The following tables provide a reconciliation of non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP.

Adjusted net income is net income excluding expenses related to restaurant asset impairment, corporate restructuring, legal proceedings, stock-based compensation modification expense, and certain other costs. Adjusted general and administrative expense is general and administrative expense excluding transformation expenses, legal proceedings, stock-based compensation modification expense, and certain other costs. The adjusted effective income tax rate is the effective income tax rate adjusted to reflect the after tax impact of non-GAAP adjustments. Restaurant Level Operating Margin, a non-GAAP financial measure, is equal to the revenues generated by our restaurants less their direct operating costs which consist of food, beverage and packaging, labor, occupancy and other operating costs. This performance measure primarily includes the costs that restaurant level managers can directly control and excludes other operating costs that are essential to conduct our business. Management uses restaurant level operating margin as a measure of restaurant performance. Management believes restaurant level operating margin is useful to investors in that it highlights trends in our core business that may not otherwise be apparent to investors when relying solely on GAAP financial measures. We present these non-GAAP measures in order to facilitate meaningful evaluation of our operating performance across periods. These adjustments are intended to provide greater transparency of underlying performance and to allow investors to evaluate our business on the same basis as our management, which uses these non-GAAP measures in evaluating the company's performance. Our adjusted net income, adjusted diluted earnings per share, adjusted general and administrative expenses, adjusted effective income tax rate and restaurant level operating margin measures may not be comparable to other companies' adjusted measures. These adjustments are not necessarily indicative of what our actual financial performance would have been during the periods presented and should be viewed in addition to, and not as an alternative to, our results prepared in accordance with GAAP. Further details regarding these adjustments are included in the tables below.

Certain non-GAAP measures presented on a forward-looking basis during our investor conference call, such as Restaurant Level Operating Margin for our second quarter 2022, were not reconciled to the comparable GAAP financial measures because the reconciliation could not be performed without unreasonable efforts. The GAAP measures are not accessible on a forward-looking basis because we are currently unable to predict with a reasonable degree of certainty the type and extent of certain items that would be expected to impact GAAP measures for these periods but would not impact the non-GAAP measures. Such items may include corporate initiatives, performance compensation expense, litigation expense, corporate restructuring expense, impairments on long lived assets, and other items. The unavailable information could have a significant impact on our GAAP financial results.

Adjusted Net Income and Adjusted Diluted Earnings per Share (in thousands, except per share amounts)

(unaudited)

	Three months ended March 31,			
	2022		2021	
Net income	\$ 158,294	\$	127,101	
Non-GAAP adjustments:				
Restaurant costs:				
Operating lease asset impairment and other restaurant costs ⁽¹⁾	731		2,299	
Duplicate rent expense ⁽²⁾	-		56	
Corporate Restructuring:				
Operating lease asset impairment and other office closure costs ⁽³⁾	-		332	
Duplicate rent expense ⁽²⁾	1,166		1,344	
Employee related restructuring costs ⁽⁴⁾	-		153	
Legal proceedings ⁽⁵⁾	(1,000)		-	
Stock-based compensation modification expense ⁽⁶⁾	 2,756		24,366	
Total non-GAAP adjustments	\$ 3,653	\$	28,550	
Tax effect of non-GAAP adjustments above ⁽⁷⁾	 (554)		(2,518)	
After tax impact of non-GAAP adjustments	\$ 3,099	\$	26,032	
Adjusted net income	\$ 161,393	\$	153,133	
Diluted weighted-average number of common shares outstanding	28,301		28,582	
Diluted earnings per share	\$ 5.59	\$	4.45	
Adjusted diluted earnings per share	\$ 5.70	\$	5.36	

(1) Impairment charges and other expenses for restaurants due to closures, relocations, or underperformance

(2) Duplicate rent expense for the corporate headquarter relocation and office consolidation announced in May 2018 and rent expense for closed restaurants announced in June 2018.

(3) Asset impairment charges and other closure expenses for the corporate headquarter relocation and office consolidation announced in May 2018.

(4) Costs for recruitment, relocation costs, third party and other employee-related costs.

(5) Decrease to accrual for a legal proceeding that was included as a previous non-GAAP adjustment.

(6) Charges for a COVID-19 related modification made in December 2020 to our 2018 performance shares.

(7) Adjustments relate to the tax effect of non-GAAP adjustments, which were determined based on the nature of the underlying non-GAAP adjustments and their relevant jurisdictional tax rates.

Adjusted General and Administrative Expenses (in thousands)

(unaudited)

	Three months ended March 31,			
	2022		2021	
General and administrative expenses	\$ 147,402	\$	155,103	
Non-GAAP adjustments:				
Transformation expenses ⁽¹⁾	(1,166)		(1,553)	
Legal proceedings ⁽²⁾	1,000		-	
Stock-based compensation modification expense ⁽³⁾	(2,756)		(24,366)	
Total non-GAAP adjustments	\$ (2,922)	\$	(25,919)	
Adjusted general and administrative expenses	\$ 144,480	\$	129,184	

(1) Duplicate rent expense for office and restaurant closures announced in June 2018 due to the corporate restructuring and underperformance of \$1,166 and \$1,400 for the three months ended March 31, 2022 and March 31, 2021, respectively; and employee related restructuring costs of \$0 and \$153 for the three months ended March 31, 2022 and March 31, 2022 and March 31, 2021, respectively.

(2) Decrease to accrual for a legal proceeding that was included as a previous non-GAAP adjustment.

(3) Charges for a COVID-19 related modification made in December 2020 to our 2018 performance shares.

Adjusted Effective Income Tax Rate

(unaudited)

		Three months ended March 31,		
	2022	2021		
Effective income tax rate	16.7 %	20.2 %		
Tax impact of non-GAAP adjustments ⁽¹⁾	-	(1.7)		
Adjusted effective income tax rate	16.7 %	18.5 %		

(1) Adjustments relate to the tax effect of non-GAAP adjustments, which were determined based on the nature of the underlying non-GAAP adjustments and their relevant jurisdictional tax rates.

Restaurant Level Operating Margin (in thousands) (unaudited)

	Three months ended March 31,					
		2022	Percent of total revenue		2021	Percent of total revenue
Income from operations	\$	190,221	9.4 %	\$	161,442	9.3 %
Non-GAAP Adjustments:						
General and administrative expenses		147,402	7.3		155,103	8.9
Depreciation and amortization		71,665	3.5		63,122	3.6
Pre-opening costs		5,348	0.3		3,421	0.2
Impairment, closure costs, and asset disposals		4,310	0.2		5,668	0.3
Total non-GAAP Adjustments	\$	228,725	11.3 %	\$	227,314	13.1 %
Restaurant level operating margin	\$	418,946	20.7 %	\$	388,756	22.3 %