

Same-store sales at company-operated restaurants increased 1.7% in 2019 compared with 2018 primarily due to menu price increases and favorable product mix, partially offset by a decline in transactions. The following table summarizes the increases (decreases) in company-operated same-store sales:

	2019 vs. 2018
Transactions	(1.4)%
Average check (1)	3.1 %
Change in same-store sales	1.7 %

(1) Includes price increases of approximately 2.5% in 2019.

Food and packaging costs as a percentage of company restaurant sales increased to 29.0% in 2019 from 28.8% a year ago due primarily to changes in product mix and higher costs for ingredients, partially offset by menu price increases. Commodity costs increased by approximately 2% compared to a year ago, due to increases across the majority of our ingredient costs.

Payroll and employee benefit costs as a percentage of company restaurant sales increased to 29.7% in 2019 compared with 28.8% a year ago due primarily to higher average wages resulting from wage inflation and a highly competitive labor market, and a change in the mix of restaurants due to refranchising.

Occupancy and other costs decreased \$21.2 million in 2019 compared to the prior year primarily driven by a decrease in the average number of restaurants impacting occupancy and other costs by approximately \$23.0 million. As a percentage of company restaurant sales, occupancy and other costs decreased to 15.0% from 16.0% a year ago due primarily to refranchising and a decrease in maintenance and repair expenses, partially offset by higher costs for insurance, information technology, and delivery fees at the restaurants we continue to operate.

Franchise Operations

The following table presents franchise revenues and costs in each fiscal year and other information we believe is useful in analyzing the change in franchise operating results (*dollars in thousands*):

	2019	2018
Franchise rental revenues	\$ 272,815	\$ 259,047
Royalties	163,047	155,939
Franchise fees and other	6,764	6,646
Franchise royalties and other	169,811	162,585
Franchise contributions for advertising and other services	170,674	—
Total franchise revenues	\$ 613,300	\$ 421,632
Franchise occupancy expenses (excluding depreciation and amortization)	\$ 166,584	\$ 158,319
Franchise support and other costs	12,110	11,593
Franchise advertising and other services expenses	178,093	—
Total franchise costs	\$ 356,787	\$ 169,912
Franchise costs as a % of total franchise revenues	58.2%	40.3%
Average number of franchise restaurants	2,081	2,028
% increase	2.6%	
Franchised restaurant sales	\$ 3,167,920	\$ 3,018,067
Franchise restaurant AUV	\$ 1,523	\$ 1,488
Increase in franchise-operated same-store sales	1.3%	0.1%
Royalties as a percentage of total franchise restaurant sales	5.1%	5.2%

Franchise rental revenues increased \$13.8 million, or 5.3%, in 2019 versus a year ago due primarily to an increase in the number of franchised restaurants and, to a lesser extent, an increase in franchise same-store sales. The increase in the number of restaurants leased or subleased from the Company due to our refranchising strategy, contributed additional rental revenues of \$12.4 million in 2019.

Franchise royalties and other increased \$7.2 million, or 4.4%, in 2019 compared with the prior year due to an increase in the number of franchised restaurants contributing additional royalties of \$7.2 million and, to a lesser extent, an increase in franchise same-store sales. These increases were partially offset by \$0.8 million related to quarterly franchise sales incentives provided in the current year and recorded as a reduction of franchise royalties. Upon adoption of ASC 606 in 2019, franchise fees are now recognized over the franchise term compared to upfront recognition in the prior year.

In years prior to 2019, franchise contributions for advertising and other services were shown net with the related disbursements within “Selling, general, and administrative expenses” in our consolidated statement of earnings. In the first quarter of 2019, we adopted ASC 606, which requires these revenues and expenses to be presented gross on our consolidated statement of earnings. Excluding this presentation change, franchise costs as a percentage of total franchise revenues in 2019 would have been 40.4%, compared to 58.2% reported under ASC 606. Refer to Note 1, *Nature of Operations and Summary of Significant Accounting Policies*, for additional information related to the adoption of this new accounting standard.

Franchise occupancy expenses increased \$8.3 million in 2019 versus a year ago due primarily to a net increase in the average number of franchise-operated restaurants resulting from our refranchising strategy. Restaurants refranchised in the prior year contributed additional costs of approximately \$7.0 million in 2019.

Franchise support and other costs increased \$0.5 million due primarily to an increase of \$1.3 million in bad debt expense, partially offset by a \$0.9 million decrease in costs associated with franchise remodels.

Depreciation and Amortization

Depreciation and amortization decreased \$4.2 million in 2019 as compared with the prior year, primarily due to a decrease in equipment depreciation driven by a decrease in the average number of company-operated restaurants resulting from our refranchising activities in 2018. A decline in depreciation resulting from our franchise building assets becoming fully depreciated also contributed to the decrease.

Selling, General and Administrative (“SG&A”) Expenses

The following table presents the increase (decrease) in SG&A expenses in 2019 compared with the prior year (*in thousands*):

	2019 vs. 2018
Advertising	\$ (9,757)
Technology fees	(5,804)
Insurance	(5,557)
Cash surrender value of COLI policies, net	(3,364)
Region administration	(2,756)
Legal fees	1,558
Other (includes transition services income and savings related to our restructuring plan)	(2,779)
	<u>\$ (28,459)</u>

Advertising costs represent company contributions to our marketing fund and are generally determined as a percentage of company-operated restaurant sales. Advertising costs in 2019 decreased primarily due to a decrease in the number of company-operated restaurants resulting from our refranchising efforts. Additionally, discretionary marketing fund contributions decreased by \$4.2 million compared to the prior year.

Upon adoption of ASC 606 in 2019, technology fees and costs are recorded on a gross basis within our consolidated statements of earnings within “Franchise contributions for advertising and other services” and “Franchise advertising and other services expenses.”

Insurance costs decreased in 2019 as compared to 2018 primarily due to favorable development factors related to prior year workers’ compensation and general liability claims.

The cash surrender value of our Company-owned life insurance (“COLI”) policies, net of changes in our non-qualified deferred compensation obligation supported by these policies, are subject to market fluctuations. The changes in market values had a positive impact of \$3.3 million and was not material in 2018.

Region administration costs decreased in 2019 primarily to workforce reductions related to our refranchising efforts.