THE CHEESECAKE FACTORY INCORPORATED
1999 Annual Report

OUR MISSION TO CREATE AN ENVIRONMENT WHERE ABSOLUTE GUEST SATISFACTION IS OUR HIGHEST PRIORITY.

OUR VISION Through a shared commitment to excellence, we are dedicated to the uncompromising quality of our food, service, people and profit, while taking exceptional care of our guests and staff. We will continuously strive to surpass our own accomplishments and be recognized as a leader in our industry.

OUR VALUES In keeping with the tradition and spirit of The Cheesecake Factory, we are committed to:

QUALITY IN EVERYTHING WE DO *Quality is more than a word we use to describe our food and service. It is a philosophy that affects everything we do. Quality is never an accident. It is always the result of high standards, sincere effort, intelligent direction and skillful execution. It represents the wise choice of many alternatives. Our commitment to quality distinguishes us from our competitors and must never be compromised. "Our brand is our promise." We must run our business impeccably with meticulous attention to detail in order to ensure our place among America's best and longest lasting companies.*

A PASSION FOR EXCELLENCE *Passion fuels our commitment to the endless quest for excellence. This passion must permeate throughout our Company. We must think creatively, embrace change and continuously improve upon past accomplishments. We must grow our knowledge, learn from our mistakes and aggressively pursue new ideas and innovations. Though we may be better today than we were yesterday, we are not as good as we must become. Our passion drives us to persevere – to meet all challenges with enthusiasm–to achieve the unachievable. We will succeed as a result of our passion for excellence.*

INTEGRITY, RESPECT AND RESPONSIBILITY *We are committed to doing what is right without exception. We must be honest, treat others with respect and dignity and honor our commitments and obligations. Every decision we make and every action we take must follow the highest ethical and professional standards. We will strive to close the gaps between our principles and practices – our actions must reflect our words. Out of a deep respect for all individuals and for the communities of which we are a part, we will treat others as we would like to be treated.*

PEOPLE – OUR GREATEST RESOURCE *Outstanding people make it all happen – they will lead us towards the future. Each individual's efforts and skills are necessary to the success of our Company as a whole. Everyone's contribution is valuable. We are committed to creating an energized, rewarding, safe and healthy work environment where each of us has the opportunity to offer new ideas in an unrestricted manner. Effectiveness increases when we encourage the opinions of others and share responsibilities as a team. We recognize individual accomplishments and provide opportunity for growth as a reward for outstanding performance. When we treat our staff members like our most precious resource and not as expendable commodities, we instill pride, commitment and a sense of ownership – and make our organization the best it can be.*

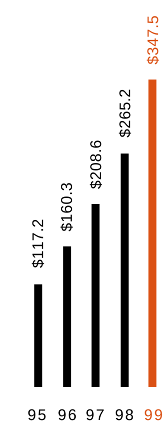
SERVICE-MINDEDNESS *We are dedicated to unparalleled hospitality and genuine care of our guests. The reason we exist as a company is to provide absolute guest satisfaction. We recognize that we are all linked together in the service process – that each of us plays a distinct and vital role in delivering The Cheesecake Factory promise of caring service. The entire Company must actively participate and constantly seek service opportunities. A mindset of being "of service" must flow throughout our organization. We have a responsibility to support and serve one another, because ultimately we are all serving our guests.*

DYNAMIC LEADERSHIP *As leaders of our Company, we must have dynamic energy and the ability to energize others. We must be open to new ideas from anywhere, have the self-confidence to involve everyone and be able to acknowledge our own shortcomings. We must foster mutual trust, resist bureaucracy and avoid internal politics. As leaders we are committed to the success of others. We develop highly skilled and motivated teams. We establish clear expectations, give honest feedback and set goals for individuals that tie into the Company's objectives as a whole. With a clear vision, we inspire people at all levels of our organization. As leaders, we embrace our mission and values and lead by example. We find the balance between head and heart as well as people and profit. Dynamic leadership transforms our vision into reality.*

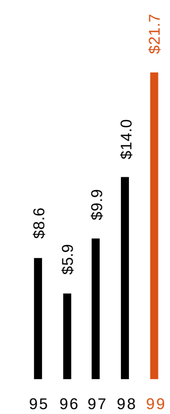
HIGH PERFORMANCE *We are dedicated to maximum levels of performance and productivity in all areas of our business. To drive the success of our Company, we must set aggressive goals, focus on results and hold ourselves accountable. We will approach our work with a sense of urgency and dissatisfaction with the status quo. We have an obligation to earn a profit in order to remain in business and grow – but it must be "Quality Profit." We must never jeopardize our future for short-term gain. We will balance our need for current earnings with our desire for consistent long-term profitability. We all will be challenged to achieve these goals.*

FINANCIAL HIGHLIGHTS

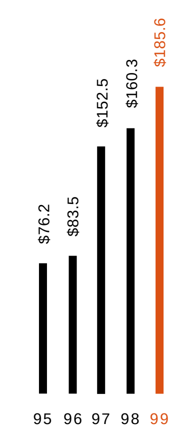
	Fiscal Year		
(in thousands, except per share and restaurant operating data)	1999	1998	1997
Total revenues	$ 347,482	$ 265,223	$ 208,589
Income before cumulative effect of change in accounting principle	$ 21,732	$ 14,031	$ 9,939
Cumulative effect of change in accounting principle,			
net of income tax benefit	$ —	$ 6,347	$ —
Net income	$ 21,732	$ 7,684	$ 9,939
Diluted net income per share:			
Income before cumulative effect of change in accounting principle	$ 1.03	$ 0.68	$ 0.58
Cumulative effect of change in accounting principle	—	(0.31)	—
Net income	$ 1.03	$ 0.37	$ 0.58
Total assets	$ 221,785	$ 185,420	$ 177,702
Stockholders' equity	$ 185,573	$ 160,291	$ 152,545
Percent increase in comparable restaurant sales	3.8%	4.0%	6.3%
Restaurant operating weeks	1,661	1,286	1,013



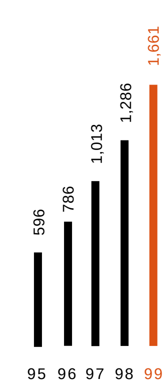
TOTAL REVENUES
in millions of dollars



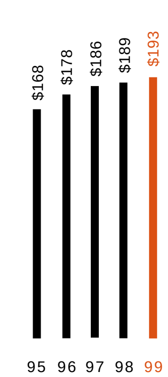
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE
in millions of dollars



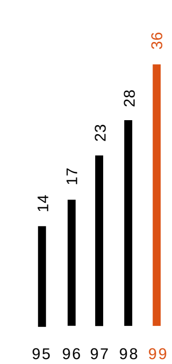
STOCKHOLDERS' EQUITY
in millions of dollars



RESTAURANT OPERATING WEEKS



AVERAGE SALES PER RESTAURANT OPERATING WEEK
in thousands of dollars



RESTAURANTS OPEN, END OF YEAR

The Cheesecake Factory

HOW DO WE DO IT?

> SITE SELECTION Our proven restaurant development model starts with high profile sites that are carefully selected by our senior management team. Prospective restaurant locations are carefully analyzed utilizing a combination of quantitative and qualitative techniques. We currently lease all of our restaurant locations under long-term leases negotiated by our in-house legal staff.

The Cheesecake Factory® concept has more development flexibility than most restaurant concepts. Locations can be either single or multi-story and can easily fit freestanding or in-line spaces ranging from 6,000 to 20,000 square feet. Our restaurants have been successful in both urban and suburban venues – at shopping malls, entertainment centers and office complexes. Although The Cheesecake Factory concept appeals to tourists, our success principally depends on consumers who live, work and shop near our restaurants.

> DESIGN AND CONSTRUCTION Our highly customized restaurants are designed by our in-house design team, led by Rick McCormack. We utilize the latest computer technology to assist in the design of our upscale, highly customized and contemporary locations that offer a high-energy ambiance in a casual setting. Our designers make extensive use of high quality and imported materials, furnishings and fixtures. Special attention is given to the design of the front desk, bakery, bar and kitchen areas of each restaurant to highlight these distinctive areas of our restaurants and to streamline workflow. Maximizing sales productivity is a constant focus of our design team.

After each design is completed and approved by local government authorities, and the leased building shell has been delivered to us by the landlord, our in-house construction management team commences on-site work. Our construction team, led by Rick Vaughn, targets the completion of substantially all of the construction work within 180 days. We use only the most skilled and reliable craftsmen and subcontractors available. All outside contractors and subcontractors must meet our stringent standards for quality of workmanship and dependability. After construction work is completed, the restaurant is turned over to our Operations team and is generally open for business within two weeks.

RICK VAUGHN *Vice President – Restaurant Construction,* TERESA KELLY *Senior Designer,* RICK MCCORMACK *Vice President – Restaurant Design*

The Cheesecake Factory of San Francisco, which opened in February 2000, is uniquely located on the top floor of Macy's at Union Square.

HOW DO WE DO IT?

> INFORMATION SYSTEMS AND TECHNOLOGY While our restaurants are recognized for their high quality food, service, locations and decor, we have also built a support infrastructure of equal quality and effectiveness. Our information systems and technology (IST) team, led by Rick Smith and supported by Bill Lyons and Sheila Overton, plays a critical role in enabling the deployment of technology throughout our Company to maximize operational control and productivity. At The Cheesecake Factory, we believe that technology can provide a significant competitive advantage as we manage and control a much larger enterprise.

Operationally, our strategy is to better utilize technology to improve our guest seating efficiency and automatically monitor our cooking and service times to better serve our guests, reduce overall waiting times and increase table turns. During fiscal 2000, our IST staff will assist Operations in the evaluation of the next generation of point-of-sale (POS) and automated front desk management systems for use in our restaurants. We will also evaluate a more sophisticated labor management system that will be fully integrated with the POS system, thus providing the capability for real-time labor productivity measurements in our restaurants.

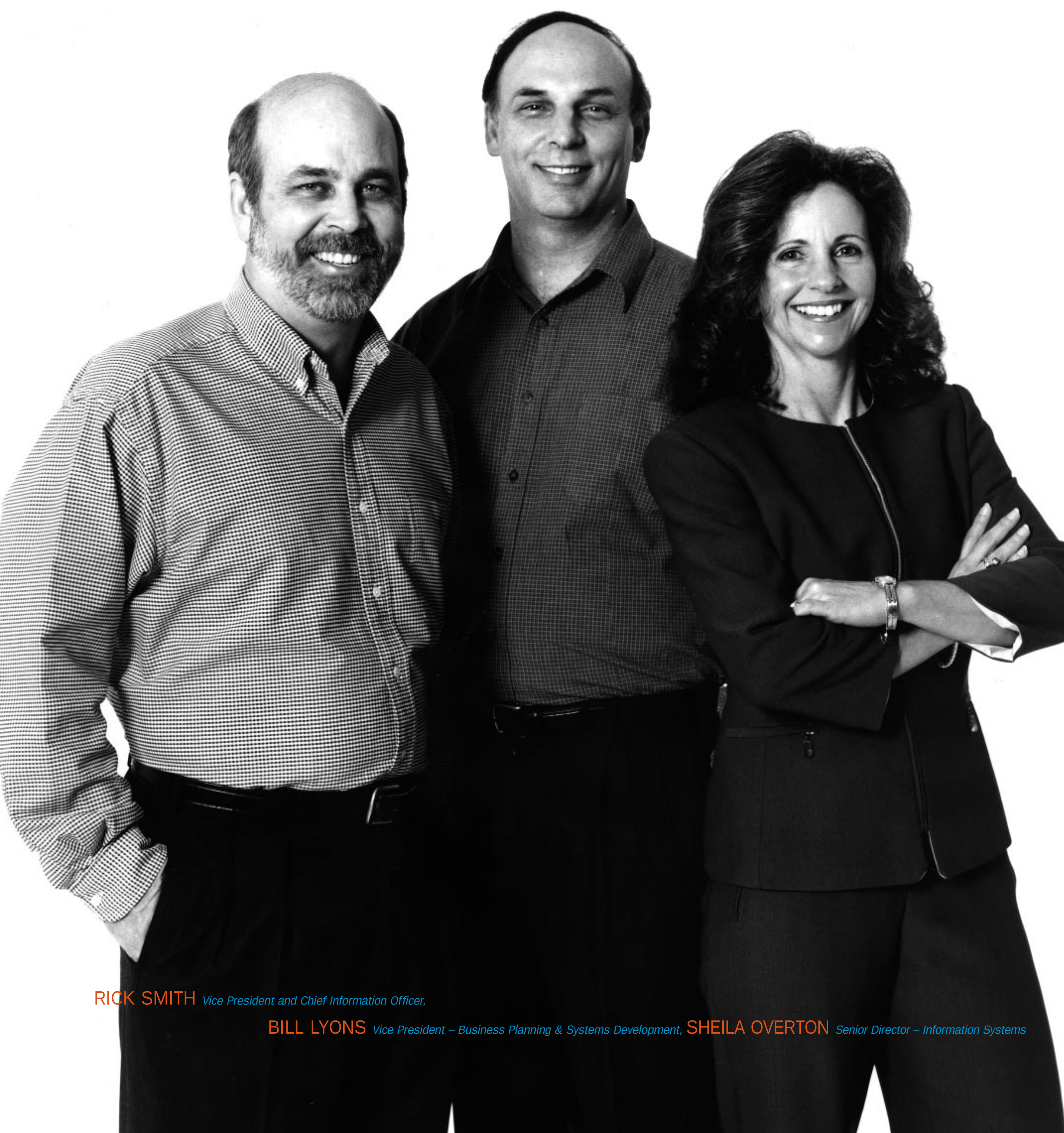
Utilizing the latest advances in communications technology, IST will lead the test of real-time video conferencing between our corporate support center and our restaurants for training and communication purposes. At the corporate level, key IST initiatives for fiscal 2000 include the installation of a company-wide human resources information system (HRIS), which will be fully integrated with our state-of-the-art corporate financial system installed during fiscal 1999. The HRIS will provide us with a fully automated capability to manage the recruitment, training, payroll and benefit processing tasks associated with a nationwide workforce that is expected to approach 10,000 by the end of fiscal 2000.

> HUMAN RESOURCES—RECRUITING, TRAINING AND DEVELOPING The list of assets on our Company's balance sheet omits our Company's most important asset – our human resources. Recruiting, training and developing our staff members at all levels in our Company are activities of intense ongoing focus at The Cheesecake Factory. Linda Candioty leads these activities, supported by Lisa McDowell, Jennifer Bispo and Heidi Martin-Gilanfar.

A typical Cheesecake Factory restaurant requires a staff of 10-12 managers and approximately 200 hourly staff members. Effective staff recruitment and retention practices remain key to our future success. During fiscal 2000, we will recruit approximately 175 new restaurant managers to support our planned growth and ongoing operations. Our management standards and selection process are among the most rigorous in the restaurant industry. During fiscal 1999, only 3% of all applicants for restaurant management positions were accepted. We seek only the very best.

Upon joining our Company, new restaurant managers complete an intensive 14-week training program that covers all of the aspects of running a successful Cheesecake Factory restaurant. Detailed instruction and structured on-the-job training is provided for all areas of successful shift management. Managers also attend a one-week course at our corporate support center and participate in interactive sessions with Company executives on topics such as leadership, finance, risk management, guest satisfaction, food quality and other key aspects of running a first-class restaurant operation. Our Performance Development function plays the key role in structuring and administering our corporate-wide training and education programs.

During the past three years, our staff relations and benefits team has successfully managed the implementation of the following compensation and benefit programs: a 401(k) plan; a deferred compensation plan; unique managing equity programs for our restaurant general managers and executive kitchen managers; enhanced health and life insurance benefits; and a broader, performance-based stock option plan.



RICK SMITH *Vice President and Chief Information Officer,* BILL LYONS *Vice President – Business Planning & Systems Development,* SHEILA OVERTON *Senior Director – Information Systems*

LISA MCDOWELL *Vice President – Restaurant Performance Development,* LINDA CANDIOTY *Executive Vice President and Secretary,* JENNIFER BISPO *Vice President – Staff Relations,* HEIDI MARTIN-GILANFAR *Director – Recruiting*

Our Performance Development Department thoroughly trains our staff for each restaurant opening.

HOW DO WE DO IT?

> KITCHEN OPERATIONS AND CULINARY DEVELOPMENT At The Cheesecake Factory, our key point of competitive differentiation is our extensive and creative menu of over 200 high quality food, beverage and dessert items offered with strong flavor profiles in generous portions at moderate prices. Keeping our menu fresh and exciting is the primary responsibility of our kitchen operations and culinary development team, led by Mark Pratte and supported by Bob Okura and Kix Nystrom.

We update our menu twice a year by adding new menu items and refining existing recipes. Our culinary team stays current with emerging food trends, constantly searching for exciting new tastes and creative menu presentations. The highly flexible capabilities of our restaurant kitchens provide us with a significant competitive advantage.

Once new menu items and recipes have been developed and approved in our corporate test kitchen, our kitchen operations staff leads their implementation in all restaurants. Kitchen operations also develops systems and processes to help the executive kitchen manager in each restaurant run a high quality, productive and efficient kitchen. We utilize a comprehensive, automated ideal recipe and food cost system in each of our restaurants to track the usage and cost of all ingredient and supply items associated with our menu.

Our purchasing function is a key component of our kitchen operations staff, ensuring that suppliers consistently provide the specified goods and services to our restaurants at agreed-upon quality levels and costs. Our aggregate food, beverage, supply and distribution costs have been gradually reduced during the past couple of years, with no reduction in quality, as a direct result of the professionalism of our purchasing staff, led by Ron McArthur.

KIX NYSTROM *Vice President – Kitchen Operations Support*

BOB OKURA *Vice President – Culinary Development and Corporate Executive Chef*

MARK PRATTE *Senior Vice President – Restaurant Kitchen Operations*

The Cheesecake Factory of San Francisco's "Sky Terrace" heated patio offers a fabulous view of the City's downtown skyline and Union Square.

HOW DO WE DO IT? THE ANSWER TO THIS QUESTION STARTS WITH OUR MISSION STATEMENT: TO CREATE AN ENVIRONMENT WHERE ABSOLUTE GUEST SATISFACTION IS OUR HIGHEST PRIORITY.

Everything else we do builds upon this cornerstone of our business philosophy. This year's annual report covers some of the other activities that play a critical role as to "how we do it" at The Cheesecake Factory.

With respect to our financial results for fiscal 1999, we "did it very well" as presented by the following highlights:
>>Total revenues increased 31% to $347.5 million.
>>Operating income and margins before preopening costs increased 74% and 262 basis points to $37.0 million and 10.7%, respectively.
>>Income and diluted net income per share before the cumulative effect of an accounting change for preopening costs increased 55% and 51% to $21.7 million and $1.03, respectively.
>>Comparable restaurant sales increased 3.8%.
>>Average sales per productive square foot for full-service restaurants open during the entire year increased 4% to $942.

Our key performance objectives for fiscal 2000 are to increase our total restaurant productive square feet, total revenues and diluted net income per share at least 25%. Based on the current status of our restaurant development pipeline and our action plans for further margin improvement, we have a strong opportunity to achieve these objectives.

There are seven key characteristics that are common to successful, long-lasting restaurant companies. We believe that our business strategy and operations match up extremely well with these characteristics.

A DIFFERENTIATED, PROVEN CONCEPT WITH BROAD CONSUMER APPEAL The unique positioning and broad appeal of The Cheesecake Factory restaurant concept remains one of our strongest competitive advantages. Our formula for success during the past 22 years includes an upscale positioning focused on high quality; our extensive menu offerings; our dedicated and energized restaurant staffs; our quality locations and our highly customized designs and decor. Our menu offerings are not constrained by a restrictive brand identity or competitive positioning – we can offer anything America wants to eat under The Cheesecake Factory brand. Likewise, our kitchen capabilities are among the most flexible in the industry. We can broil, saute, grill, chill, fry, steam or bake almost any type of food in our kitchens. Our highly customized approach to site layouts also helps to create a "non-chain" image for our concept. Going forward, we will continue to refine certain operational elements of our concept, keep our menu offerings fresh and exciting, recruit and train the highest quality staffs and select the best locations for our restaurants.

We are able to offer consumers an upscale, high quality and highly customized dining experience at moderate prices, which averaged approximately $15 per guest during fiscal 1999. We plan to maintain our moderate prices going forward.

AN UNWAVERING FOCUS ON "RESTAURANTEURING" First and foremost, we are restauranteurs at The Cheesecake Factory. We do not intend to slip backwards on the basic principles of running great restaurants. While our operating environment is constantly changing, our core values and culture have not changed during the past 22 years. We must never forget that our mission is absolute guest satisfaction. Likewise, our core values and culture as restauranteurs also call for us to be financially successful as businesspeople.

AN UNDERPENETRATED NICHE WITH GROWTH POTENTIAL We believe The Cheesecake Factory has the vast majority of its development potential still ahead of us. We estimate there is room domestically for at least 150 Cheesecake Factory restaurants of various site types and sizes. With only 34 full-service Cheesecake Factory restaurants open today, we have a long way to go. We intend to continue our strategy of conservative, controlled growth.

During fiscal 1999, we opened seven full-service restaurants and one express location. In February 1999, we opened our first freestanding restaurant, built from the ground up, on a pad at Fashion Valley Shopping Center in San Diego, California. This 9,700 square foot restaurant set an all-time record for opening week sales for our Company and achieved its targeted level of profitability faster than any of our new restaurants. We will utilize this same freestanding layout for a planned fiscal 2000 location in Scottsdale, Arizona. This freestanding prototype provides us with additional development flexibility.

We currently plan to open as many as nine full-service restaurants during fiscal 2000. Our first restaurant for fiscal 2000 opened in February at a unique rooftop location inside Macy's at Union Square in San Francisco with strong initial sales volumes. Our next opening for fiscal 2000 is planned for late May in Atlanta's Perimeter Mall, which will be our second location in the Atlanta metropolitan area. Leases have also been signed or are being negotiated for potential fiscal 2000 restaurants in Indianapolis, Scottsdale, Dallas (Frisco), Chicago (Schaumburg), West Palm Beach, Phoenix and Hackensack (New Jersey).

We created and opened Grand Lux Cafe® in the Venetian Hotel-Resort-Casino is Las Vegas, Nevada in May 1999. Grand Lux Cafe is an upscale, casual dining concept with approximately 120 high quality menu items that generate a slightly higher average guest check compared to The Cheesecake Factory. Based on the resounding success of the concept so far in Las Vegas, we currently plan to open at least one additional Grand Lux Cafe in another metropolitan market during fiscal 2001 in order to further evaluate the concept's development potential.

AN EXPERIENCED, STABLE RESOURCE OF CAPABLE RESTAURANT MANAGERS Maintaining a stable, talented and motivated staff of restaurant managers is absolutely essential for consistent success in the restaurant business. Due in large part to our high sales productivity per restaurant, we are able to offer a very competitive compensation package to attract and retain the very best restaurant general managers and executive kitchen managers. These managers have an average of 10 years of industry experience, consisting of five years with other concepts and five with us. The average annual turnover for these positions is currently less than 5%, which is very low by industry standards. In recognition of our management retention and hiring practices, The Cheesecake Factory received the 1999 Best Practices Award from People Report™, an organization that benchmarks human resource practices in the foodservice industry. While we are proud of our past achievements in this area, we will continue to invest in our human resources during fiscal 2000 to maintain our competitive edge. We can only grow as fast as our available, qualified human resources will allow.

SOUND UNIT ECONOMICS We further strengthened our industry leadership position for sales productivity during fiscal 1999. For full-service restaurants open during the entire year, average sales per restaurant increased 2% to $10.3 million; average sales per productive seat increased 4% to $31,200; and average sales per productive square foot increased 4% to $942. On the investment side of the ledger, our strong and consistent sales productivity and 22 years of proven operations have strengthened our negotiating position with prospective landlords, allowing us to achieve lower rentals and higher construction contributions for most of the new restaurants planned for fiscal 2000. We will continue to target restaurant locations that have strong potential to meet or exceed our minimum hurdle rates for new restaurant investments: 2.5 to 1 sales-to-net cash investment ratio; 50% cash-on-cash ROI; and 25% fully capitalized ROI.

OUR SENIOR MANAGEMENT TEAM –
Highly credentialed, experienced, talented and committed to our success.

PETER D'AMELIO *Senior Vice President – Restaurant Operations*
HOWARD GORDON *Senior Vice President – Public Relations and Marketing*
MARK PRATTE *Senior Vice President – Restaurant Kitchen Operations*
JENNIFER BISPO *Vice President – Staff Relations*
KEITH CARANGO *Vice President – Bakery Operations*
TONY GRESSAK *Vice President – Bakery Distributor Sales*
BILL LYONS *Vice President – Business Planning and Systems Development*

RON MCARTHUR *Vice President – Purchasing*
RICK MCCORMACK *Vice President – Restaurant Design*
LISA MCDOWELL *Vice President – Restaurant Performance Development*
KIX NYSTROM *Vice President – Kitchen Operations Support*
BOB OKURA *Vice President – Culinary Development and Corporate Executive Chef*
RICK SMITH *Vice President and Chief Information Officer*
RICK VAUGHN *Vice President – Restaurant Construction*
SHEILA OVERTON *Senior Director – Information Systems*

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DAVID OVERTON
Chairman, President and
Chief Executive Officer

March 27, 2000

MAX BYFUGLIN *Executive Vice President – Bakery* | DEBBY ZURZOLO *Senior Vice President and General Counsel* | DAVID OVERTON *Chairman, President and Chief Executive Officer* | LINDA CANDIOTY *Executive Vice President and Secretary* | JERRY DEITCHLE *Executive Vice President and Chief Financial Officer*

FINANCIAL REVIEW

The Cheesecake Factory Incorporated 1999 Annual Report

FIVE-YEAR FINANCIAL SUMMARY

	Fiscal Year				
(in thousands, except per share and restaurant operating data)	1999	1998	1997	1996	1995
Income Statement Data:					
Revenues:					
Restaurant sales	$ 320,450	$ 243,415	$ 189,475	$ 139,715	$ 99,840
Third-party bakery sales	27,032	21,808	19,114	20,590	17,325
Total revenues	347,482	265,223	208,589	160,305	117,165
Costs and expenses:					
Restaurant cost of sales	82,496	65,480	50,084	38,643	27,357
Third-party bakery cost of sales	12,685	10,626	7,805	8,715	7,027
Labor expenses	105,796	81,475	64,708	49,075	35,161
Other operating costs and expenses	77,247	60,452	48,320	37,134	26,804
General and administrative expenses	21,266	17,333	10,096	7,238	4,635
Depreciation and amortization expenses	10,913	8,540	6,696	5,350	2,985
Preopening costs	6,217	3,603	6,646	5,394	2,870
Total costs and expenses	316,620	247,509	194,355	151,549	106,839
Income from operations	30,862	17,714	14,234	8,756	10,326
Interest income, net	2,807	2,955	520	499	1,127
Other income (expense), net	555	435	420	(360)	197
Income before income taxes and cumulative effect of change in accounting principle	34,224	21,104	15,174	8,895	11,650
Income tax provision	12,492	7,073	5,235	2,983	3,041
Income before cumulative effect of change in accounting principle	21,732	14,031	9,939	5,912	8,609
Cumulative effect of change in accounting principle, net of income tax benefit of $3,343	—	6,347	—	—	—
Net income	$ 21,732	$ 7,684	$ 9,939	$ 5,912	$ 8,609
Net Income Per Share:					
Basic:					
Income before cumulative effect of change in accounting principle	$ 1.08	$ 0.70	$ 0.59	$ 0.36	$ 0.53
Cumulative effect of change in accounting principle	—	(0.32)	—	—	—
Net income	$ 1.08	$ 0.38	$ 0.59	$ 0.36	$ 0.53
Diluted:					
Income before cumulative effect of change in accounting principle	$ 1.03	$ 0.68	$ 0.58	$ 0.36	$ 0.52
Cumulative effect of change in accounting principle	—	(0.31)	—	—	—
Net income	$ 1.03	$ 0.37	$ 0.58	$ 0.36	$ 0.52
Weighted average shares outstanding:					
Basic	20,061	19,984	16,842	16,350	16,203
Diluted	21,189	20,572	17,132	16,619	16,557
Restaurant Operating Data:					
For full-service restaurants open for the full period:					
Average sales per restaurant	$ 10,282,000	$ 10,069,000	$ 9,851,000	$ 9,293,000	$ 8,627,000
Average sales per productive seat	$ 31,199	$ 29,861	$ 28,787	$ 28,235	$ 26,666
Average sales per productive square foot	$ 942	$ 907	$ 881	$ 854	$ 854
Total number of restaurants open at end of period	36	28	23	17	14
Balance Sheet Data (at end of period):					
Net working capital	$ 35,542	$ 30,264	$ 57,123	$ 8,757	$ 14,019
Total assets	$ 221,785	$ 185,420	$ 177,702	$ 108,155	$ 91,767
Total long-term debt (including current portion)	$ —	$ —	$ —	$ 6,000	$ —
Stockholders' equity	$ 185,573	$ 160,291	$ 152,545	$ 83,512	$ 76,206

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that forward-looking statements are not guarantees of future performance and, therefore, should not place undue reliance on them. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Readers are referred to the full discussion of risks and uncertainties associated with forward-looking statements contained in the Company's annual and quarterly filings with the Securities and Exchange Commission.

GENERAL

As of March 20, 2000, the Company operated 34 upscale, high volume, casual dining restaurants under The Cheesecake Factory name; Grand Lux Cafe at the Venetian Resort-Hotel-Casino; two self-service "express" foodservice operations at DisneyQuest™ in Orlando and Chicago; and a bakery production facility. The Company's revenues consist of sales from its restaurant operations and sales from its bakery operations to third-party foodservice operators and distributors. Sales and cost of sales are reported separately for restaurant and third-party bakery activity. All other operating cost and expense categories are reported on a combined basis for both restaurant and bakery operations. 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.

The Company utilizes a 52/53 week fiscal year ending on the Sunday closest to December 31 for financial reporting purposes. Commencing with the start of fiscal 1998, the Company changed its fiscal week and year-end from Sunday to Tuesday to facilitate certain operational efficiencies. Fiscal 1999, 1998 and 1997 each consisted of 52 weeks. Fiscal 2000 will consist of 53 weeks and will end on Tuesday, January 2, 2001.

The Company 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, the Company 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 section. In connection with its adoption of the SOP, the Company modified its 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		
	1999	1998	1997
Revenues:			
Restaurant sales	92.2%	91.8%	90.8%
Third-party bakery sales	7.8	8.2	9.2
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant cost of sales	23.7	24.7	24.0
Third-party bakery cost of sales	3.7	4.0	3.8
Labor expenses	30.5	30.7	31.0
Other operating costs and expenses	22.2	22.8	23.2
General and administrative expenses	6.1	6.5	4.8
Depreciation and amortization expenses	3.1	3.2	3.2
Preopening costs	1.8	1.4	3.2
Total costs and expenses	91.1	93.3	93.2
Income from operations	8.9	6.7	6.8
Interest income, net	0.8	1.1	0.3
Other income, net	0.2	0.2	0.2
Income before income taxes and cumulative effect of change in accounting principle	9.9	8.0	7.3
Income tax provision	3.6	2.7	2.5
Income before cumulative effect of change in accounting principle	6.3	5.3	4.8
Cumulative effect of change in accounting principle, net of income tax benefit	–	2.4	–
Net income	6.3%	2.9%	4.8%

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 $77.0 million or 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 consists of the following components: the eight new restaurants opened during fiscal 1999 accounted for approximately $39.6 million or 51% of the increase; noncomparable sales from restaurants opened during fiscal 1998 accounted for approximately $28.3 million or 37% of the increase; and comparable restaurant sales accounted for approximately $9.1 million or 12% of the increase. 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.

Third-party bakery sales increased 24% to $27.0 million for fiscal 1999 versus $21.8 million for the prior fiscal year. Sales to warehouse club operators represented approximately 57% of total third-party bakery sales for fiscal 1999 compared to 63% for fiscal 1998.

Restaurant Cost of Sales Restaurant cost of sales increased $17.0 million or 26% to $82.5 million in fiscal 1999 versus $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.

The menu at the Company's restaurants is one of the most diversified in the industry and, accordingly, is not overly dependent on a single commodity. For new restaurants, cost of sales will typically be higher than normal during the first 90-120 days of operations until each restaurant's staff becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by the Company's restaurants.

Third-party Bakery Cost of Sales Cost of sales for third-party bakery sales, which include ingredient, packaging and production supply costs, were $12.7 million for fiscal 1999 versus $10.6 million for the same period of the prior year. The increase of $2.1 million or 20% was principally attributable to the 24% increase in third-party bakery sales for fiscal 1999. As a percentage of related third-party 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. The Company's costs for certain of its dairy-related commodities (principally cream cheese, manufacturing cream and butter) increased as much as 50% to 75% during certain weeks of fiscal 1998 when the overall level of such costs rose across the country as a result of unfavorable supply and demand conditions. Since December 1998, the Company's costs for its dairy-related commodities have gradually returned to their historical norms, but remain potentially volatile. There can be no assurance that future costs for these commodities, or any commodities used in the Company's bakery or restaurant operations, will not begin to rise again due to market conditions beyond the Company's control.

Labor Expenses Labor expenses, which include restaurant-level labor costs and bakery direct production labor (including associated fringe benefits), were $105.8 million for fiscal 1999 versus $81.5 million for fiscal 1998, an increase of $24.3 million or 30%. 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. For new restaurants, labor expenses will typically be higher than normal during the first 90-120 days of operations until each restaurant's staff becomes more accustomed to optimally predicting, managing and servicing the high sales volumes typically experienced by the Company's restaurants.

Other Operating Costs and Expenses Other operating costs and expenses consist of restaurant-level occupancy and 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 28% to $77.2 million for fiscal 1999 versus $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 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. General and administrative expenses increased to $21.3 million for fiscal 1999 versus $17.3 million for fiscal 1998, an increase of $4.0 million or 23%. As a percentage of total revenues, general and administrative expenses decreased to 6.1% for fiscal 1999 versus 6.5% for the prior fiscal year.

During the three years ended with fiscal 1999, the Company made significant investments to strengthen and add capacity to its operational support infrastructure in order to continue its growth plan in a controlled manner. Most of these investments were directly related to supporting the growth and operational execution of the Company's core restaurant and bakery operations. 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 accounting and information systems. Additionally, the Company aggressively pursued new large-account customers for its third-party bakery operations that required additional investments in bakery support resources. During fiscal 1999, the Company was able to more effectively leverage the investment in its operational support infrastructure with higher sales volumes. The Company plans to continue its efforts to leverage further investments in its operational support infrastructure during fiscal 2000.

Depreciation and Amortization Expenses Depreciation and amortization expenses increased to $10.9 million for fiscal 1999 versus $8.5 million for fiscal 1998, an increase of $2.4 million or 28%. 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 to $6.2 million for fiscal 1999 versus $3.6 million for fiscal 1998, an increase of $2.6 million or 72%. The Company opened eight restaurants during fiscal 1999, including Grand Lux Cafe that was an entirely new concept with unusually heavy preopening costs, versus five restaurant openings during fiscal 1998.

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. These fluctuations in preopening costs could be significant. Based on the Company's current growth objectives for fiscal 2000 and 2001, preopening costs for each of those years will likely exceed the respective amount of preopening costs as compared to the prior year. As a result of the highly customized and operationally complex nature of the Company's restaurants, the preopening process is significantly more extensive and costly for the Company relative to that of other chain restaurant operations. Preopening costs will also vary from location to location depending on a number of factors, including (but not limited to) the proximity of other established Company restaurants, the size and physical layout of each location, 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 established Company restaurant concepts.

FISCAL 1998 COMPARED TO FISCAL 1997

Revenues Total revenues increased 27% to $265.2 million for fiscal 1998 versus $208.6 million for fiscal 1997. Restaurant sales increased to $243.5 million for fiscal 1998 versus $189.5 million for the prior fiscal year, an increase of $54.0 million or 28%. The $54.0 million increase in restaurant sales for fiscal 1998 consists of the following components: the five new restaurants opened during fiscal 1998 accounted for approximately $11.9 million or 22% of the increase; noncomparable sales from restaurants opened during fiscal 1997 accounted for approximately $37.5 million or 70% of the increase; and comparable restaurant sales accounted for approximately $4.6 million or 8% of the increase. The impact of two additional days for fiscal 1997 has been excluded from all comparable and average sales comparisons included herein. Restaurant operating weeks increased 27% to 1,286 for fiscal 1998 versus 1,013 for fiscal 1997. Average sales per restaurant operating week increased to $189,300 for fiscal 1998 versus $185,700 for the prior fiscal year. Sales for comparable restaurants, which increased 4.0% for fiscal 1998, benefited from menu price increases of approximately 1.5% which were taken during December 1997/January 1998 and again in June/July 1998.

Third-party bakery sales increased 14% to $21.8 million for fiscal 1998 versus $19.1 million for the prior fiscal year. This increase was principally attributable to higher sales volumes to warehouse club operators. For fiscal 1998, sales to warehouse club operators represented approximately 63% of total third-party bakery sales.

Restaurant Cost of Sales Restaurant cost of sales increased to $65.5 million in fiscal 1998 from $50.1 million in fiscal 1997, an increase of $15.4 million or 31%. This increase was primarily attributable to the 28% increase in restaurant sales in fiscal 1998. As a percentage of restaurant sales, these costs increased slightly to 26.9% during fiscal 1998 versus 26.4% for fiscal 1997 principally as a result of higher costs for produce, poultry and dairy commodities, offset in part by menu price increases.

Third-party Bakery Cost of Sales Cost of sales for third-party bakery sales were $10.6 million for fiscal 1998 versus $7.8 million for the same period of the prior year. The increase of $2.8 million or 36% was attributable to the 14% increase in third-party bakery sales for fiscal 1998, coupled with significantly higher dairy commodity costs. As a percentage of their related third-party bakery sales, cost of sales for fiscal 1998 increased to 48.7% versus 40.8% for fiscal 1997. This increase was primarily due to significantly higher costs for dairy-related commodities.

Labor Expenses Labor expenses were $81.5 million for fiscal 1998 versus $64.7 million for fiscal 1997, an increase of $16.8 million or 26%. This increase was principally due to the 27% increase in total revenues during fiscal 1998. As a percentage of total revenues, labor expenses were 30.7% versus 31.0% for fiscal 1997. The slight decrease in labor as a percentage of total revenues for fiscal 1998 was principally attributable to improved labor productivity at the restaurants and the leveraging of the fixed component of such costs by higher sales volumes.

Other Operating Costs and Expenses Other operating costs and expenses increased 25% to $60.5 million for fiscal 1998 versus $48.3 million for fiscal 1997. This increase was principally attributable to the 27% increase in total revenues for fiscal 1998. As a percentage of total revenues, other operating costs and expenses decreased slightly to 22.8% for fiscal 1998 versus 23.2% for fiscal 1997, reflecting lower costs for workers' compensation insurance and the leveraging of the fixed component of this expense category with higher revenues.

General and Administrative Expenses General and administrative expenses increased to $17.3 million for fiscal 1998 versus $10.1 million for fiscal 1997, an increase of $7.2 million or 72%. As a percentage of total revenues, general and administrative expenses increased to 6.5% for fiscal 1998 versus 4.8% for the prior fiscal year. As a result of the Company's fiscal 1998 adoption of SOP 98-5, "Reporting on the Costs of Start-Up Activities," certain costs and expenses previously included in the preopening cost category were reclassified to the general and administrative expense category. Refer to the "General" section at the beginning of this discussion. Accordingly, reported general and administrative expenses for fiscal 1998 are not comparable to those reported in fiscal 1997 and prior years.

Depreciation and Amortization Expenses Depreciation and amortization expenses increased to $8.5 million for fiscal 1998 versus $6.7 million for fiscal 1997, an increase of $1.8 million or 27%. This increase was principally due to new restaurant openings. As a percentage of total revenues, depreciation and amortization expenses were 3.2% for both fiscal 1998 and 1997.

Preopening Costs As a result of the Company's fiscal 1998 adoption of SOP 98-5, "Reporting on the Costs of Start-Up Activities," the Company modified its definition of preopening costs and expensed those costs as incurred. Refer to the "General" section of this discussion. Accordingly, incurred preopening costs of $3.6 million reported for fiscal 1998 are not comparable to preopening amortization reported for fiscal 1997 and prior years. The Company opened five restaurants during fiscal 1998 versus six during fiscal 1997.

LIQUIDITY AND CAPITAL RESOURCES

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

(dollar amounts in millions)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Cash and marketable securities on hand, end of year	$ 55.2	$ 52.7	$ 53.6
Net working capital, end of year	$ 35.5	$ 30.3	$ 57.1
Current ratio, end of year	2.1:1	2.2:1	3.7:1
Long-term debt, end of year	$ –	$ –	$ –
Cash provided by operations	$ 37.8	$ 27.0	$ 11.5
Capital expenditures	$ 38.6	$ 28.0	$ 21.7

During fiscal 1999, the Company's total amount of cash and marketable securities on hand increased by $2.5 million to $55.2 million as of December 28, 1999 versus $52.7 million as of the end of fiscal 1998. The Company's net working capital position increased by $5.2 million to $35.5 million as of the end of fiscal 1999.

As of March 20, 2000, there were no borrowings outstanding under the Company's $25 million revolving credit and term loan facility (the "Credit Facility"). The terms of the Credit Facility were amended in March 1998 to provide for, among other things, borrowings under the Credit Facility to bear interest at variable rates based, at the Company's 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, 2000. 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 the Company to maintain certain financial ratios and to observe certain restrictive covenants with respect to the conduct of its operations, with which the Company is currently in compliance. The Company intends to pursue the renewal of the Credit Facility for another two years to provide backup liquidity.

During fiscal 1999, the Company's total capital expenditures were approximately $38.6 million, most of which were related to its restaurant operations. For fiscal 2000, the Company currently estimates its total capital expenditure requirement to range between $33-$38 million, excluding approximately $7-$8 million of expected noncapitalizable preopening costs and net of agreed-upon landlord construction contributions. This estimate contemplates nine new restaurants to be opened during fiscal 2000 and also provides for an anticipated increase in construction-in-progress disbursements for anticipated fiscal 2001 openings. The Company has historically leased the land and building shells for its restaurant locations and has expended cash for leasehold improvements and furnishings, fixtures and equipment for the locations. As of March 20, 2000, the Company had seven signed leases and several letters of intent for potential new restaurant locations. The Company's primary expansion objective is to increase its total restaurant productive square feet at least 25% during fiscal 2000.

Based on its current expansion objectives, the Company believes its existing cash and short-term investments on hand, coupled with cash provided by operations, available borrowings under its Credit Facility, and landlord construction contributions (when available) should be sufficient to finance its planned capital expenditures and other operating activities through fiscal 2001. Thereafter, the Company may seek additional funds to finance its future growth. However, there can be no assurance that such funds will be available when needed or be available on terms acceptable to the Company.

In November 1999, the Company's Board of Directors authorized an increase from 450,000 to 750,000 in the number of shares of its common stock the Company may repurchase for reissuance upon the exercise of stock options under the Company's current stock option plans. A source of funding for share repurchases will be the proceeds to the Company from the exercise of employee stock options. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by the Company. As of March 20, 2000, the Company had repurchased 321,000 shares at a total cost of approximately $6.6 million.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company 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, the Company 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 $0.31 per diluted share and was recorded retroactively to the first quarter of 1998 as a one-time charge. This accounting standard accelerates the Company's 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 will be effective the first quarter of 2001. The Company does not believe the new standard will have a material impact on the Company's results of operations.

IMPACT OF INFLATION AND CHANGES IN THE COSTS OF KEY OPERATING RESOURCES

The Company's profitability is dependent, among other things, upon its ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, and other supplies and services. Various factors beyond the Company's control, including adverse weather and general marketplace conditions, may affect the availability and cost of food and other raw materials. As a result of unfavorable supply and demand conditions, the Company's cost for dairy-related commodities increased to 4.3% of total revenues for fiscal 1998 compared to 3.4% for fiscal 1997. These costs decreased to 3.7% of total revenues for fiscal 1999; however, there can be no assurance that future costs for these commodities, or any commodities used in the Company's restaurant or bakery operations, will not fluctuate due to market conditions beyond the Company's control. The impact of inflation on food, labor and occupancy costs can significantly affect the Company's operations. Many of the Company's 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 minimum wage. Additionally, a general shortage in the availability of qualified restaurant management and hourly workers in certain geographical areas in which the Company operates has caused related increases in the costs of recruiting and compensating such employees. Certain operating costs, such as utilities, taxes, insurance and outside services, continue to increase with the general level of inflation.

While management has been able to react to inflation and other changes in the costs of key operating resources by 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 it will be able to continue to do so in the future. Substantially all of the leases for the Company's 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 the restaurants. There can be no assurance that the Company will continue to generate increases in comparable restaurant sales and third-party bakery sales in amounts sufficient to offset inflationary or other cost pressures.

SEASONALITY AND QUARTERLY RESULTS

The Company's business is subject to seasonal fluctuations. Historically, the Company's highest earnings have occurred in the second and third quarters of the fiscal year, as the Company's sales in its existing restaurants have typically been higher during the second and third quarters of the fiscal year. Approximately one-half of the Company's restaurants are located in or near shopping centers and malls that typically experience seasonal fluctuations in sales. The Company's third-party bakery operations are seasonal to the extent that the fourth quarter's sales are typically higher due to holiday business. Additionally, third-party bakery sales comparisons may significantly fluctuate from quarter to quarter due to the timing and scope of large orders of seasonal or promotional bakery products from third-party bakery customers. As a result of the seasonality of the Company's business, results for any quarter are not necessarily 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 respective preopening costs.

YEAR 2000 READINESS

To address the year 2000 issue, the Company began to formulate a plan during fiscal 1998 to assess, remediate and test all mission-critical internal computer systems and processes. The Company's plan also included an assessment of the readiness of key suppliers of mission-critical goods and services to its restaurant and bakery operations. All phases of the Company's year 2000 readiness plan were completed as scheduled. To date, the Company has not experienced any year 2000 issues with respect to its internal computer systems and key suppliers, and did not experience any loss of revenues as a result of the issue. The Company's total costs to address the year 2000 issue were not material, and any additional costs are expected to be minimal. Although the Company has not experienced any year 2000 issues to date and believes 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 the Company's results of operations, liquidity and financial position.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on funded debt. This exposure relates to its $25 million revolving credit and term loan facility (the "Credit Facility"). There were no borrowings outstanding under the Credit Facility during fiscal 1998, 1999 or fiscal 2000 through March 20, 2000. 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 the Company's results of operations.

A change in market prices also exposes the Company to market risk related to its investments in marketable securities. As of December 28, 1999, the Company held $31.2 million in available-for-sale marketable securities. A hypothetical 10% decline in the market value of those securities would result in a $3.1 million unrealized loss and a corresponding decline in their fair value. This hypothetical decline would not affect cash flow from operations and would not have an impact on net income until the securities were disposed of.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 28, 1999	December 29, 1998
Assets		
Current assets:		
Cash and cash equivalents	$ 24,026	$ 17,467
Investments and marketable securities	21,686	21,596
Accounts receivable	5,333	3,473
Other receivables	6,760	5,478
Inventories	8,121	5,854
Prepaid expenses	2,295	826
Deferred income taxes	257	–
Total current assets	68,478	54,694
Property and equipment, net	135,512	107,660
Other assets:		
Marketable securities	9,524	13,609
Other receivables	3,922	5,286
Trademarks	1,794	1,614
Other	2,555	2,557
Total other assets	17,795	23,066
Total assets	$221,785	$185,420
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 13,104	$ 11,303
Income taxes payable	1,973	1,421
Other accrued expenses	17,859	11,290
Deferred income taxes	–	416
Total current liabilities	32,936	24,430
Deferred income taxes	3,276	699
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, 30,000,000 shares authorized; 20,409,863 and 20,108,102 issued and outstanding for 1999 and 1998, respectively	204	201
Additional paid-in capital	123,677	117,713
Retained earnings	67,612	45,880
Unrealized loss on available-for-sale securities	(115)	(35)
Treasury stock, 295,500 and 211,000 shares at cost for 1999 and 1998, respectively	(5,805)	(3,468)
Total stockholders' equity	185,573	160,291
Total liabilities and stockholders' equity	$221,785	$185,420

See the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year		
(in thousands, except net income per share)	1999	1998	1997
Revenues:			
Restaurant sales	$320,450	$243,415	$189,475
Third-party bakery sales	27,032	21,808	19,114
Total revenues	347,482	265,223	208,589
Costs and expenses:			
Restaurant cost of sales	82,496	65,480	50,084
Third-party bakery cost of sales	12,685	10,626	7,805
Labor expenses	105,796	81,475	64,708
Other operating costs and expenses	77,247	60,452	48,320
General and administrative expenses	21,266	17,333	10,096
Depreciation and amortization expenses	10,913	8,540	6,696
Preopening costs	6,217	3,603	6,646
Total costs and expenses	316,620	247,509	194,355
Income from operations	30,862	17,714	14,234
Interest income, net	2,807	2,955	520
Other income, net	555	435	420
Income before income taxes and cumulative effect of change in accounting principle	34,224	21,104	15,174
Income tax provision	12,492	7,073	5,235
Income before cumulative effect of change in accounting principle	21,732	14,031	9,939
Cumulative effect of change in accounting principle, net of income tax benefit of $3,343	–	6,347	–
Net income	$ 21,732	$ 7,684	$ 9,939
Net income per share:			
Basic:			
Income before cumulative effect of change in accounting principle	$ 1.08	$ 0.70	$ 0.59
Cumulative effect of change in accounting principle	–	(0.32)	–
Net income	$ 1.08	$ 0.38	$ 0.59
Diluted:			
Income before cumulative effect of change in accounting principle	$ 1.03	$ 0.68	$ 0.58
Cumulative effect of change in accounting principle	–	(0.31)	–
Net income	$ 1.03	$ 0.37	$ 0.58
Weighted average shares outstanding:			
Basic	20,061	19,984	16,842
Diluted	21,189	20,572	17,132

See the accompanying notes to the consolidated financial statements.

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 29, 1996	$ 109	$ 55,264	$ 28,323	$ (184)	$ –	$ 83,512
Net income	–	–	9,939	–	–	9,939
Issuance of common stock pursuant to stock option plan, including tax benefit	1	323	–	–	–	324
Issuance of common stock pursuant to follow-on public offering	23	58,598	–	–	–	58,621
Net unrealized gain	–	–	–	149	–	149
Three-for-two stock split	66	–	(66)	–	–	–
Balance, December 30, 1997	199	114,185	38,196	(35)	–	152,545
Net income	–	–	7,684	–	–	7,684
Issuance of common stock pursuant to stock option plan, including tax benefit	2	3,528	–	–	–	3,530
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, including tax benefit	3	5,964	–	–	–	5,967
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

See the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year		
(in thousands)	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 21,732	$ 7,684	$ 9,939
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	10,913	8,540	6,696
Cumulative effect of change in accounting principle	–	6,347	–
Preopening amortization	–	–	6,646
Loss on asset sale	–	–	122
Loss on available-for-sale securities	122	9	64
Deferred income taxes	1,904	(2,965)	2,447
Changes in assets and liabilities:			
Accounts receivable	(1,860)	(1,309)	219
Other receivables	82	4,198	(7,658)
Inventories	(2,267)	(785)	(863)
Prepaid expenses	(1,469)	137	119
Deferred preopening costs	–	–	(9,411)
Trademarks	(248)	(416)	(1,006)
Other	(79)	(774)	(504)
Accounts payable	1,801	(768)	3,162
Income taxes payable	598	4,097	(168)
Other accrued expenses	6,569	3,039	1,687
Cash provided by operating activities	37,798	27,034	11,491
Cash flows from investing activities:			
Additions to property and equipment	(38,616)	(27,966)	(21,703)
Sales of property and equipment	–	–	47
Investments in available-for-sale securities	(35,763)	(51,774)	(10,605)
Sales of available-for-sale securities	39,510	26,568	2,833
Cash used by investing activities	(34,869)	(53,172)	(29,428)
Cash flows from financing activities:			
Net repayments under revolving credit facility	–	–	(6,000)
Issuance of common stock	3	2	23
Proceeds from exercise of employee stock options	5,964	3,528	323
Proceeds from follow-on public offering of common stock	–	–	58,598
Purchase of treasury stock	(2,337)	(3,468)	–
Cash provided by financing activities	3,630	62	52,944
Net change in cash and cash equivalents	6,559	(26,076)	35,007
Cash and cash equivalents at beginning of period	17,467	43,543	8,536
Cash and cash equivalents at end of period	$ 24,026	$ 17,467	$ 43,543

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 Houston Cheesecake Factory Corporation; and Grand Lux Cafe LLC). All of the Company's restaurants and its 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 The Company utilizes a 52/53 week fiscal year ending on the Sunday closest to December 31 for financial reporting purposes. Commencing with the start of fiscal 1998, the Company changed its fiscal week and year-end from Sunday to Tuesday to facilitate certain operational efficiencies. Fiscal 1999, 1998 and 1997 each consisted of 52 weeks. Fiscal 2000 will consist of 53 weeks and will end on Tuesday, January 2, 2001.

Cash and Cash Equivalents The Company considers 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 The Company records 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 the Company expects to hold to maturity are classified as held-to-maturity securities and are reported at their amortized costs. Debt securities that the Company classifies 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 Company's balance sheet date, plus any accrued interest. Net realized gains or losses are determined on the specific identification cost method. At December 28, 1999 and December 29, 1998, all of the Company's investments and marketable securities were classified in the available-for-sale category.

Accounts and Other Receivables The Company's accounts receivable principally result from credit sales to third-party bakery customers. Other receivables consist of various amounts due from landlords, insurance providers and others in the ordinary course of business.

Concentration of Credit Risk Financial instruments which potentially subject the Company to a concentration of credit risk are cash and cash equivalents, investments and marketable securities, and accounts receivable. The Company currently maintains a majority of its day-to-day operating cash balances with two major financial institutions. At times, cash balances may be in excess of FDIC insurance limits. The Company places its 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. The Company's investment policy limits the amount of exposure to any one financial institution or investment. With respect to marketable securities, the net unrealized loss on the Company's investment portfolio as of December 28, 1999 and December 29, 1998 has been reported (net of tax effect) as a separate component within the stockholders' equity section of the Consolidated Balance Sheet. Concentration of credit risk for accounts receivable is considered by the Company to be minimal as a result of the large number of third-party bakery customers, as well as the payment histories and general financial condition of the larger third-party 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 Effective with fiscal 1998, preopening costs are expensed as incurred. For fiscal 1997 and prior years, preopening costs were deferred and then amortized over the twelve-month period following the opening of the respective facilities.

Income Taxes The Company accounts 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 EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of potential stock option exercises, calculated using the treasury stock method.

Recent Accounting Pronouncements During fiscal 1998, the Company 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, the Company 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. This statement will be effective the first quarter of 2001. The Company does not believe that the new standard will have a material impact on the Company's financial statements.

Impairment of Long-Lived Assets During fiscal 1997, the Company adopted 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. The Company's adoption of SFAS No. 121 did not result in a material impact on its financial position or results of operations.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management 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 third-party bakery sales is recognized when the products are shipped.

Advertising Costs Advertising costs are expensed as incurred. Advertising expenses for fiscal 1999, 1998 and 1997 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 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	(16)	1,137	December 2000 to April 2001
Total	$ 9,610	$ 9,524	$ (87)	$ 9,524	
At December 29, 1998:					
Current assets:					
Available-for-sale securities:					
Corporate debt securities	$21,590	$21,596	$ 6	$21,596	January 1999 to December 1999
Other assets:					
Available-for-sale securities:					
Equity securities	$ 1,010	$ 956	$ (54)	$ 956	No maturity dates
Corporate debt securities	11,911	11,902	(9)	11,902	June 2000 to December 2033
U.S. Treasury securities	753	751	(2)	751	November 2000
Total	$13,674	$13,609	$ (65)	$13,609	

3. OTHER RECEIVABLES:

Other receivables consisted of (in thousands):

	December 28, 1999	December 29, 1998
Tenant improvement allowances from landlords	$ 9,550	$ 9,518
Accrued income on investments	622	483
Other	510	763
Total other receivables	10,682	10,764
Less: current portion	(6,760)	(5,478)
Other receivables	$ 3,922	$ 5,286

4. INVENTORIES:

Inventories consisted of (in thousands):

	December 28, 1999	December 29, 1998
Restaurant food and supplies	$ 5,142	$ 4,043
Bakery raw materials	1,605	1,076
Bakery finished goods	1,374	735
Total	$ 8,121	$ 5,854

The amounts for restaurant food and supplies as of December 28, 1999 and December 29, 1998 include $2.3 million and $1.9 million, respectively, for certain smallware inventories in the restaurants.

5. PROPERTY AND EQUIPMENT:

Property and equipment consisted of (in thousands):

	December 28, 1999	December 29, 1998
Land and related improvements	$ 1,394	$ 1,227
Building	6,464	6,464
Fixtures and equipment	63,217	48,673
Leasehold improvements	94,339	69,556
Computer equipment	1,483	1,084
Automotive equipment	390	390
Construction in progress	9,403	10,679
Property and equipment, total	176,690	138,073
Less: accumulated depreciation and amortization	(41,178)	(30,413)
Property and equipment, net	$ 135,512	$ 107,660

Repair and maintenance expenses for fiscal 1999, 1998 and 1997 were $2.8 million, $2.3 million and $2.2 million, respectively.

6. COMMITMENTS AND CONTINGENCIES:

The Company leases all its 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. Management has always exercised its renewal options in the past. The Company also leases 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, 1999 that are planned for fiscal 2000 or 2001 openings) are as follows (in thousands):

2000	$ 11,510
2001	12,838
2002	13,028
2003	12,313
2004	12,198
Thereafter	131,789
Total minimum lease commitments	$ 193,676

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

	Fiscal 1999	Fiscal 1998	Fiscal 1997
Base rent	$ 9,384	$ 7,334	$ 5,289
Contingent rent	9,079	7,303	5,853
Other charges	4,135	3,535	2,093
Total	$ 22,598	$ 18,172	$ 13,235

With respect to seven restaurants with executed leases as of December 28, 1999 that are currently planned for openings in fiscal 2000 and 2001, the Company has estimated construction commitments (leasehold improvements and fixtures and equipment), net of agreed-upon landlord construction contributions, totaling approximately $19 million.

From time to time, lawsuits are filed against the Company in the ordinary course of its 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, the Company also encounters complaints and allegations from current and former employees or others from time to time which are believed to be common for businesses similar to that of the Company's. The Company is currently not a party to any litigation that could have a material adverse effect on the Company's results of operations, liquidity, financial position or its business and is not aware that any such litigation is threatened.

7. INCOME TAXES:

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

	Fiscal 1999	Fiscal 1998	Fiscal 1997
Income before income taxes and cumulative effect of change in accounting principle	$ 34,224	$ 21,104	$ 15,174
Cumulative effect of change in accounting principle	–	(9,690)	–
Income before income taxes	$ 34,224	$ 11,414	$ 15,174
Income tax provision:			
Current:			
Federal	$ 8,385	$ 5,132	$ 2,831
State	2,203	1,563	703
Total current	10,588	6,695	3,534
Deferred	1,904	378	1,701
Provision before cumulative effect of change in accounting principle	12,492	7,073	5,235
Benefit (deferred provision) from cumulative effect of change in accounting principle	–	(3,343)	–
Total	$ 12,492	$ 3,730	$ 5,235

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

	Fiscal 1999	Fiscal 1998	Fiscal 1997
Tax at U.S. federal statutory rate	35.0%	35.0%	34.0%
State and district income taxes net of federal income tax benefit	5.2	4.6	5.9
FICA tip credit and research credits	(2.5)	(6.4)	(4.6)
Municipal bond income, dividends received deduction and other	(1.2)	(0.5)	(0.8)
Effective tax rate	36.5%	32.7%	34.5%

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

	December 28, 1999	December 29, 1998
Current deferred tax asset/(liability):		
State tax current provision	$ 399	$ (480)
Other, net	(142)	64
Total	$ 257	$ (416)
Noncurrent deferred tax asset/(liability):		
Property and equipment	$ (2,948)	$ (5,053)
Accrued rent	(1,272)	2,566
Tax credit carryforwards	640	1,689
Capital losses	277	272
Other, net	27	(173)
Total	$ (3,276)	$ (699)

8. LONG-TERM DEBT:

The Company maintains a $25 million revolving credit and term loan facility (the "Credit Facility") with a major financial institution. As of December 28, 1999 and December 29, 1998, there were no borrowings outstanding under the Credit Facility. The terms of the Credit Facility were amended in March 1998 to provide for, among other things, borrowings under the Credit Facility to bear

interest at variable rates based, at the Company's 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, 2000. 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 the Company to maintain certain financial ratios and to observe certain restrictive covenants with respect to the conduct of its operations, with which the Company is currently in compliance.

9. STOCKHOLDERS' EQUITY:

The Company effected a stock dividend in the form of a three-for-two stock split on April 1, 1998. In connection with this stock dividend and split, $66,000 was transferred to common stock from retained earnings in the December 30, 1997 Consolidated Balance Sheet. 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 also authorized to repurchase up to 750,000 shares of its common stock for reissuance upon the exercise of stock options under the Company's current stock option plans. A source of funding for share repurchases will be the proceeds to the Company from the exercise of stock options. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by the Company. As of December 28, 1999, the Company had repurchased 295,500 shares at a total cost of $5.8 million.

10. ADOPTION OF STATEMENT OF POSITION 98-5, "REPORTING ON THE COSTS OF START-UP ACTIVITIES":

The Company 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, the Company 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 $0.31 per diluted share and was recorded retroactively to the first quarter of 1998 as a one-time charge. This accounting standard accelerates the Company's 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 the Company to grant options to certain employees and outside directors to acquire a total of 4,746,750 shares of common stock, pursuant to the terms of the Company's 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 the Company meets or exceeds certain performance standards. The options generally expire ten years from the date of grant. During fiscal 1999, 1998 and 1997, the Board of Directors and stockholders authorized the Company to grant an additional 1,650,000 shares of common stock (included in the cumulative total set forth above) under the Company's non-employee director and employee stock option plans. Transactions during fiscal 1999, 1998 and 1997 under the option plans were as follows:

	Fiscal 1999	Fiscal 1998	Fiscal 1997
Options outstanding at start of year	1,897,814	1,656,975	1,210,875
Options granted	1,685,900	501,000	637,425
Options exercised	(301,761)	(215,011)	(33,900)
Options cancelled	(139,200)	(45,150)	(157,425)
Options outstanding at end of year	3,142,753	1,897,814	1,656,975
Options exercisable at end of year	767,550	571,462	518,100
Options available for grant at end of year	481,038	1,432,237	688,087

Weighted average option exercise price information for the fiscal years 1999, 1998 and 1997 were as follows:

	Fiscal 1999	Fiscal 1998	Fiscal 1997
Options outstanding at start of year	$ 14.92	$ 13.39	$ 12.97
Options granted	$ 20.80	$ 18.84	$ 14.14
Options exercised	$ 15.02	$ 12.01	$ 9.53
Options cancelled	$ 18.28	$ 15.46	$ 13.91
Options outstanding at end of year	$ 17.92	$ 14.92	$ 13.39

The following table sets forth information with respect to fixed stock options as of December 28, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Amount Outstanding as of 12/28/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Amount Exercisable as of 12/28/99	Weighted Average Exercise Price
$ 8.89 - $12.08	407,200	4.75 years	$ 10.37	334,000	$ 9.99
$12.17 - $14.33	438,225	6.69	$ 13.73	199,500	$ 13.89
$14.50 - $17.67	267,078	6.69	$ 16.42	122,850	$ 16.79
$17.92 - $17.92	672,450	3.08	$ 17.92	—	$ —
$18.00 - $18.67	314,650	8.03	$ 18.05	54,350	$ 18.08
$18.92 - $21.56	582,250	8.87	$ 20.46	34,350	$ 19.13
$22.06 - $27.00	383,400	9.59	$ 25.74	22,500	$ 22.91
$27.06 - $28.75	67,500	9.62	$ 27.58	—	$ —
$29.88 - $29.88	5,000	9.59	$ 29.88	—	$ —
$31.38 - $31.38	5,000	9.51	$ 31.38	—	$ —
$ 8.89 - $31.38	3,142,753	6.63	$ 17.92	767,550	$ 13.45

The Company has 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 the Company's stock option plans. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards in fiscal 1999, 1998 and 1997 consistent with the provisions of SFAS No. 123, the Company's 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 1999	Fiscal 1998	Fiscal 1997
Net income, as reported	$ 21,732	$ 7,684	$ 9,939
Net income, pro forma	$ 17,521	$ 4,535	$ 7,287
Basic net income per share, as reported	$ 1.08	$ 0.38	$ 0.59
Basic net income per share, pro forma	$ 0.87	$ 0.23	$ 0.43
Diluted net income per share, as reported	$ 1.03	$ 0.37	$ 0.58
Diluted net income per share, pro forma	$ 0.83	$ 0.22	$ 0.43

The fair value of each option issued in fiscal 1999, 1998 and 1997 is estimated at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions for each respective year: (a) no dividend yield on the Company's stock, (b) expected volatility of the Company's stock of 49.9%, 49.6% and 47.3%, (c) a risk free interest rate of 4.88%, 5.78% and 6.31%, and (d) expected option lives of seven years.

12. OTHER SUPPLEMENTAL DATA:

Other accrued expenses consisted of (in thousands):

	December 28, 1999	December 29, 1998
Salaries, wages and bonuses	$ 5,093	$ 2,315
Payroll and sales taxes	1,850	2,116
Rent and related expenses	1,679	1,357
Compensated absences	2,057	1,677
Gift certificates	3,202	1,698
Medical insurance	757	—
Other	3,221	2,127
Total	$ 17,859	$ 11,290

13. SUPPLEMENTAL CASH FLOW DISCLOSURES:

Supplemental cash flow disclosures consisted of (in thousands):

	Fiscal 1999	Fiscal 1998	Fiscal 1997
Interest paid	$ 44	$ 24	$ 543
Income taxes paid	$ 8,675	$ 4,994	$ 2,987

14. EMPLOYEE BENEFIT PLANS:

During fiscal 1998, the Company 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. The Company matches a certain percentage of the employee contributions to the 401(k) Plan and also pays for administrative expenses, neither of which were significant amounts during fiscal 1999 and 1998.

Effective October 1999, the Company adopted an Executive Savings Plan (the "ESP"). The ESP is a nonqualified deferred compensation plan for highly compensated Company employees as defined in the ESP and who are otherwise ineligible for participation in the Company's 401(k) Plan. The ESP allows participating executives 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. The Company matches 25% of the first 4% of annual salaries deferred by participating employees and also pays for administrative expenses, neither of which were significant amounts during fiscal 1999. The Company's match vests 25% annually beginning with the end of the employee's second year of participation in the ESP. Employee deferrals and the Company 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.

Effective May 1999, the Company adopted a self-insured medical benefits plan for its employees. The Company has purchased stop-loss coverage in order to limit its exposure to any significant medical claims. Self-insured losses are accrued based upon the Company's estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and the Company's historical experience. The amount of accrued liabilities for self-insured losses included in other accrued expenses for fiscal 1999 were $757,000.

15. STOCKHOLDER RIGHTS PLAN:

During fiscal 1998, the Company's 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 the Company's 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 the Company's 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 the Company is thereafter merged into another entity, or more than 50% of its 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 the Company.

16. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized unaudited quarterly financial data (in thousands, except net income per share) for fiscal 1999 and 1998 is as follows:

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	$ 0.18	$ 0.25	$ 0.27	$ 0.33

Quarter Ended:	March 31, 1998(a)	June 30, 1998	September 29, 1998	December 29, 1998
Total revenues	$ 59,501	$ 64,273	$ 68,577	$ 72,872
Income from operations	$ 4,659	$ 4,500	$ 4,749	$ 3,806
Net income (loss)	$ (2,743)	$ 3,515	$ 3,897	$ 3,015
Diluted net income (loss) per share(b)	$ (0.13)	$ 0.17	$ 0.19	$ 0.15

(a) The results for the quarter ended March 31, 1998 include the cumulative effect of a change in accounting principle of $6.3 million, net of income tax benefit.

(b) Diluted net income (loss) 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.

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 December 28, 1999 and December 29, 1998, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 28, 1999, in conformity with accounting principles generally accepted in the United States. 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 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 the opinion expressed above.

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

PricewaterhouseCoopers LLP
Los Angeles, California
February 4, 2000

RESTAURANT LOCATIONS *as of March 27, 2000*

CHEESECAKE FACTORY® FULL-SERVICE RESTAURANTS IN OPERATION

California
Beverly Hills
Brentwood
Irvine
Marina del Rey
Mission Viejo
Newport Beach
Pasadena
Redondo Beach
San Diego
San Francisco
Thousand Oaks
Woodland Hills

Colorado
Boulder
Denver

Florida
Aventura
Boca Raton
Coconut Grove
Miami
Sunrise

Georgia
Atlanta

Illinois
Chicago
Skokie

Maryland
Baltimore
North Bethesda

Massachusetts
Boston
Cambridge

Missouri
Kansas City

Nevada
Las Vegas

New York
Westbury

Ohio
Columbus

Rhode Island
Providence

Texas
Dallas
Houston

Washington, DC

FUTURE CHEESECAKE FACTORY® FULL-SERVICE RESTAURANT LOCATIONS WITH SIGNED LEASES

Arizona
Scottsdale

California
Sherman Oaks

Florida
West Palm Beach

Georgia
Atlanta

Illinois
Schaumburg

Indiana
Indianapolis

New Jersey
Hackensack

OTHER RESTAURANT CONCEPTS IN OPERATION

The Cheesecake Factory Express®
DisneyQuest™ – Chicago
DisneyQuest™ – Orlando

Grand Lux Cafe®
Las Vegas (The Venetian)

CORPORATE AND STOCKHOLDER INFORMATION

Board of Directors

David Overton
Chairman of the Board,
President and Chief Executive Officer

Thomas L. Gregory
Consultant

Jerome I. Kransdorf
Senior Vice President
J. & W. Seligman & Co. Incorporated

Wayne H. White
Investment Banker & Consultant

Executive Officers

David Overton
President and Chief Executive Officer

Linda J. Candioty
Executive Vice President and Secretary

Gerald W. Deitchle
Executive Vice President and
Chief Financial Officer

Debby R. Zurzolo
Senior Vice President and
General Counsel

Operating and Staff Officers

Max S. Byfuglin
Executive Vice President - Bakery

Peter J. D'Amelio
Senior Vice President -
Restaurant Operations

Howard R. Gordon
Senior Vice President - Public Relations
and Marketing

Mark C. Pratte
Senior Vice President -
Restaurant Kitchen Operations

Jennifer G. Bispo
Vice President - Staff Relations

Keith T. Carango
Vice President - Bakery Operations

Anthony R. Gressak Jr.
Vice President - Bakery Distributor Sales

Bill Lyons
Vice President - Business Planning and
Systems Development

Ronald S. McArthur
Vice President - Purchasing

Richard A. McCormack
Vice President - Restaurant Design

Lisa A. McDowell
Vice President - Restaurant
Performance Development

Kix McGinnis Nystrom
Vice President - Kitchen Operations
Support

Robert Okura
Vice President - Culinary Development
and Corporate Executive Chef

Richard L. Smith
Vice President and
Chief Information Officer

Richard B. Vaughn
Vice President - Restaurant Construction

Legal Counsel

Buchalter, Nemer, Fields & Younger
Los Angeles, California

Registrar and Transfer Agent

U.S. Stock Transfer Corporation
1745 Gardena Ave., 2nd Floor
Glendale, California 91204
(818) 502-1404 / (800) 835-8778

Independent Accountants

PricewaterhouseCoopers LLP
Los Angeles, California

Form 10-K

A copy of the Company's 1999 Form 10-K as filed with the Securities and Exchange Commission is available, without charge, by calling or writing the Company's Investor Relations Manager at the address under Inquiries.

Inquiries

Communications concerning stock transfer requirements, lost certificates and changes to address should be directed to the Transfer Agent. Other stockholder or investor inquiries should be directed to:

Jane Vallaire
Manager, Investor Relations and
Assistant Secretary
The Cheesecake Factory Incorporated
26950 Agoura Road
Calabasas Hills, California 91301
(818) 871-3000

Common Stock Trading

The Company's stock began trading on the Nasdaq Stock Market® on September 17, 1992 under the symbol CAKE at the initial public offering price of $8.89 (adjusted for two three-for-two stock splits in March 1994 and April 1998). The Company completed follow-on public offerings of common stock in January 1994 and November 1997. The market price of the Company's common stock has not closed below $8.89 and has closed as high as $33.00 through December 28, 1999. There were 558 stockholders of record and approximately 10,895 beneficial stockholders as of March 20, 2000.

Annual Meeting

The Company's Annual Meeting of Stockholders will be held at 10:00 a.m. (Pacific Time), Tuesday, May 30, 2000 at:

The Cheesecake Factory® Restaurant
605 North Harbor Drive
Redondo Beach, California 90277

World Wide Web Address

www.thecheesecakefactory.com
Corporate, product, financial and stockholder information, including press releases and quarterly earnings announcements, are available at The Cheesecake Factory Incorporated's World Wide Web site.

BOARD OF DIRECTORS

Wayne H. White   David Overton   Jerome I. Kransdorf   Thomas L. Gregory

The Cheesecake Factory

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Calabasas Hills,
California 91301
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