitments as of December 28, 2004 (amounts in millions):

Contractual obligations	Total	2005	2006	2007	2008	2009	Thereafter
Operating leases (1)	$ 657.9	$ 33.9	$ 35.5	$ 36.3	$ 35.3	$ 36.2	$ 480.7
Purchase obligations (2)	181.5	87.7	26.0	22.8	17.0	14.6	13.4
Total	$ 839.4	$ 121.6	$ 61.5	$ 59.1	$ 52.3	$ 50.8	$ 494.1
Other commercial commitments							
Standby letters of credit	$ 14.3	$ 14.3	$ —	$ —	$ —	$ —	$ —

(1) Represents aggregate minimum lease payments. Most of the leases also require contingent rent in addition to the minimum base rent based on a percentage of sales ranging from 3.5% to 10% and require expenses incidental to the use of the property.

(2) Amounts represent noncancelable commitments for the purchase of goods and estimated construction commitments, net of agreed–upon up–front landlord construction contributions.

We expect to fund our contractual obligations primarily with operating cash flows generated in the normal course of business.

Critical Accounting Policies

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

Property and Equipment

We record all property and equipment at cost less accumulated depreciation. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight–line method over the estimated useful life of the assets or the primary lease terms of the respective leases plus any exercised extensions of those lease terms, whichever is shorter. The useful life of property and equipment and the determination as to what constitutes a capitalized cost versus a repair and maintenance expense involves judgments by management. These judgments may produce materially different amounts of depreciation expense than if different assumptions were used.

Leases

We currently lease all of our restaurant locations. We account for our leases under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases," and subsequent amendments which require that our leases be evaluated and classified as operating or capital leases for financial reporting purposes. All of our restaurant leases are classified as operating leases pursuant to the requirements of SFAS No. 13.

Minimum base rent for our operating leases, which generally have escalating rentals over the term of the lease, is recorded on a straight–line basis over the initial lease term and those renewal periods that have been exercised. The initial rent term includes the "build–out", or rent holiday period, for our leases, where no rent payments are typically due under the terms of the lease. Contingent rent expense, which is based on a percentage of revenue, is also recorded to the extent it exceeds minimum base rent per the lease agreement.

We disburse cash for leasehold improvements and furnishings, fixtures and equipment to build out and equip our leased premises. We may also expend cash for structural components of the building that we make to leased premises that generally are reimbursed to us by our landlords as construction contributions pursuant to agreed–upon terms in our leases. Landlord construction contributions usually take the form of up–front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. Depending on the specifics of the leased space, the lease agreement and in accordance with EITF 97–10, "The Effect of Lessee Involvement in Asset Construction," during the construction period, the amounts paid for structural components will be recorded as either prepaid rent or construction–in–progress and the landlord construction contributions will be recorded as either an offset to prepaid rent or as a deemed landlord financing liability.

Upon completion of construction for those leases that meet the criteria of EITF 97–10, the lease may qualify for sale–leaseback treatment in accordance with SFAS No. 98. For these leases, the deemed landlord financing liability and the associated construction–in–progress will be removed and the difference will be reclassified to prepaid or deferred rent and amortized over the lease term as an increase or decrease to rent expense. If the lease does not qualify for sale–leaseback treatment in accordance with SFAS No. 98, the deemed landlord financing liability will be amortized over the lease term based on the rent payments designated in the lease agreement.

Self–Insurance Liability:

We are self–insured for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, employee health benefits and other insurable risks. The accrued liabilities associated with these programs are based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us ("IBNR claims") as of the balance sheet date. Our estimated liabilities are not discounted and are based on information provided by our insurance brokers and insurers, combined with our judgments regarding a number of assumptions and factors, including the frequency and severity of claims, claims development history, case jurisdiction, applicable legislation and our claims settlement practices. The Company maintains stop–loss coverage with third party insurers to limit its total exposure for each of these programs. The estimated amounts receivable from our third–party insurers under this coverage are recorded in other assets. Significant judgment is required to estimate IBNR claims as parties have yet to assert such claims. If actual claims trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

Stock–Based Compensation:

We maintain performance incentive plans under which incentive stock options, non–qualified stock options, stock appreciation rights, restricted shares, deferred shares, performance shares and performance units may be granted to employees, consultants and non–employee directors. We account for stock–based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Our policy is to grant all stock options at the fair market value of the underlying stock at the date of grant. Accordingly, we do not recognize compensation expense for company–issued stock options in our financial statements.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share–Based Payment," which requires compensation expense associated with stock options to be included in the financial statements beginning with the first interim or annual period after June 15, 2005. See Recent Accounting Pronouncements for further discussion.

Income Taxes

We provide for income taxes based on our estimate of federal and state tax liabilities. Our estimates include, but are not limited to, effective state and local income tax rates, allowable tax credits for items such as FICA taxes paid on reported tip income, and estimates related to depreciation expense allowable for tax purposes. Our estimates are made based on the best available information at the time that we prepare our income tax provision. In making our estimates, we also consider the impact of legislative and judicial developments. As these developments evolve, we will update our estimates, which, in turn, could result in an adjustment to our effective tax rate. We usually file our income tax returns many months after our fiscal year–end. All tax returns are subject to audit by federal and state governments, usually years after the returns are filed, and could be subject to differing interpretations of the tax laws. See Note 8 to our Consolidated Financial Statements in Item 8 of this report.

Recent Accounting Pronouncements

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs – an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current–period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 151 to have a significant impact on its consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share–Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock–Based Compensation," ("SFAS 123") and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share–based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R in the third quarter of fiscal 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share–based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R will have a material impact on our consolidated results of operations and earnings per share. The Company has not yet determined the method of adoption or the effect of adopting SFAS 123R, and it has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

Impact of Inflation and Changes in the Costs of Key Operating Resources

Our profitability is dependent, among other things, upon our ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, energy and other supplies and services. Substantial increases in costs and expenses could impact our operating results to the extent that such increases cannot be passed along to our restaurant and bakery customers. While we have taken steps to qualify multiple suppliers and enter into agreements for some of the commodities used in our restaurant and bakery operations, there can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control. We are currently unable to contract for many of our fresh commodities such as fish and dairy items (except for cream cheese used in our bakery operations) for periods longer than 30 days. Consequently, such commodities can be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. The impact of inflation on food, labor, energy and occupancy costs can significantly affect the profitability of our restaurant and bakery operations.

Many of our restaurant and bakery employees are paid hourly rates related to the federal minimum wage, which most recently increased in 1997. Proposals are currently pending in Congress to again increase the federal minimum wage. Several state and local governments have recently increased the minimum wage within their jurisdiction and others are presently considering such increases. Additionally, a general shortage in the availability of qualified restaurant management and hourly workers in certain geographical areas in which we operate has caused related increases in the costs of recruiting and compensating such employees. Certain operating costs, such as taxes, insurance and other outside services continue to increase with the general level of inflation or higher and may also be subject to other cost and supply fluctuations outside of our control.

While the Company has been able to react to inflation and other changes in the costs of key operating resources by gradually increasing prices for its menu items and bakery products, coupled with more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be able to continue to do so in the future. From time to time, competitive conditions could limit our menu pricing flexibility. We cannot guarantee that all future cost increases can be offset by increased menu prices or that increased menu prices will be fully absorbed by our restaurant guests without any resulting changes in their visit frequencies or purchasing patterns. Substantially all of the leases for our restaurants provide for contingent rent obligations based on a percentage of sales. As a result, rent expense will absorb a proportionate share of any menu price increases in our restaurants. There can be no assurance that we will continue to generate increases in comparable restaurant sales and bakery sales in amounts sufficient to offset inflationary or other cost pressures.

Seasonality and Quarterly Results

Our business is subject to seasonal fluctuations. Historically, our highest levels of revenues and net income for our established restaurants have occurred in the second and third quarters of the fiscal year. Approximately two–thirds of our restaurants are located in or near shopping centers and malls that typically experience seasonal fluctuations in sales. Patio seating represents approximately 18% of the total available productive seating for all restaurants open as of April 1, 2005 and can be subject to disruption from inclement weather. Holidays, severe winter weather, hurricanes, thunderstorms and similar conditions may impact restaurant sales volumes seasonally in some of the markets where we operate. Our bakery operations are seasonal to the extent that the fourth quarter's sales are typically higher due to holiday business. Additionally, bakery sales comparisons may fluctuate significantly from quarter to quarter due to the timing and size of orders from our larger bakery customers. Quarterly results have been and will continue to be significantly impacted by the timing of new restaurant openings and their associated preopening costs. As a result of these and other factors, the Company's financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of market risks contains forward–looking statements. Actual results may differ materially from the following discussion based on general conditions in the financial and commodity markets.

We are exposed to market risk from changes in interest rates on funded debt. This exposure relates to our $35 million revolving credit and term loan facility (the "Credit Facility"). There were no borrowings outstanding under the Credit Facility during fiscal 2002, 2003, 2004 and fiscal 2005 through April 1, 2005. Borrowings under the Credit Facility bear interest at variable rates based on either the prime rate of interest, the lending institution's cost of funds plus 0.75% or LIBOR plus 0.75%. A hypothetical 1% interest rate change would not have any current impact on our results of operations.

A change in market prices also exposes us to market risk related to our investments in marketable securities. As of December 28, 2004, we held $137.5 million in available–for–sale marketable securities. A hypothetical 10% decline in the market value of those securities would result in a $13.7 million unrealized loss and a corresponding decline in their fair value. This hypothetical decline would not affect our cash flows unless the securities were disposed of.

We purchase food and other commodities for use in our operations, based upon market prices established with our suppliers. Many of the commodities purchased by us can be subject to volatility due to market supply and demand factors outside of our control. To manage this risk in part, we attempt to enter into fixed price purchase commitments, with terms typically up to one year, for many of our commodity requirements. However, we are currently unable to contract for many of our fresh commodities such as fish and dairy items (except for cream cheese used in our bakery operations) for periods longer than 30 days. Dairy costs can also fluctuate due to government regulation. We believe that substantially all of our food and supplies are available from several sources, which helps to diversify our overall commodity cost risk. We also believe that we have the ability to increase certain menu prices, or vary certain menu items offered, in response to food commodity price increases. Some of our commodity purchase arrangements may contain contractual features that limit the price paid by establishing certain price floors or caps. The Company does not use financial instruments to hedge commodity prices, since our purchase arrangements with suppliers, to the extent that we can enter into such arrangements, help control the ultimate cost that we pay.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements required to be filed hereunder are set forth on pages 43 through 68 of this report.

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

None.

ITEM 9A: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures that are designed to ensure that material information relating to the Company and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management was necessarily required to apply its judgment in evaluating the cost–benefit relationship of possible controls and procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the date of such evaluation.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a–15(f), internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 28, 2004 based on the criteria in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon this evaluation, our management concluded that our internal control over financial reporting was effective as of December 28, 2004.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited our financial statements included in this Annual Report on Form 10–K, has also audited our management's assessment of the effectiveness of the Company's internal control over financial reporting and the effectiveness of the Company's internal control over financial reporting as of December 28, 2004 as stated in their report included herein.

Management's Consideration of the Restatement

In coming to the conclusion that our disclosure controls and procedures and our internal control over financial reporting were effective as of December 28, 2004, our management considered, among other things, the control deficiency related to the accounting for leases, which resulted in the need to restate our previously issued financial statements as disclosed in Note 1 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10–K. After reviewing and analyzing the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 99, "Materiality," Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" paragraph 29 and SAB Topic 5–F, "Accounting Changes Not Retroactively Applied Due to Immateriality," and taking into consideration (i) that the restatement adjustments did not have a material impact on the financial statements of prior interim or annual periods taken as a whole; (ii) that the cumulative impact of the restatement adjustments on stockholders' equity was not material to the financial statements of prior interim or annual periods; and (iii) that we decided to restate our previously issued financial statements solely because the cumulative impact of the error, if recorded in the current period, would have been material to the current year's reported net income, our management concluded that the control deficiency that resulted in the restatement of the prior period financial statements was not in itself a material weakness. Furthermore, our management concluded that the control deficiency that resulted in the restatement when aggregated with other deficiencies did not constitute a material weakness.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recent quarter ended December 28, 2004 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company has adopted a code of ethics that applies to, among others, its principal executive officer, principal financial officer, and principal accounting officer. Information with respect to our executive officers is included in Item 1 of this report. Other information required by this item is hereby incorporated by reference from the section entitled "Proposal 1 – Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 24, 2005 (the "Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference to the sections entitled "Meetings, Attendance and Fees", "Report of the Compensation Committee of the Board of Directors on Executive Compensation", "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" in the Proxy Statement.

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

The information required by this item is hereby incorporated by reference to the sections entitled "Equity Compensation Plan Information" and "Beneficial Ownership of Principal Stockholders and Management" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is hereby incorporated by reference to the section entitled "Executive Compensation" in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is hereby incorporated by reference to the section entitled "Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this report:

(a) 1. Financial Statements:

The Consolidated Financial Statements required to be filed hereunder are listed in the Index to Consolidated Financial Statements on page 43 of this report.

2. Financial Statement Schedules:

None.

3. Exhibits:

The Exhibits required to be filed hereunder are listed in the exhibit index included herein at page 69.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	December 28, 2004	December 30, 2003
		(restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,041	$ 15,167
Investments and marketable securities	31,369	33,988
Accounts receivable	8,492	7,360
Other receivables	23,103	18,416
Inventories	22,527	20,434
Prepaid expenses	9,646	12,182
Deferred income taxes	5,368	4,725
Total current assets	114,546	112,272
Property and equipment, net	485,972	369,644
Other assets:		
Marketable securities	106,102	87,852
Trademarks	2,327	2,046
Prepaid rent	32,885	25,829
Other	15,885	12,159
Total other assets	158,199	127,886
Total assets	$ 758,717	$ 609,802
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 32,041	$ 25,996
Income taxes payable	3,411	—
Other accrued expenses	74,394	55,402
Total current liabilities	109,846	81,398
Deferred income taxes	51,990	35,074
Deferred rent	28,564	20,264
Deemed landlord financing liability	17,025	6,710
Other noncurrent liabilities	8,440	9,631
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued and outstanding	—	—
Junior participating cumulative preferred stock, $.01 par value, 150,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value, 150,000,000 shares authorized; 79,884,285 and 52,126,185 shares issued at December 28, 2004 and December 30, 2003, respectively	799	521
Additional paid–in capital	258,812	229,157
Retained earnings	310,624	244,435
Unrealized loss on available–for–sale securities	(897)	(161)
Treasury stock, 1,950,967 and 1,615,950 shares at cost at December 28, 2004 and December 30, 2003, respectively	(26,486)	(17,227)
Total stockholders' equity	542,852	456,725
Total liabilities and stockholders' equity	$ 758,717	$ 609,802

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Fiscal Year 2004	Fiscal Year 2003 (restated)	Fiscal Year 2002 (restated)
Revenues:			
Restaurant sales	$ 916,375	$ 731,273	$ 603,295
Bakery sales to other foodservice operators, retailers and distributors	52,857	42,562	48,675
Total revenues	969,232	773,835	651,970
Costs and expenses:			
Restaurant cost of sales	230,854	175,654	142,998
Bakery cost of sales	26,222	19,716	22,631
Labor expenses	298,387	239,386	200,279
Other operating costs and expenses	223,519	180,963	150,458
General and administrative expenses	40,639	35,817	31,702
Depreciation and amortization expenses	35,943	28,228	23,099
Preopening costs	14,787	12,174	11,019
Total costs and expenses	870,351	691,938	582,186
Income from operations	98,881	81,897	69,784
Interest income, net	2,234	3,354	3,885
Other income	966	2,944	2,178
Income before income taxes	102,081	88,195	75,847
Income tax provision	35,543	30,965	27,076
Net income	$ 66,538	$ 57,230	$ 48,771
Net income per share:			
Basic	$ 0.86	$ 0.76	$ 0.66
Diluted	$ 0.84	$ 0.74	$ 0.64
Weighted average shares outstanding:			
Basic	77,613	75,633	73,899
Diluted	79,395	77,772	76,737

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total
Balances, January 1, 2002 as restated (see Note 1)	$ 486	$ 159,075	$ 138,434	$ 530	$ (9,321)	$ 289,204
Comprehensive income:						
Net income as restated	—	—	48,771	—	—	
Net unrealized gain	—	—	—	1,134	—	
Total comprehensive income as restated						49,905
Issuance of common stock from exercise of stock options	24	21,558	—	—	—	21,582
Tax benefit related to stock options exercised	—	25,361	—	—	—	25,361
Purchase of treasury stock	—	—	—	—	(7,059)	(7,059)
Balances, December 31, 2002 as restated	510	205,994	187,205	1,664	(16,380)	378,993
Comprehensive income:						
Net income as restated	—	—	57,230	—	—	
Net unrealized loss	—	—	—	(1,825)	—	
Total comprehensive income as restated						55,405
Issuance of common stock from exercise of stock options	11	12,644	—	—	—	12,655
Tax benefit related to stock options exercised	—	10,519	—	—	—	10,519
Purchase of treasury stock	—	—	—	—	(847)	(847)
Balances, December 30, 2003 as restated	521	229,157	244,435	(161)	(17,227)	456,725
Comprehensive income:						
Net income	—	—	66,538	—	—	
Net unrealized loss	—	—	—	(736)	—	
Total comprehensive income						65,802
Three-for-two stock split	266	—	(266)	—	—	—
Issuance of common stock from exercise of stock options	12	16,301	—	—	—	16,313
Tax benefit related to stock options exercised	—	13,354	—	—	—	13,354
Dividends paid for fractional shares	—	—	(83)	—	—	(83)
Purchase of treasury stock	—	—	—	—	(9,259)	(9,259)
Balances, December 28, 2004	$ 799	$ 258,812	$ 310,624	$ (897)	$ (26,486)	$ 542,852

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Fiscal Year		
	2004	2003	2002
		(restated)	(restated)
Cash flows from operating activities:			
Net income	$ 66,538	$ 57,230	$ 48,771
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	35,943	28,228	23,099
Gain on available–for–sale securities	(195)	(2,456)	(1,797)
Deferred income taxes	16,668	11,557	11,189
Tax benefit related to stock options exercised	13,354	10,519	25,361
Changes in assets and liabilities:			
Accounts receivable	(1,132)	(1,870)	255
Other receivables	(4,606)	(1,794)	(7,070)
Inventories	(2,093)	(2,449)	(7,214)
Prepaid expenses	613	(3,705)	(4,323)
Other	(10,400)	(8,656)	(7,982)
Accounts payable	6,045	11,157	(4,046)
Income taxes payable	3,411	—	(2,837)
Other accrued expenses	25,992	19,800	18,051
Cash provided by operating activities	150,138	117,561	91,457
Cash flows from investing activities:			
Additions to property and equipment	(161,898)	(113,327)	(84,624)
Investments in available–for–sale securities	(113,467)	(174,205)	(119,970)
Sales of available–for–sale securities	96,900	155,435	98,338
Cash used in investing activities	(178,465)	(133,097)	(406,256)
Cash flows from financing activities:			
Deemed landlord financing proceeds	20,230	6,862	—
Issuance of common stock	12	11	24
Dividends paid for fractional shares	(83)	—	—
Proceeds from exercise of employee stock options	16,301	12,644	21,558
Purchase of treasury stock	(9,259)	(847)	(7,059)
Cash provided by financing activities	27,201	18,670	14,523
Net change in cash and cash equivalents	(1,126)	4,134	(276)
Cash and cash equivalents at beginning of period	15,167	11,033	11,309
Cash and cash equivalents at end of period	$ 14,041	$ 15,167	$ 11,033
Supplemental disclosures:			
Interest paid	$ 492	$ 112	$ —
Income taxes paid	$ 4,393	$ 12,730	$ 283

See the accompanying notes to the consolidated financial statements.

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Description of Business

The Cheesecake Factory Incorporated (referred to herein as the "Company" or in the first person notations "we", "us" and "our") operates full-service, casual dining restaurants under The Cheesecake Factory® and Grand Lux Cafe® marks. We also operate one self-service, limited menu "express" foodservice operation under The Cheesecake Factory Express® mark. Additionally, we operate a bakery production facility in Calabasas Hills, California that produces baked desserts and other products for our restaurants and for other foodservice operators, retailers and distributors. We also license three bakery cafes under The Cheesecake Factory Bakery Cafe® mark to another foodservice operator. All of our company-operated and licensed restaurants and our bakery production facility are located within the United States of America.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions for the periods presented have been eliminated in consolidation.

Fiscal Year

We utilize a 52/53 week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal 2004, 2003 and 2002 each consisted of 52 weeks. Fiscal 2005 will consist of 53 weeks and will end on Tuesday, January 3, 2006. Fiscal 2006 will consist of 52 weeks.

Restatement of Previously Issued Consolidated Financial Statements

Restatement of Financial Statements

We began a review of our lease accounting policies following announcements in December 2004 that several restaurant companies were revising their accounting practices for leases. In February 2005, the Chief Accountant of the Securities and Exchange Commission ("SEC") issued a letter to the American Institute of Certified Public Accountants expressing the SEC staff's views relating to certain lease accounting issues. As a result of our review, we changed our accounting for leases in 2004 and restated our historical financial statements and certain financial information for prior periods to correct errors in our lease accounting policies. The restatement adjustments are non-cash and had no impact on revenues or net cash flows.

The changes to our lease accounting policies fall into several different categories.

Contingent Rent

We lease all of our restaurant locations under operating lease agreements with terms of approximately 15 to 20 years. Most of these agreements require us to pay contractual annual rent ("minimum base rent") plus contingent rent based on a percentage of restaurant sales to the extent this amount exceeds the minimum base rent. The lease agreements also generally include scheduled increases in the minimum base rent.

1. **Summary of Significant Accounting Policies (continued):**

In prior periods, we recorded rent expense for the greater of the minimum base rent, as adjusted for scheduled increases over the lease term, or the contingent rent based on a percentage of sales. As our restaurants have consistently operated at very high volumes, contingent rent was historically in excess of such minimum base rent. Consequently, with respect to leases requiring contingent rent payment, our accounting for rent expense reflected the contingent rent amount. We have determined that in accordance with Statement of Financial Accounting Standards ("SFAS") No. 29, "Determining Contingent Rentals," we should have recorded the straight–lined minimum base rent over the lease term plus contingent rent to the extent it exceeded minimum base rent per the lease agreement. Total rent expense over the term of the lease will not change as a result of this correction in accounting treatment. Based on our experience of consistently achieving sales requiring the payment of contingent rent, this adjustment will increase rent expense in the first half of the lease term and likewise decrease rent expense in the second half of the lease term.

Rent Holiday

Historically, we began the recognition of rent expense with the stated rent commencement date (generally the date we open to the public) according to the lease. We have determined that in accordance with SFAS No. 13, "Accounting for Leases," we should have included the rent holiday period, which is defined as the date from when we began our tenant improvements to the property until the stated rent commencement date per the lease, as part of the lease term for purposes of straight–lining minimum base rent. Of the rent allocated to the rent holiday period, the portion incurred during the tenant improvement construction phase can be capitalized. Once construction is complete and the building is ready for its intended use, rent for the remainder of the holiday period should be expensed.

Landlord Contributions

We often receive landlord contributions of monies to offset the costs of constructing structural components for the leased space. These monies can be direct cash reimbursements or offsets to minimum or percentage rent payments over the term of the lease. Historically, we have netted these reimbursements against the cost incurred by the Company for the structural components and depreciated the net amount over the lease term. In accordance with SFAS No. 13, "Accounting for Leases," Emerging Issues Task Force ("EITF") No. 97–10, "The Effect of Lessee Involvement in Asset Construction," and SFAS No. 98, "Accounting for Leases: Sale–Leaseback Transactions Involving Real Estate, Sales–Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases," we should have accounted for each operating lease based on the following criteria:

- Landlord contributions received in the form of offsets to percentage rent should be recorded as a reduction to rent expense in the period earned.
- In those cases where we did not meet the criteria of EITF 97–10 for being deemed the owner of the structural components of the building during the construction period, we should have recorded the amounts incurred for those structural components as increases to prepaid rent and the associated landlord contributions earned as deductions to prepaid rent. Upon completion of construction, the net balance should have been amortized over the term of the lease as an increase or decrease to rent expense.
- In those cases where we did meet the criteria of EITF 97–10 for being deemed the owner of the structural components of the building, we should have been considered the owner of those structural components during the construction period and we should have recorded amounts paid for these components as construction–in–progress and the associated landlord construction contributions as a deemed landlord financing liability. Upon completion of construction, for those leases that qualified for sale–leaseback treatment in accordance with SFAS No. 98, we should have removed the deemed landlord financing liability and the associated construction–in–progress and the difference should have been reclassified to prepaid or deferred rent and amortized over the lease term as an increase or decrease to rent expense. For those leases that did not qualify for sale–leaseback treatment in accordance with SFAS No. 98, we should have amortized the deemed landlord financing liability over the lease term based on the rent payments designated in the lease agreement.

1. Summary of Significant Accounting Policies (continued):

We restated our Consolidated Balance Sheet at December 30, 2003 and the Consolidated Statements of Operations, Stockholders' Equity and Cash Flows for the years ended December 30, 2003 and December 31, 2002. The adjustments associated with the above corrections in our accounting for leases reduced net income by $606,000 and $304,000 and had no impact on diluted net income per share for the years ended December 30, 2003 and December 31, 2002, respectively. These adjustments also resulted in a $267,000 reduction in retained earnings as of January 1, 2002. We also restated the quarterly financial information for fiscal 2003 and the first three quarters of fiscal 2004 (see Note 15 of the Notes to Consolidated Financial Statements).

We did not amend our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the restatement since none of the differences in the prior years' financial statements are considered by management to be material. However, we determined the cumulative adjustment for the above corrections to be significant to the 2004 fourth quarter results and, therefore, restated the prior quarterly and annual information included in this Annual Report on Form 10-K. Accordingly, readers of the financial statements should read the restated information in this Annual Report on Form 10-K as opposed to the previously filed information.

The effects of our restatement on previously reported Consolidated Financial Statements as of December 30, 2003 and for the years ended December 30, 2003 and December 31, 2002 are summarized as follows.

The following table reflects the effects of the restatement on the Consolidated Balance Sheet (in thousands):

	December 30, 2003 (as previously reported)	December 30, 2003 (restated)
Selected Balance Sheet data:		
Other receivables	$ 23,416	$ 18,416
Prepaid expenses	10,403	12,182
Current assets	115,493	112,272
Property and equipment, net	359,969	369,644
Other receivables	7,371	—
Prepaid rent	—	25,829
Other	12,077	12,159
Total assets	584,808	609,802
Other accrued expenses	55,558	55,402
Current liabilities	81,554	81,398
Deferred income taxes	35,721	35,074
Deferred rent	—	20,264
Deemed landlord financing liability	—	6,710
Retained earnings	245,612	244,435
Total stockholders' equity	457,902	456,725
Total liabilities and stockholders' equity	$ 584,808	$ 609,802

1. **Summary of Significant Accounting Policies (continued):**

The following table reflects the effect of the restatement on the Consolidated Statements of Operations (in thousands, except per share data)

	Fiscal Year			
	2003	2003	2002	2002
Selected Statement of Operations Data:	(as previously reported)	(restated)	(as previously reported)	(restated)
Other operating costs and expenses	$ 180,725	$ 180,963	$ 150,617	$ 150,458
Depreciation and amortization expenses	27,960	28,228	22,855	23,099
Preopening costs	11,859	12,174	10,631	11,019
Total costs and expenses	691,117	691,938	581,713	582,186
Income from operations	82,718	81,897	70,257	69,784
Interest income, net	3,466	3,354	3,885	3,885
Income before income taxes	89,128	88,195	76,320	75,847
Income tax provision	31,292	30,965	27,245	27,076
Net income	$ 57,836	$ 57,230	$ 49,075	$ 48,771
Net income per share:				
Basic	$ 0.76	$ 0.76	$ 0.66	$ 0.66
Diluted	$ 0.74	$ 0.74	$ 0.64	$ 0.64

The following table reflects the effect of the restatement on the Consolidated Statements of Cash Flows (in thousands):

	Fiscal Year			
	2003	2003	2002	2002
Selected Cash Flow Data:	(as previously reported)	(restated)	(as previously reported)	(restated)
Net income	$ 57,836	$ 57,230	$ 49,075	$ 48,771
Depreciation and amortization	27,960	28,228	22,855	23,099
Deferred income taxes	11,884	11,557	11,358	11,189
Other receivables	(4,202)	(1,794)	(7,810)	(7,070)
Prepaid expenses	(3,353)	(3,705)	(3,976)	(4,323)
Other	(3,441)	(8,656)	(2,507)	(7,982)
Other accrued expenses	15,069	19,800	14,735	18,051
Cash provided by operating activities	116,654	117,561	93,452	91,457
Additions to property and equipment	(105,560)	(113,327)	(86,618)	(84,624)
Cash used in investing activities	(124,328)	(132,097)	(108,251)	(106,256)
Deemed landlord financing liability	—	6,862	—	—
Cash provided by financing activities	$ 11,808	$ 18,670	$ 14,523	$ 14,523

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less at date of purchase to be cash equivalents. Amounts receivable from credit card processors, totaling $4.3 million and $3.8 million at December 28, 2004 and December 30, 2003, respectively, are also considered cash equivalents because they are both short–term and highly liquid in nature and are typically converted to cash within three days of the sales transaction. Our centralized cash management system provides for the reimbursement of all major bank disbursement accounts on a daily basis. Checks issued but not yet presented for payment to our bank are reflected as a reduction of cash and cash equivalents in our accompanying consolidated balance sheets.

1. Summary of Significant Accounting Policies (continued):

Investments and Marketable Securities

We principally invest our excess cash balances in U.S. Treasury and Agency securities, investment grade corporate debt securities rated "A" or better and money market mutual funds. We record investments and marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 establishes accounting and reporting requirements for investments in equity securities that have readily determinable fair values and for all investments in debt securities. We generally classify all of our investments and marketable securities as available–for–sale securities, even though our current liquidity position and requirements provide us with the ability to hold a substantial amount of such securities to maturity. Debt securities classified as available–for–sale securities are reported at their fair value, with unrealized gains and losses excluded from net income and reported as a separate component of stockholders' equity (net of the related tax effect) until realized. Fair value is determined by the most recently traded price of each security at the balance sheet date, plus any accrued interest. Realized gains or losses are determined on the specific identification cost method. At December 28, 2004 and December 30, 2003, all of our investments and marketable securities were classified in the available–for–sale category.

Accounts and Other Receivables

Our accounts receivable principally result from credit sales to bakery customers. Other receivables consist of various amounts due from landlords, insurance providers and others in the ordinary course of business, refundable income taxes and accrued interest on investments and marketable securities.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk are cash and cash equivalents, investments and marketable securities, and accounts receivable. We currently maintain a majority of our day–to–day operating cash balances with two major financial institutions. At times, cash balances may be in excess of FDIC insurance limits. We place our temporary excess cash with major financial institutions that, in turn, invest in investment–grade commercial paper and other corporate obligations rated "A" or higher, certificates of deposit, government obligations and other investments and marketable securities. Our investment policy limits the amount of exposure to any one institution or investment. With respect to marketable securities, the net unrealized gain or loss on our investment portfolio as of December 28, 2004 and December 30, 2003 has been reported (net of the related tax effect) as a separate component within the stockholders' equity section of our consolidated balance sheets. We consider the concentration of credit risk for accounts receivable to be minimal as a result of our significant number of outside bakery customers, as well as the payment histories and general financial condition of our larger outside bakery customers.

Inventories

Inventories are stated at the lower of cost (first–in, first–out) or market and consist of restaurant smallware, food and other supplies, bakery raw materials and bakery finished goods.

1. Summary of Significant Accounting Policies (continued):

Property and Equipment

We record all property and equipment at cost less accumulated depreciation. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. Leasehold improvements include the cost of our internal development and construction department. Depreciation is calculated using the straight-line method over the estimated useful life of the assets or the primary lease terms of the respective leases plus any exercised extensions of those lease terms, whichever is shorter. Depreciation periods are as follows:

Land improvements	25 years
Buildings	30 years
Leasehold improvements	Primary term of lease
Restaurant fixtures and equipment	10 years
Bakery equipment	15 years
Automotive equipment	5 years
Computer equipment	3 years

The useful life of property and equipment and the determination as to what constitutes a capitalized cost versus a repair and maintenance expense involves judgments by management.

Accounting for Long-Lived Assets

We review our property and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying value of those assets might not be recoverable. In evaluating whether an asset has been impaired, we compare the expected undiscounted future cash flows to be generated by the asset to the asset's carrying value. If the sum of the undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized to the extent the carrying value exceeds the fair value of the asset.

Revenue Recognition

Revenues from restaurant sales are recognized when payment is tendered at the point of sale. Revenues from our gift cards (also known as stored value cards) are recognized upon redemption in our restaurants. Until the redemption of gift cards occurs, all outstanding balances on such cards are included in "other accrued expenses" on our accompanying consolidated balance sheets. Revenues from bakery sales to other foodservice operators, retailers and distributors are recognized when the products are shipped. Our consolidated revenues are net of all intercompany eliminations.

Leases

We currently lease all of our restaurant locations. We account for our leases under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases," and subsequent amendments which require that our leases be evaluated and classified as operating or capital leases for financial reporting purposes. All of our restaurant leases are classified as operating leases pursuant to the requirements of SFAS No. 13.

Minimum base rent for our operating leases, which generally have escalating rentals over the term of the lease, is recorded on a straight-line basis over the initial lease term and those renewal periods that have been exercised. The initial rent term includes the "build-out", or rent holiday period, for our leases, where no rent payments are typically due under the terms of the lease. Contingent rent expense, which is based on a percentage of revenue, is also recorded to the extent it exceeds minimum base rent per the lease agreement.

1. Summary of Significant Accounting Policies (continued):

We disburse cash for leasehold improvements and furnishings, fixtures and equipment to build out and equip our leased premises. We may also expend cash for structural components of the building that we make to leased premises that generally are reimbursed to us by our landlords as construction contributions pursuant to agreed–upon terms in our leases. Landlord construction contributions usually take the form of up–front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. Depending on the specifics of the leased space, the lease agreement and in accordance with EITF 97–10, "The Effect of Lessee Involvement in Asset Construction," during the construction period, the amounts paid for structural components will be recorded as either prepaid rent or construction–in–progress and the landlord construction contributions will be recorded as either an offset to prepaid rent or as a deemed landlord financing liability.

Upon completion of construction for those leases that meet the criteria of EITF 97–10, the lease may qualify for sale–leaseback treatment in accordance with SFAS No. 98. For these leases, the deemed landlord financing liability and the associated construction–in–progress will be removed and the difference will be reclassified to prepaid or deferred rent and amortized over the lease term as an increase or decrease to rent expense. If the lease does not qualify for sale–leaseback treatment in accordance with SFAS No. 98, the deemed landlord financing liability will be amortized over the lease term based on the rent payments designated in the lease agreement.

Preopening Costs

Preopening costs are expensed as incurred.

Self–Insurance Liability

We are self–insured for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, employee health benefits and other insurable risks. The accrued liabilities associated with these programs are based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us ("IBNR claims") as of the balance sheet date. Our estimated liabilities are not discounted and are based on information provided by our insurance brokers and insurers, combined with our judgments regarding a number of assumptions and factors, including the frequency and severity of claims, claims development history, case jurisdiction, applicable legislation and our claims settlement practices. The Company maintains stop–loss coverage with third party insurers to limit its total exposure for each of these programs. The estimated amounts receivable from our third–party insurers under this coverage are recorded in other assets and were $3.5 million at December 28, 2004. Significant judgment is required to estimate IBNR claims as parties have yet to assert such claims. If actual claims trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses for all years presented were insignificant.

1. Summary of Significant Accounting Policies (continued):

Income Taxes

Deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Income tax benefits credited to stockholders' equity relate to tax benefits associated with amounts that are deductible for income tax purposes but do not impact net income. These benefits are principally generated from employee exercises of non–qualified stock options.

Stock–Based Compensation

We maintain performance incentive plans under which incentive stock options, non–qualified stock options, stock appreciation rights, restricted shares, deferred shares, performance shares and performance units may be granted to employees, consultants and non–employee directors. We account for stock–based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Our policy is to grant all stock options at the fair market value of the underlying stock at the date of grant. Accordingly, we do not recognize compensation expense for company–issued stock options in our financial statements.

The Company has determined pro forma amounts as if the fair value method required by SFAS No. 123, "Accounting for Stock–Based Compensation" had been applied to its stock–based compensation. The pro forma effect on net income as if the fair value of stock–based compensation had been recognized as compensation expense on a straight–line basis over the vesting period of the stock option was as follows for fiscal 2004, 2003 and 2002 (in thousands, except net income per share):

	Fiscal 2004	Fiscal 2003 (restated)	Fiscal 2002 (restated)
Net income, as reported	$ 66,538	$ 57,230	$ 48,771
Net income, pro forma	$ 57,455	$ 49,737	$ 42,422
Basic net income per share, as reported	$ 0.86	$ 0.76	$ 0.66
Basic net income per share, pro forma	$ 0.74	$ 0.66	$ 0.57
Diluted net income per share, as reported	$ 0.84	$ 0.74	$ 0.64
Diluted net income per share, pro forma	$ 0.72	$ 0.64	$ 0.55

The weighted average fair value at date of grant for options issued in fiscal 2004, 2003 and 2002 was $14.17, $10.67 and $11.13 per option, respectively. The fair value of options at date of grant was estimated using the Black–Scholes option pricing model with the following weighted average assumptions for each respective fiscal year: (a) no dividend yield on our stock, (b) expected volatility of our stock of 44.12%, 48.91% and 49.20%, (c) a risk–free interest rate of 3.67%, 3.78% and 4.19%, and (d) expected option lives of six years in all years presented.

The Black–Scholes option pricing model was developed to estimate the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Since company–issued stock options have characteristics significantly different from those of traded options, and since changes in the subjective input assumptions utilized by option pricing models can materially affect the fair value estimate of stock options derived from such models, management believes that existing option valuation models do not necessarily provide a reliable single measure of the fair value of company–issued stock options. Since company–issued stock options do not trade on a secondary exchange, their holders cannot receive any value or derive any benefit unless the market price of the underlying stock has increased above the grant price of the stock option at the time the option becomes exercisable.

1. Summary of Significant Accounting Policies (continued):

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment," which requires compensation expense associated with stock options to be included in the financial statements beginning with the first interim or annual period after June 15, 2005. See Recent Accounting Pronouncements for further discussion.

Net Income Per Share

In accordance with the provisions of SFAS No. 128, "Earnings Per Share," basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share includes the dilutive effect of potential stock option exercises, calculated using the treasury stock method. Outstanding stock options issued by the Company represent the only dilutive effect reflected in diluted weighted average shares outstanding. Options do not impact the numerator of the diluted net income per share computation.

Comprehensive Income

Comprehensive income includes net income and other comprehensive income items that are excluded from net income under accounting principles generally accepted in the United States of America. Other than net income, unrealized gains or losses on available-for-sale securities are our only comprehensive income item.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" – an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 151 to have a significant impact on its consolidated financial position or results of operations.

1. Summary of Significant Accounting Policies (continued):

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share–Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock–Based Compensation," ("SFAS 123") and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share–based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R in the third quarter of fiscal 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share–based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R will have a material impact on our consolidated results of operations and earnings per share. The Company has not yet determined the method of adoption or the effect of adopting SFAS 123R, and it has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

2. Investments and Marketable Securities:

Investments and marketable securities consisted of (in thousands):

Classification	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Maturity
At December 28, 2004:					
Current assets:					
Available–for–sale securities:					
Corporate debt securities	$ 21,520	$ —	$ (77)	$ 21,443	March 2005 to December 2005
U.S. Treasury securities	9,974	—	(48)	9,926	January 2005 to December 2005
Total	$ 31,494	$ —	$ (125)	$ 31,369	
Other assets:					
Available–for–sale securities:					
Corporate debt securities	$ 48,825	$ 12	$ (401)	$ 48,436	January 2006 to August 2009
U.S. Treasury securities	58,534	13	(881)	57,666	March 2006 to September 2009
Total	$ 107,359	$ 25	$ (1,282)	$ 106,102	
At December 30, 2003:					
Current assets:					
Available–for–sale securities:					
Corporate debt securities	$ 11,331	$ 16	$ —	$ 11,347	January 2004 to December 2004
U.S. Treasury securities	22,604	37	—	22,641	February 2004 to November 2004
Total	$ 33,935	$ 53	$ —	$ 33,988	
Other assets:					
Available–for–sale securities:					
Corporate debt securities	$ 28,469	$ 95	$ (29)	$ 28,535	February 2005 to March 2009
U.S. Treasury securities	59,687	20	(390)	59,317	January 2005 to February 2019
Total	$ 88,156	$ 115	$ (419)	$ 87,852	

3. **Other Receivables:**

Other receivables consisted of (in thousands):

	December 28, 2004	December 30, 2003
		(restated)
Landlord construction allowances	$ 12,550	$ 7,950
Refundable income taxes	370	5,879
Accrued interest on investments	1,256	1,079
Other	8,927	3,508
Total other receivables	$ 23,103	$ 18,416

4. **Inventories:**

Inventories consisted of (in thousands):

	December 28, 2004	December 30, 2003
Restaurant smallware	$ 11,163	$ 8,687
Restaurant food and supplies	8,007	6,906
Bakery finished goods	1,225	3,641
Bakery raw materials	2,132	1,200
Total	$ 22,527	$ 20,434

5. **Property and Equipment:**

Property and equipment consisted of (in thousands):

	December 28, 2004	December 30, 2003
		(restated)
Land and related improvements	$ 11,910	$ 1,783
Buildings	17,687	6,464
Fixtures and equipment	170,668	140,416
Leasehold improvements	382,281	282,748
Computer equipment	27,837	20,352
Automotive equipment	249	249
Construction in progress	30,980	37,508
Property and equipment, total	641,612	489,520
Less: accumulated depreciation and amortization	(155,640)	(119,876)
Property and equipment, net	$ 485,972	$ 369,644

Repair and maintenance expenses for fiscal 2004, 2003 and 2002 were $12.5 million, $10.5 million and $9.0 million, respectively.

6. Other Accrued Expenses:

Other accrued expenses consisted of (in thousands):

	December 28, 2004	December 30, 2003
		(restated)
Insurance	$ 18,323	$ 14,670
Gift cards and certificates	18,556	12,943
Salaries and wages	8,649	7,124
Employee benefits	6,218	5,674
Payroll and sales taxes	6,631	5,399
Rent and related expenses	5,214	3,739
Other	10,803	5,853
Total	$ 74,394	$ 55,402

7. Commitments and Contingencies:

We lease all of our restaurant locations under operating leases, with primary terms ranging from 10 to 25 years. The restaurant leases typically include land and building shells, require contingent rent above the minimum base rent payments based on a percentage of sales ranging from 3.5% to 10%, and require various expenses incidental to the use of the property. Most leases have renewal options. We have always exercised our renewal options in the past. We also lease certain restaurant and bakery equipment under operating lease agreements.

The aggregate minimum annual lease payments under operating leases (including those for seven restaurants with executed leases as of December 28, 2004 that are planned for fiscal 2005 openings) are as follows (in thousands):

2005	$ 33,924
2006	35,520
2007	36,332
2008	35,274
2009	36,213
Thereafter	480,606
Total minimum lease commitments	$ 657,869

Rent expense charged to operations on all operating leases were as follows (in thousands):

	Fiscal 2004	Fiscal 2003	Fiscal 2002
		(restated)	(restated)
Straight–lined minimum base rent	$ 37,106	$ 30,400	$ 23,682
Contingent rent	17,233	13,570	12,680
Other charges	13,182	9,829	7,795
Total	$ 67,521	$ 53,799	$ 44,157

With respect to the seven potential restaurant locations with executed leases as of December 28, 2004 that are currently planned for openings in fiscal 2005, we have estimated construction commitments (leasehold improvements and fixtures and equipment), net of agreed–upon up–front cash landlord construction contributions, totaling approximately $43 million.

As credit guarantees to insurers, the Company is contingently liable under standby letters of credit issued under the Credit Facility. As of December 28, 2004, the Company had $14.25 million of standby letters of credit related to the self–insurance liabilities accrued in the Company's Consolidated Financial Statements. All standby letters of credit are renewable annually.

7. **Commitments and Contingencies (continued):**

We are self–insured for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, employee health benefits and other insurable risks. The accrued liabilities associated with these programs are based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us ("IBNR claims") as of the balance sheet date. Our estimated liabilities are not discounted and are based on information provided by our insurance brokers and insurers, combined with our judgments regarding a number of assumptions and factors, including the frequency and severity of claims, claims development history, case jurisdiction, applicable legislation and our claims settlement practices. The Company maintains stop–loss coverage with third party insurers to limit its total exposure for each of these programs. The estimated amounts receivable from our third–party insurers under this coverage are recorded in other assets. Significant judgment is required to estimate IBNR claims as parties have yet to assert such claims. If actual claims trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

The Attorney General of the State of California (State Attorney General) filed lawsuits on or about April 10, 2003 in the Los Angeles County Superior Court against the Company, as well as several other restaurant chains, alleging that the defendants violated the provisions of an initiative statute known as "Proposition 65" and California Business and Professions Code Section 17200 by offering for sale in California certain types of fish allegedly containing mercury and mercury compounds without providing the warnings required by Proposition 65. The Company has reached a settlement with the State Attorney General's office, which requires the Company to pay $13,000 in settlement and penalties and $10,000 in attorney's fees and costs as well as to post a prescribed notice at its restaurants in California.

In December 2002, two former hourly restaurant employees in California filed a lawsuit in the Superior Court in Orange County, California against the Company alleging violations of California labor laws with respect to providing meal and rest breaks. In October 2003, an hourly restaurant employee in California filed a lawsuit in Superior Court in Orange County, California against the Company alleging violations of California labor laws with respect to the providing of meal and rest breaks and improper deductions, among other claims. In May 2004, an hourly restaurant employee filed a lawsuit alleging similar violations in Superior Court in Los Angeles County, California. These cases were filed on behalf of the named plaintiffs and other purported class members. The parties have completed settlement negotiations, and the designated plaintiffs in all three cases and their attorneys have executed a settlement agreement with the Company. Approval of such settlement will be sought from the Superior Court. A number of former and current employees also filed individual wage and hour claims, based upon alleged similar violations, directly with various offices of the California Division of Labor Standards Enforcement (DLSE). Hearings on most of these claims are currently being deferred by the various offices of the DLSE pending approval of the litigation settlement by the Superior Court. The DLSE claims filed by employees who joined the approved settlement will also be resolved by such settlement. In the third quarter of 2004, the Company recorded a $4.5 million reserve based on an estimate of the ultimate costs, expenses and fees which may be incurred in connection with these matters. Revisions to this estimate may be made in the future and will be reported in the periods in which additional information is known.

The Company is also subject to other private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. Such claims typically involve claims from guests, employees and others related to operational issues common to the foodservice industry. A number of such claims may exist at any given time. We could be affected by adverse publicity resulting from such allegations, regardless of whether or not such allegations are valid or whether we are determined to be liable. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks. We believe that the final disposition of such lawsuits, proceedings and claims will not have a material adverse effect on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, proceedings or claims.