

Ruths Hospitality Group, Inc.  
Form 10-Q  
November 06, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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**(Mark One)**

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

**For the quarterly period ended September 29, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 000-51485**

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**Ruth's Hospitality Group, Inc.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization) 72-1060618  
(I.R.S. Employer  
Identification No.)  
1030 W. Canton Avenue, Suite 100,  
Winter Park, FL 32789  
(Address of principal executive offices) (Zip code)

(407) 333-7440

Registrant's telephone number, including area code

None.

Former name, former address and former fiscal year, if changed since last report.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the registrant’s common stock as of November 1, 2013 was 35,601,374, which includes 625,945 shares of unvested restricted stock.

**TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <b>Part I — Financial Information</b>  | <b>3</b>    |
| Item 1. Financial Statements:  | 3           |
| Condensed Consolidated Balance Sheets as of September 29, 2013 and December 30, 2012   | 3           |
| Condensed Consolidated Statements of Income (Loss) for the Thirteen and Thirty-nine Week Periods ended September 29, 2013 and September 23, 2012 | 4           |
| Condensed Consolidated Statements of Shareholders' Equity for the Thirty-nine Week Periods ended September 29, 2013 and September 23, 2012       | 5           |
| Condensed Consolidated Statements of Cash Flows for the Thirty-nine Week Periods ended September 29, 2013 and September 23, 2012                 | 6           |
| Notes to Condensed Consolidated Financial Statements   | 7           |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  | 16          |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk   | 22          |
| Item 4. Controls and Procedures  | 23          |
| <b>Part II — Other Information</b>   | <b>23</b>   |
| Item 1. Legal Proceedings  | 23          |
| Item 1A. Risk Factors  | 23          |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  | 23          |
| Item 3. Defaults Upon Senior Securities  | 23          |
| Item 4. Mine Safety Disclosures  | 23          |
| Item 5. Other Information  | 23          |
| Item 6. Exhibits   | 24          |
| Signatures   | 25          |



**PART I – FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets—Unaudited****(Amounts in thousands, except share and per share data)**

|  | <b>September<br/>29,<br/>2013</b> | <b>December<br/>30,<br/>2012</b> |
|--|-----------------------------------|----------------------------------|
| <b>Assets</b>  |                                   |                                  |
| Current assets:  |                                   |                                  |
| Cash and cash equivalents  | \$ 5,277                          | \$ 7,909                         |
| Accounts receivable, less allowance for doubtful accounts 2013 - \$765; 2012 - \$378       | 10,224                            | 11,295                           |
| Inventory  | 7,038                             | 7,921                            |
| Assets held for sale   | 0                                 | 1,153                            |
| Prepaid expenses and other   | 1,926                             | 1,863                            |
| Deferred income taxes  | 2,034                             | 1,855                            |
| Total current assets   | 26,499                            | 31,996                           |
| Property and equipment, net of accumulated depreciation 2013 - \$121,935; 2012 - \$112,292 | 91,957                            | 89,979                           |
| Goodwill   | 22,097                            | 22,097                           |
| Franchise rights   | 32,200                            | 32,200                           |
| Trademarks   | 10,676                            | 10,676                           |
| Other intangibles, net of accumulated amortization 2013 - \$2,643; 2012 - \$2,456          | 5,864                             | 6,031                            |
| Deferred income taxes  | 31,677                            | 35,472                           |
| Other assets   | 2,357                             | 2,906                            |
| Total assets   | \$ 223,327                        | \$ 231,357                       |
| <b>Liabilities and Shareholders' Equity</b>  |                                   |                                  |
| Current liabilities:   |                                   |                                  |
| Accounts payable   | \$ 9,508                          | \$ 13,126                        |
| Accrued payroll  | 14,951                            | 16,023                           |
| Accrued expenses   | 7,283                             | 7,097                            |
| Deferred revenue   | 20,289                            | 31,214                           |
| Other current liabilities  | 7,681                             | 7,189                            |
| Total current liabilities  | 59,712                            | 74,649                           |
| Long-term debt   | 37,000                            | 45,000                           |
| Deferred rent  | 23,056                            | 24,358                           |
| Other liabilities  | 4,682                             | 4,962                            |

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|  |            |            |
|--|------------|------------|
| Total liabilities  | 124,450    | 148,969    |
| Commitments and contingencies (Note 12)  | 0          | 0          |
| Shareholders' equity:  |            |            |
| Common stock, par value \$.01 per share; 100,000,000 shares authorized, 34,974,309 shares issued and outstanding at September 29, 2013 34,434,858 shares issued and outstanding at December 30, 2012 | 350        | 344        |
| Additional paid-in capital   | 168,427    | 167,403    |
| Accumulated deficit  | (69,900 )  | (85,359 )  |
| Treasury stock, at cost; 71,950 shares at September 29, 2013 and December 30, 2012   | 0          | 0          |
| Total shareholders' equity   | 98,877     | 82,388     |
| Total liabilities and shareholders' equity   | \$ 223,327 | \$ 231,357 |

See accompanying notes to condensed consolidated financial statements.

**RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Income (Loss)—Unaudited****(Amounts in thousands, except share and per share data)**

|  | <b>13 Weeks Ended</b> |                  | <b>39 Weeks Ended</b> |                  |
|--|-----------------------|------------------|-----------------------|------------------|
|  | <b>September</b>      | <b>September</b> | <b>September</b>      | <b>September</b> |
|  | <b>29,</b>            | <b>23,</b>       | <b>29,</b>            | <b>23,</b>       |
|  | <b>2013</b>           | <b>2012</b>      | <b>2013</b>           | <b>2012</b>      |
| Revenues:  |                       |                  |                       |                  |
| Restaurant sales   | \$84,376              | \$80,901         | \$282,304             | \$268,674        |
| Franchise income   | 3,498                 | 3,256            | 10,809                | 9,955            |
| Other operating income   | 708                   | 177              | 4,645                 | 3,081            |
| <b>Total revenues</b>  | <b>88,582</b>         | <b>84,334</b>    | <b>297,758</b>        | <b>281,710</b>   |
| Costs and expenses:  |                       |                  |                       |                  |
| Food and beverage costs  | 26,462                | 25,732           | 87,411                | 85,966           |
| Restaurant operating expenses                                      | 46,788                | 44,842           | 144,006               | 138,591          |
| Marketing and advertising  | 2,036                 | 2,206            | 7,636                 | 6,344            |
| General and administrative costs                                   | 7,257                 | 5,969            | 21,849                | 19,082           |
| Depreciation and amortization expenses                             | 3,061                 | 3,577            | 9,804                 | 10,923           |
| Pre-opening costs  | 317                   | 145              | 460                   | 266              |
| Gain on settlements  | (2,156)               | ) 0              | (2,156)               | ) 0              |
| <b>Total costs and expenses</b>                                    | <b>83,765</b>         | <b>82,471</b>    | <b>269,010</b>        | <b>261,172</b>   |
| <b>Operating income</b>  | <b>4,817</b>          | <b>1,863</b>     | <b>28,748</b>         | <b>20,538</b>    |
| Other income (expense):  |                       |                  |                       |                  |
| Interest expense, net  | (415)                 | ) (680)          | (1,346)               | ) (1,759)        |
| Debt issuance costs written-off                                    | 0                     | 0                | 0                     | (807)            |
| Other  | (92)                  | ) 16             | (54)                  | ) 89             |
| <b>Income from continuing operations before income tax expense</b> | <b>4,310</b>          | <b>1,199</b>     | <b>27,348</b>         | <b>18,061</b>    |
| <b>Income tax expense</b>  | <b>1,370</b>          | <b>320</b>       | <b>7,788</b>          | <b>5,296</b>     |
| <b>Income from continuing operations</b>                           | <b>2,940</b>          | <b>879</b>       | <b>19,560</b>         | <b>12,765</b>    |



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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Income (loss) from discontinued operations, net of income taxes             | (53 )      | (77 )      | (1,246 )   | (35 )      |
| Net income  | 2,887      | 802        | 18,314     | 12,730     |
| Preferred stock dividends   | 0          | 0          | 0          | 514        |
| Accretion of preferred stock redemption value                               | 0          | 0          | 0          | 73         |
| Excess of redemption value over carrying value of preferred shares redeemed | 0          | 0          | 0          | 35,776     |
| Net income (loss) applicable to preferred and common shareholders           | \$2,887    | \$802      | \$18,314   | (23,633 )  |
| Basic earnings (loss) per common share:                                     |            |            |            |            |
| Continuing operations   | \$0.08     | \$0.02     | \$0.57     | \$(0.69 )  |
| Discontinued operations   | 0          | 0          | (0.04 )    | 0          |
| Basic earnings (loss) per share   | \$0.08     | \$0.02     | \$0.53     | \$(0.69 )  |
| Diluted earnings (loss) per common share:                                   |            |            |            |            |
| Continuing operations   | \$0.08     | \$0.02     | \$0.55     | \$(0.69 )  |
| Discontinued operations   | 0          | 0          | (0.04 )    | 0          |
| Diluted earnings (loss) per share   | \$0.08     | \$0.02     | \$0.51     | \$(0.69 )  |
| Shares used in computing net income (loss) per common share:                |            |            |            |            |
| Basic   | 34,956,353 | 34,373,629 | 34,688,579 | 34,283,068 |
| Diluted   | 35,795,508 | 35,185,209 | 35,729,451 | 34,283,068 |
| Dividends declared per common share   | \$0.04     | \$0        | \$0.08     | \$0        |

See accompanying notes to condensed consolidated financial statements.

**RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Shareholders' Equity—Unaudited****for the Thirty-nine Weeks ended September 29, 2013 and September 23, 2012****(Amounts in thousands)**

|   | <b>Common<br/>Stock</b> |              | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Accumulated<br/>Deficit</b> | <b>Treasury<br/>Stock</b> |              | <b>Shareholders'<br/>Equity</b> |
|---|-------------------------|--------------|---|--------------------------------|---------------------------|--------------|---------------------------------|
|   | <b>Shares</b>           | <b>Value</b> |   |                                | <b>Shares</b>             | <b>Value</b> |                                 |
| Balance at December 30, 2012  | 34,434                  | \$ 344       | \$ 167,403                                | \$ (85,359 )                   | 72                        | \$ -         | \$ 82,388                       |
| Net income  | -                       | -            | -   | 18,314                         | -                         | -            | 18,314                          |
| Dividends   | -                       | -            | -   | (2,854 )                       | -                         | -            | (2,854 )                        |
| Shares issued under stock compensation<br>plan net of shares withheld for tax effects | 540                     | 5            | (1,819 )                                  | -                              | -                         | -            | (1,814 )                        |
| Excess tax benefit from stock based<br>compensation                                   | -                       | -            | 985                                       | -                              | -                         | -            | 985                             |
| Stock-based compensation  | -                       | -            | 1,858                                     | -                              | -                         | -            | 1,858                           |
| Balance at September 29, 2013   | 34,974                  | \$ 350       | \$ 168,427                                | \$ (69,900 )                   | 72                        | \$ -         | \$ 98,877                       |
| Balance at December 25, 2011  | 34,150                  | \$ 341       | \$ 200,524                                | \$ (101,225 )                  | 72                        | \$ -         | \$ 99,640                       |
| Net income  | -                       | -            | -   | 12,730                         | -                         | -            | 12,730                          |
| Preferred stock dividends   | -                       | -            | -   | (514 )                         | -                         | -            | (514 )                          |
| Accretion of preferred stock redemption<br>value                                      | -                       | -            | (73 )                                     | -                              | -                         | -            | (73 )                           |
| Excess of redemption value over carrying<br>value of Preferred Shares redeemed        | -                       | -            | (35,776 )                                 | -                              | -                         | -            | (35,776 )                       |
| Shares issued under stock compensation<br>plan including tax effects                  | 224                     | 3            | 326                                       | -                              | -                         | -            | 329                             |
| Stock-based compensation  | -                       | -            | 1,632                                     | -                              | -                         | -            | 1,632                           |
| Balance at September 23, 2012   | 34,374                  | \$ 344       | \$ 166,633                                | \$ (89,009 )                   | 72                        | \$ -         | \$ 77,968                       |

See accompanying notes to condensed consolidated financial statements.

**RUTH'S HOSPITALITY GROUP, INC AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows - Unaudited****(Amounts in thousands)**

|   | <b>39 Weeks Ended<br/>September 29,<br/>2013</b> | <b>September 23,<br/>2012</b> |
|---|--|-------------------------------|
| Cash flows from operating activities:   |  |                               |
| Net income  | \$ 18,314  | \$ 12,730                     |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                               |
| Depreciation and amortization   | 9,804  | 10,923                        |
| Deferred income taxes   | 3,615  | 2,611                         |
| Non-cash interest expense   | 315  | 363                           |
| Debt issuance costs written-off   | 0  | 807                           |
| Loss on the disposal of property and equipment, net                               | 3  | 0                             |
| Amortization of below market lease  | 97   | 97                            |
| Stock-based compensation expense  | 1,858  | 1,632                         |
| Changes in operating assets and liabilities:                                      |  |                               |
| Accounts receivables  | 1,071  | 3,766                         |
| Inventories   | 883  | 472                           |
| Prepaid expenses and other  | (63 )  | (966 )                        |
| Other assets  | 233  | 48                            |
| Accounts payable and accrued expenses   | (6,726 )   | (2,880 )                      |
| Deferred revenue  | (10,925 )  | (7,689 )                      |
| Deferred rent   | (1,302 )   | 429                           |
| Other liabilities   | 1,627  | 472                           |

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|   |           |           |
|---|-----------|-----------|
| Net cash provided by operating activities                         | 18,804    | 22,815    |
| Cash flows from investing activities:                             |           |           |
| Acquisition of property and equipment                             | (10,882 ) | (8,703 )  |
| Proceeds from sale of property and equipment                      | 1,104     | 0         |
| Net cash used in investing activities                             | (9,778 )  | (8,703 )  |
| Cash flows from financing activities:                             |           |           |
| Principal borrowings on long-term debt                            | 6,500     | 71,500    |
| Principal repayments on long-term debt                            | (14,500 ) | (24,500 ) |
| Redemption of Series A 10% redeemable convertible preferred stock | 0         | (59,740 ) |
| Income tax benefits from the vesting of restricted stock          | 985       | 0         |
| Proceeds from exercise of stock options                           | 161       | 328       |
| Tax payments pertaining to the vesting of restricted stock        | (1,974 )  | 0         |
| Dividend payments   | (2,830 )  | (1,103 )  |
| Deferred financing costs  | 0         | (610 )    |
| Net cash used in financing activities                             | (11,658 ) | (14,125 ) |
| Net decrease in cash and cash equivalents                         | (2,632 )  | (13 )     |
| Cash and cash equivalents at beginning of period                  | 7,909     | 3,925     |
| Cash and cash equivalents at end of period                        | \$ 5,277  | \$ 3,912  |
| Supplemental disclosures of cash                                  |           |           |

flow information:

Cash paid during the  
period for:

|  |    |       |    |       |
|--|----|-------|----|-------|
| Interest, net of<br>capitalized interest | \$ | 1,061 | \$ | 1,462 |
| Income taxes                             | \$ | 2,382 | \$ | 1,388 |

Noncash investing  
and financing  
activities:

|   |    |     |    |      |   |
|---|----|-----|----|------|---|
| Excess accrual-based<br>acquisition of<br>property and<br>equipment | \$ | 782 | \$ | (410 | ) |
|---|----|-----|----|------|---|

See accompanying notes to condensed consolidated financial statements.

## **RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements—Unaudited

### **(1) The Company and Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Ruth's Hospitality Group, Inc. and its subsidiaries (collectively, the Company) as of September 29, 2013 and December 30, 2012 and for the thirteen and thirty-nine weeks ended September 29, 2013 and September 23, 2012 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The consolidated financial statements include the financial statements of Ruth's Hospitality Group, Inc. and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Ruth's Hospitality Group, Inc. is a leading restaurant company focused on the upscale dining segment. The Company owns the Ruth's Chris Steak House, Mitchell's Fish Market, Columbus Fish Market, Mitchell's Steakhouse and Cameron's Steakhouse concepts.

As of September 29, 2013, there were 138 Ruth's Chris Steak House restaurants, of which 63 were Company-owned, 74 were franchisee-owned, and one location was operating under a management agreement. All Company-owned restaurants are located in the United States. The franchisee-owned restaurants include seventeen international restaurants in Aruba, Canada, China (Hong Kong), El Salvador, Japan, Mexico, Singapore, Taiwan, and the United Arab Emirates. A Ruth's Chris Steak House located at Harrah's Casino in Cherokee, NC operates under a management agreement between the Company and the Eastern Band of Cherokee Indians. The management fee and our share of the income from the Cherokee, NC location are included in other operating income in the accompanying condensed consolidated statements of income (loss).

Three new Ruth's Chris Steak House locations opened during the thirty-nine weeks ended September 29, 2013, including a second franchise restaurant located in San Juan in April 2013, a franchise restaurant located in Chattanooga, TN in July 2013 and a franchise restaurant opened in early 2013 in Las Vegas, NV under a licensing agreement with Harrah's Casino. The fee from the licensing agreement is included in franchise income in the accompanying condensed consolidated statements of income (loss). Due to an expiring lease term, the Company closed its Ruth's Chris Steak House location in Phoenix, AZ, on March 31, 2013 after twenty-seven years of operation. The Company-owned Ruth's Chris Steak House location in Houston, TX was relocated in July 2013. A franchise restaurant located in Dubai was closed in July 2013.

The Company also operates 19 Mitchell's Fish Markets and three Cameron's/Mitchell's Steakhouse restaurants, located primarily in the Mid-west and Florida.

The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. The interim results of operations for the periods ended September 29, 2013 and September 23, 2012 are not necessarily indicative of the results that may be achieved for the full year. Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the SEC's rules and regulations. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2012.

The Company operates on a 52- or 53-week fiscal year ending on the last Sunday in December. The fiscal quarters ended September 29, 2013 and September 23, 2012 each contained 13 weeks and are referred to herein as the third quarter of fiscal year 2013 and the third quarter of fiscal year 2012, respectively. Fiscal year 2013 is a 52-week year and fiscal year 2012 was a 53-week year.

### *Estimates*

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reporting of revenue and expenses during the periods to prepare these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, goodwill, franchise rights, trademarks and obligations related to workers' compensation and medical insurance. Actual results could differ from those estimates.

### *Reclassifications*

The operating results of a closed location (see Note 10) have been reclassified to the discontinued operations line of the condensed consolidated statements of income (loss). These reclassifications had no effect on previously reported net income.





### ***Recent Accounting Pronouncements for Future Application***

Accounting standards that have been issued by the Financial Accounting Standards Board (FASB) or other standard-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

### **(2) Redeemable Convertible Preferred Stock**

In February 2010, the Company issued and sold 25,000 shares of Preferred Stock to Bruckmann, Rosser, Sherrill & Co. Management, L.P. and affiliates (BRS) in a private placement transaction. The Company received proceeds of \$23.2 million, net of approximately \$1.8 million in closing and issuance costs. The Preferred Stock was classified as temporary shareholders' equity since the shares had certain conditions that allowed the holder to redeem the Preferred Stock for cash, and for which redemption was not solely within the control of the Company.

Each share of the Preferred Stock had an initial liquidation preference of \$1,000. The holders of the Preferred Stock were entitled to quarterly dividends accruing at a 10% annual rate. The Preferred Stock was also convertible, under certain circumstances, into the number of shares of the Company's common stock equal to the quotient of the liquidation preference, including accrued dividends, divided by the conversion price. Using the liquidation preference of \$25.0 million as of December 25, 2011, a conversion of Preferred Stock into the Company's common stock would have resulted in the issuance of 8,620,690 additional common shares. The Preferred Stock was convertible at any time, at the option of the holders. The Company had the option to convert the Preferred Stock, in whole or in part, after February 12, 2012 if the closing price of the Company's common stock equaled or exceeded 225% of the then applicable conversion price for a period of 20 trading days over any 30 consecutive trading day period. At the option of the Company, the Preferred Stock could have been redeemed on or after February 12, 2015 without regard to the Company's stock price. At the option of the holders, the Preferred Stock could have been redeemed on or after February 12, 2017. The redemption price per share was to equal the liquidation preference, including any accrued dividends. In accordance with FASB Accounting Standards Codification (ASC) Topic 480-10-S99, the Company was accreting the carrying value of Preferred Stock to its redemption value of \$25 million from the date of issuance to the earliest redemption date, February 12, 2015.

On March 8, 2012, the Company repurchased all of the outstanding Preferred Stock for \$60.2 million. The purchase price, which includes payment of all accrued and unpaid dividends owed on the Preferred Stock, was funded using borrowings from the Company's \$100 million senior credit facility. After the repurchase and retirement of the Preferred Stock, the Company's fully diluted common share base decreased by approximately 8.6 million shares and the 10% annual dividend on the preferred stock, which amounted to \$2.5 million in fiscal year 2011, was eliminated. The Company recorded a reduction of net income applicable to shareholders of approximately \$35.8 million in the

first quarter of fiscal year 2012 to reflect the excess of the redemption value over the financial statement carrying value of the preferred shares redeemed. In connection with the repurchase of Preferred Stock, the BRS director designee resigned from his position as a member of the Company's Board of Directors.

### (3) Long-term Debt

Long-term debt consists of the following (in thousands):

|                                | September<br>29,<br>2013 | December<br>30,<br>2012 |
|--------------------------------|--------------------------|-------------------------|
| <b>Senior Credit Facility:</b> |                          |                         |
| Revolving credit facility      | \$ 37,000                | \$ 45,000               |
| Less current maturities        | -                        | -                       |
|                                | \$ 37,000                | \$ 45,000               |

As of September 29, 2013, the Company had an aggregate of \$37.0 million of outstanding indebtedness under its senior credit facility at a weighted average interest rate of 2.7% with approximately \$58.9 million of borrowings available, net of outstanding letters of credit of approximately \$4.1 million. The 2.7% weighted average rate includes a 2.2% interest rate on outstanding indebtedness, plus fees on the Company's unused borrowing capacity and outstanding letters of credit.

On February 14, 2012, the Company entered into a Second Amended and Restated Credit Agreement with Wells Fargo Bank, as administrative agent, and certain other lenders (the Amended and Restated Credit Agreement). The Amended and Restated Credit Agreement allows for loan advances plus outstanding letters of credit of up to \$100.0 million to be outstanding at any time that the conditions for borrowings are met. The Amended and Restated Credit Agreement sets the interest rates applicable to borrowings based on the Company's actual leverage ratio, ranging (a) from 2.00% to 2.75% above the applicable LIBOR rate or (b) at the Company's option, from 1.00% to 1.75% above the applicable base rate.

The Amended and Restated Credit Agreement contains customary covenants and restrictions, including, but not limited to: (1) prohibitions on incurring additional indebtedness and from guaranteeing obligations of others; (2) prohibitions on creating, incurring, assuming or permitting to exist any lien on or with respect to any property or asset; (3) limitations on the Company's ability to enter into joint ventures, acquisitions, and other investments; (4) prohibitions on directly or indirectly creating or becoming liable with respect to certain contingent liabilities; and (5) restrictions on directly or indirectly declaring, ordering, paying, or making any restricted junior payments. The Amended and Restated Credit Agreement requires the Company to maintain a fixed charge coverage ratio of 1.25:1.00 and the maximum leverage ratio of 2.50:1.00. The agreement was amended in May 2013 to reset the limit applicable to junior stock payments, which include both cash dividend payments and repurchase of common and preferred stock. Junior stock payments made subsequent to December 30, 2012 through the end of the agreement are limited to \$100 million; \$2.8 million of such payments had been made as of September 29, 2013. The Company's obligations under the Amended and Restated Credit Agreement are guaranteed by each of its existing and future subsidiaries and are secured by substantially all of its assets and a pledge of the capital stock of its subsidiaries. The Amended and Restated Credit Agreement includes customary events of default. As of September 29, 2013, the Company was in compliance with the covenants under the Amended and Restated Credit Agreement.

As a result of the February 2012 amendment, \$100 thousand of legal fees were incurred in the first quarter of fiscal year 2012. In addition, \$807 thousand of previously deferred debt issuance costs were written off because the participants of the lending group changed.

#### **(4) Shareholders' Equity**

On May 3, 2013, the Company announced that the Board of Directors approved a common stock repurchase program. Under the program the Company may from time to time purchase up to \$30 million of its outstanding common stock. The share repurchases will be made at the Company's discretion, within pricing parameters set by the Board of Directors, in the open market or in negotiated transactions depending on share price, market conditions or other factors. As of September 29, 2013, no shares have been repurchased under the common stock repurchase program.

The Company's Board of Directors declared the following dividends during the periods presented (amounts in thousands, except per share amounts):

| <b>Declaration Date</b> | <b>Dividend per Share</b> | <b>Record Date</b> | <b>Total Amount</b> | <b>Payment Date</b> |
|-------------------------|---------------------------|--------------------|---------------------|---------------------|
| Fiscal Year 2013:       |                           |                    |                     |                     |
| May 3, 2013             | \$ 0.04                   | May 16, 2013       | \$ 1,430            | May 30, 2013        |

July 24, 2013      \$ 0.04      August 15, 2013      \$ 1,424      August 29, 2013

Subsequent to the end of the third quarter of fiscal year 2013, the Company's Board of Directors declared a \$0.04 per share cash dividend (\$1.4 million in total) payable on November 26, 2013.

#### **(5) Fair Value Measurements**

The carrying amounts of cash and cash equivalents, receivables, prepaid expenses, accounts payable and accrued expenses and other current liabilities are reasonable estimates of their fair values due to their short duration. Borrowings classified as long-term debt as of September 29, 2013 have variable interest rates that reflect currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of its fair value (Level 2).

During the third quarter of fiscal year 2013, the Company had no assets or liabilities measured on a recurring or nonrecurring basis subject to the disclosure requirements of "Fair Value Measurements and Disclosures," FASB ASC Topic 820.

#### **(6) Segment Information**

The Ruth's Chris Steak House, Mitchell's Fish Market and Cameron's Steakhouse restaurant concepts in North America are managed as operating segments. The concepts operate within the full-service dining industry, providing similar products to similar customers. Revenues from external customers are derived principally from food and beverage sales. The Company does not rely on any major customers as a source of revenue.

For financial reporting purposes, the Company has determined that it has three reportable segments: Company-owned steakhouse restaurants, Company-owned fish market restaurants and franchise operations. The Company-owned Ruth's Chris Steak House and Cameron's Steakhouse restaurants are both included in the Company-owned steakhouse restaurant segment. As of September 29, 2013, (i) the Company-owned steakhouse restaurant segment included 63 Ruth's Chris Steak House restaurants, three Cameron's Steakhouse restaurants and one Ruth's Chris Steak House restaurant operating under a management agreement, (ii) the Company-owned fish market restaurant segment included 19 Mitchell's Fish Market restaurants and (iii) the franchise operations segment included 74 franchisee-owned Ruth's Chris Steak House restaurants. Because the Company-owned steakhouse restaurant operating margins, measured by segment profit as a percentage of segment revenue, have been greater than the operating margins of the Company-owned fish market restaurants, the results of those segments are reported separately. Segment profits for the Company-owned steakhouse and fish market restaurant segments equals segment revenues less segment expenses. Segment revenues for the Company-owned steakhouse and fish market restaurant segments include restaurant sales, management agreement income and other restaurant income. Revenue from unredeemed gift cards is not allocated to operating segments. Segment expenses for the Company-owned steakhouse and fish market restaurant segments include food and beverage costs and restaurant operating expenses. No other operating costs are allocated to the segments for the purpose of determining segment profits because such costs are not directly related to the operation of individual restaurants. Except for health care costs, the accounting policies applicable to each segment are consistent with the policies used to prepare the consolidated financial statements; health care costs are allocated to the Company-owned steakhouse and fish market restaurant segments based on annual budgeted health care costs. Not all operating expenses are allocated to operating segments. The profit of the franchise operations segment equals franchise income, which consists of franchise royalty fees and franchise opening fees. No costs are allocated to the franchise operations segment. Segment information related to the Company's three reportable business segments follows (in thousands):

|   | <b>13 Weeks Ended</b> |                  | <b>39 Weeks Ended</b> |                  |
|---|-----------------------|------------------|-----------------------|------------------|
|   | <b>September</b>      | <b>September</b> | <b>September</b>      | <b>September</b> |
|   | <b>29,</b>            | <b>23,</b>       | <b>29,</b>            | <b>23,</b>       |
|   | <b>2013</b>           | <b>2012</b>      | <b>2013</b>           | <b>2012</b>      |
| Revenues:                                       |                       |                  |                       |                  |
| Company-owned steakhouse restaurants            | \$68,490              | \$64,504         | \$232,700             | \$218,021        |
| Company-owned fish market restaurants           | 16,694                | 16,934           | 52,154                | 52,374           |
| Franchise operations                            | 3,498                 | 3,256            | 10,809                | 9,955            |
| Unallocated other revenue and revenue discounts | (100 )                | (360 )           | 2,095                 | 1,360            |
| Total revenues                                  | \$88,582              | \$84,334         | \$297,758             | \$281,710        |
| Segment profits:                                |                       |                  |                       |                  |
|   | \$10,527              | \$9,415          | \$47,071              | \$40,502         |

|   |          |          |           |           |
|---|----------|----------|-----------|-----------|
| Company-owned<br>steakhouse<br>restaurants                              |          |          |           |           |
| Company-owned<br>fish market<br>restaurants                             | 1,146    | 1,292    | 5,078     | 5,209     |
| Franchise<br>operations   | 3,498    | 3,256    | 10,809    | 9,955     |
| Total segment<br>profit   | 15,171   | 13,963   | 62,958    | 55,666    |
| Unallocated<br>operating<br>income                                      | 161      | (203 )   | 3,383     | 1,487     |
| Marketing and<br>advertising<br>expenses                                | (2,036 ) | (2,206 ) | (7,636 )  | (6,344 )  |
| General and<br>administrative<br>costs                                  | (7,257 ) | (5,969 ) | (21,849 ) | (19,082 ) |
| Depreciation and<br>amortization<br>expenses                            | (3,061 ) | (3,577 ) | (9,804 )  | (10,923 ) |
| Pre-opening<br>costs  | (317 )   | (145 )   | (460 )    | (266 )    |
| Gain on<br>settlements  | 2,156    | 0        | 2,156     | 0         |
| Interest expense,<br>net  | (415 )   | (680 )   | (1,346 )  | (1,759 )  |
| Debt issuance<br>costs written off                                      | 0        | 0        | 0         | (807 )    |
| Other income<br>(expense)   | (92 )    | 16       | (54 )     | 89        |
| Income from<br>continuing<br>operations<br>before income<br>tax expense | \$4,310  | \$ 1,199 | \$27,348  | \$ 18,061 |
| Capital<br>expenditures:  |          |          |           |           |
| Company-owned<br>steakhouse<br>restaurants                              | \$3,094  | \$ 2,445 | \$8,565   | \$ 6,708  |
| Company-owned<br>fish market<br>restaurants                             | 668      | 295      | 1,569     | 927       |
| Corporate assets  | 848      | 449      | 1,511     | 657       |
| Total capital<br>expenditures   | \$4,610  | \$ 3,189 | \$11,645  | \$ 8,292  |

|  | <b>September</b> | <b>December</b> |
|--|------------------|-----------------|
|  | <b>29,</b>       | <b>30,</b>      |
|  | <b>2013</b>      | <b>2012</b>     |

|                  |            |            |
|------------------|------------|------------|
| Total assets:    |            |            |
| Company-owned    |            |            |
| steakhouse       | \$ 142,163 | \$ 143,573 |
| restaurants      |            |            |
| Company-owned    |            |            |
| fish market      | 32,183     | 32,430     |
| restaurants      |            |            |
| Franchise        |            |            |
| operations       | 1,545      | 1,920      |
| Corporate assets |            |            |
| - unallocated    | 15,759     | 17,962     |
| Deferred income  |            |            |
| taxes -          | 31,677     | 35,472     |
| unallocated      |            |            |
| Total assets     | \$223,327  | \$ 231,357 |



There are 74 Ruth's Chris Steak House franchise locations, including 17 international locations. During the third quarters of fiscal years 2013 and 2012, franchise income attributable to international locations was \$0.7 million and \$0.6 million, respectively. During the first thirty-nine weeks of fiscal years 2013 and 2012, franchise income attributable to international locations was \$2.1 million and \$1.9 million, respectively. During the thirty-nine weeks ended September 29, 2013, three new Ruth's Chris Steak House franchise locations opened, including a second franchise restaurant located in San Juan in April 2013, a franchise restaurant located in Chattanooga in July 2013 and a location in Las Vegas, NV operating under a license agreement with the Company. A franchise restaurant located in Dubai was closed in July 2013. In January 2013, the Company signed an agreement with the Ko Group for the development of four new franchised Ruth's Chris Steak House restaurants to be opened in the People's Republic of China over the next three years.

#### **(7) Stock-Based Employee Compensation**

At the Annual Meeting of Stockholders of the Company held on May 30, 2013, the stockholders of the Company approved the proposed amendment to the Company's Amended and Restated 2005 Equity Incentive Plan to, among other things, increase the number of shares covered by the Plan by 2,000,000 shares to 5,862,500 shares, extend the Plan's expiration date to May 30, 2018, and approve the material terms of performance goals under the Plan.

Under the 2000 Stock Option Plan, there were 9,527 shares of common stock issuable upon exercise of currently outstanding options at September 29, 2013 and no future grants are able to be made. Under the Amended and Restated 2005 Equity Incentive Plan, at September 29, 2013 there were 1,308,137 shares of common stock issuable upon exercise of currently outstanding options, 625,945 currently outstanding restricted stock awards and 2,437,287 shares available for future grants. Outstanding restricted stock is not included in common stock outstanding amounts. Total stock compensation expense recognized during the third quarters of fiscal years 2013 and 2012 was \$0.5 million and \$0.6 million, respectively. Total stock compensation expense recognized for the first thirty-nine weeks of September 29, 2013 and September 23, 2012 was \$1.9 million and \$1.6 million, respectively.

#### **(8) Settlement of Gain Contingency**

During the third quarter of fiscal year 2013, the Company settled two casualty loss claims which previously arose and recognized an aggregate gain of \$2.2 million, net of fees incurred. The majority of the gain pertained to compensation awarded by the claims administrator pursuant to the settlement agreement reached in litigation related to the 2010 Deepwater Horizon oil spill in the Gulf of Mexico.

#### **(9) Income Taxes**

A reconciliation of the U.S. statutory rate to the effective rate applicable to continuing operations for the first thirty-nine weeks of fiscal years 2013 and 2012 follows:

|   | <b>39 Weeks Ended</b> |             |   |
|---|-----------------------|-------------|---|
|   | <b>September</b>      |             |   |
|   | <b>29,</b>            | <b>23,</b>  |   |
|   | <b>2013</b>           | <b>2012</b> |   |
| Income tax expense at statutory rates               | 35.0%                 | 35.0        | % |
| Increase (decrease) in income taxes resulting from: |                       |             |   |
| State income taxes, net of federal benefit          | 4.1 %                 | 4.6         | % |
| Federal employment tax credits                      | -9.4 %                | -13.6       | % |
| Prior year state credits                            | -2.2 %                | 0.0         | % |
| Other   | 1.0 %                 | 3.3         | % |
| Effective tax rate                                  | 28.5%                 | 29.3        | % |

Income tax expense (benefit) is allocated to discontinued operations based on the marginal tax impact of discontinued operations. The Company's effective tax rate for combined income from continuing operations and discontinued operations was 31.7% and 26.0% for the third quarters of fiscal years 2013 and 2012, respectively. The Company's effective tax rate for combined income from continuing operations and discontinued operations was 27.7% and 29.2% for the first thirty-nine weeks of fiscal years 2013 and 2012, respectively. During the first thirty-nine weeks of fiscal year 2013, the Company recognized a state income tax benefit for employment related tax credits aggregating \$1.0 million based on qualified employee wages during the years 2006 through 2012. These prior year state tax credits resulted in a discrete \$600 thousand reduction (net of federal and state tax consequences) in income tax expense. Approximately half of the benefit will be realized on a carryback basis by amending prior year state income tax returns and management expects that the remainder of the benefit will be realized on a carryforward basis. Pursuant to state legislation enacted in July 2013, restaurant companies will not be able to claim credits for employees hired after January 1, 2014 and the carryforward period for existing credits is limited to ten years.

The Company files consolidated and separate income tax returns in the United States Federal jurisdiction and many state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal income or state tax examinations for years before 2009.

### (10) Discontinued Operations

The Company accounts for its closed restaurants in accordance with the provisions of “Property, Plant and Equipment—Impairment or Disposal of Long-Lived Assets,” FASB ASC Topic 360-10. Therefore, when a restaurant is closed, and the restaurant is either held for sale or abandoned, the restaurant’s operations are eliminated from the ongoing operations. Accordingly, the operations of such restaurants, net of applicable income taxes, are presented as discontinued operations and prior period operations of such restaurants, net of applicable income taxes, are reclassified.

Discontinued operations consist of the following (in thousands):

|   | <b>13 Weeks Ended</b> |                  | <b>39 Weeks Ended</b> |                  |
|---|-----------------------|------------------|-----------------------|------------------|
|   | <b>September</b>      | <b>September</b> | <b>September</b>      | <b>September</b> |
|   | <b>29,</b>            | <b>23,</b>       | <b>29,</b>            | <b>23,</b>       |
|   | <b>2013</b>           | <b>2012</b>      | <b>2013</b>           | <b>2012</b>      |
| Revenues  | \$-                   | \$ 461           | \$808                 | \$ 1,800         |
| Income (loss) before income taxes                               | \$(86)                | \$ (114 )        | \$(2,033)             | \$ (77 )         |
| Income (loss) from discontinued operations, net of income taxes | \$(53)                | \$ (77 )         | \$(1,246)             | \$ (35 )         |

In March 2013, the Company closed the Ruth’s Chris Steak House located in Phoenix, AZ after twenty-seven years of operation. As the closing of this restaurant coincided with the termination of the lease agreement, the Company did not incur significant expenses related to closing this location. The results of operations with respect to this location for all periods prior to closing have been reclassified and are now included in discontinued operations in the accompanying condensed consolidated statements of income (loss).

The Company accounts for the exit costs in accordance with the provisions of “Exit or Disposal Cost Obligations,” FASB ASC Topic 420, which requires that such costs be expensed in the periods when such costs are incurred. All of the losses incurred are included in discontinued operations in the accompanying consolidated statements of income (loss). In August 2005, the Company ceased operations at its location near the United Nations in Manhattan. The Company has remaining lease commitments of \$0.6 million per fiscal year through September 2016. The Company entered into a sublease agreement in April 2011 in order to recover some of the amounts due under the remaining

lease term. As of December 30, 2012, the Company had recorded a contingent lease liability of \$0.8 million related to this property which was net of a contra-liability for the present value of anticipated sublease income. In March 2013, the subtenant vacated the property. The Company has commenced legal proceedings to recover all amounts due. Loss from discontinued operations for the first thirty-nine weeks of 2013 includes the impact of a remeasurement of our lease exit costs. The remeasurement included (a) the write-off of the \$1.4 million contra liability and (b) the write-off of past due rent and utility amounts owed by the subtenant. The loss before income taxes on discontinued operations for the first thirty-nine weeks of 2013 includes \$1.2 million from the location near the United Nations in Manhattan. As of September 29, 2013, the recorded contingent lease liability was \$1.9 million and the subtenant owed the Company \$570 thousand for past due rent and utilities.

#### **(11) Earnings Per Share**

Basic earnings per common share is computed under the two-class method as provided in "Earnings Per Share," FASB ASC Topic 260. Under the two-class method a portion of net income is allocated to participating securities, such as the Company's Preferred Stock, and therefore is excluded from the calculation of earnings per share allocated to common shares. Diluted earnings per common share is computed by dividing the net income applicable to common shareholders for the period by the weighted average number of common and potential common shares outstanding during the period. Net income, in both the basic and diluted earnings per common share calculations, is reduced by the Preferred Stock dividends and accretion of the Preferred Stock to its redemption value. Additionally, net income for the thirty-nine weeks ended September 23, 2012 in both the basic and diluted earnings per share calculations was reduced by the excess of the redemption value over the carrying value of the preferred shares redeemed.

Diluted earnings per share for the third quarters of fiscal years 2013 and 2012 excludes stock options and restricted shares of 159,909 and 848,607, respectively, which were outstanding during the period but were anti-dilutive. The weighted average exercise prices of the anti-dilutive stock options for third quarters of fiscal years 2013 and 2012 were \$18.67 and \$10.18 per share, respectively.

Diluted earnings per share for the first thirty-nine weeks of fiscal year 2013 and 2012 excludes stock options and restricted shares of 234,830 and 745,562, respectively, which were outstanding during the period but were anti-dilutive. Diluted earnings per share for the first thirty-nine weeks ended September 23, 2012 also excludes the 8,620,690 shares of common stock issuable upon the conversion of 25,000 shares of Preferred Stock, which were outstanding until their repurchase and retirement on March 8, 2012, but were anti-dilutive. The weighted average exercise prices of the anti-dilutive stock options for the thirty-nine weeks of fiscal years 2013 and 2012 were \$18.66 and \$11.59 per share, respectively.

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The following table sets forth the computation of basic earnings per share (amounts in thousands, except share and per share amounts):

|  | <b>13 Weeks Ended</b> |                  | <b>39 Weeks Ended</b> |                  |
|--|-----------------------|------------------|-----------------------|------------------|
|  | <b>September</b>      | <b>September</b> | <b>September</b>      | <b>September</b> |
|  | <b>29,</b>            | <b>23,</b>       | <b>29,</b>            | <b>23,</b>       |
|  | <b>2013</b>           | <b>2012</b>      | <b>2013</b>           | <b>2012</b>      |
| Income from continuing operations  | \$2,940               | \$879            | \$19,560              | \$12,765         |
| Income (loss) from discontinued operations, net of income taxes            | (53                   | ) (77            | ) (1,246              | ) (35            |
| Net income   | 2,887                 | 802              | 18,314                | 12,730           |
| Preferred stock dividends  | -                     | -                | -                     | 514              |
| Accretion of preferred stock redemption value                              | -                     | -                | -                     | 73               |
| Excess of redemption value over carrying value of preferred stock redeemed | -                     | -                | -                     | 35,776           |
| Undistributed net income (loss)  | 2,887                 | 802              | 18,314                | (23,633          |
| Undistributed net income (loss) allocated to preferred shareholders        | -                     | -                | -                     | -                |
| Net income (loss) applicable to common shareholders                        | \$2,887               | \$802            | \$18,314              | \$(23,633        |
| Shares:  |                       |                  |                       |                  |
| Weighted average number of common shares outstanding - basic               | 34,956,353            | 34,373,629       | 34,688,579            | 34,283,068       |
| Basic earnings per common share:   |                       |                  |                       |                  |
| Continuing operations  | \$0.08                | \$0.02           | \$0.57                | \$(0.69          |
| Discontinued operations  | -                     | -                | (0.04                 | ) -              |
| Basic earnings per common share  | \$0.08                | \$0.02           | \$0.53                | \$(0.69          |

The following table sets forth the computation of diluted earnings per share (amounts in thousands, except share and per share amounts):

|   | <b>13 Weeks Ended</b> |                  | <b>39 Weeks Ended</b> |                  |
|---|-----------------------|------------------|-----------------------|------------------|
|   | <b>September</b>      | <b>September</b> | <b>September</b>      | <b>September</b> |
|   | <b>29,</b>            | <b>23,</b>       | <b>29,</b>            | <b>23,</b>       |
|   | <b>2013</b>           | <b>2012</b>      | <b>2013</b>           | <b>2012</b>      |
| Income from continuing operations                               | \$2,940               | \$879            | \$19,560              | \$12,765         |
| Income (loss) from discontinued operations, net of income taxes | (53                   | ) (77            | ) (1,246              | ) (35            |
| Net income  | 2,887                 | 802              | 18,314                | 12,730           |
| Preferred stock dividends                                       | -                     | -                | -                     | 514              |

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|  |            |            |            |             |
|--|------------|------------|------------|-------------|
| Accretion of preferred stock redemption value                              | -          | -          | -          | 73          |
| Excess of redemption value over carrying value of preferred stock redeemed | -          | -          | -          | 35,776      |
| Net income (loss) applicable to preferred and common shareholders          | \$2,887    | \$802      | \$18,314   | \$(23,633 ) |
| Shares:  |            |            |            |             |
| Weighted average number of common shares outstanding - basic               | 34,956,353 | 34,373,629 | 34,688,579 | 34,283,068  |
| Dilutive shares  | 839,155    | 811,580    | 1,040,872  | -           |
| Dilutive convertible preferred stock                                       | -          | -          | -          | -           |
| Weighted-average number of common shares outstanding - diluted             | 35,795,508 | 35,185,209 | 35,729,451 | 34,283,068  |
| Diluted earnings per common share:   |            |            |            |             |
| Continuing operations  | \$0.08     | \$0.02     | \$0.55     | \$(0.69 )   |
| Discontinued operations  | -          | -          | (0.04 )    | -           |
| Diluted earnings per common share  | \$0.08     | \$0.02     | \$0.51     | \$(0.69 )   |

## **(12) Commitments and Contingencies**

The Company is subject to various claims, possible legal actions, and other matters arising in the normal course of business. Management does not expect disposition of these other matters to have a material adverse effect on the financial position, results of operations or liquidity of the Company. The Company expenses legal fees as incurred.

The legislation and regulations related to tax and unclaimed property matters are complex and subject to varying interpretations by both government authorities and taxpayers. The Company remits a variety of taxes and fees to various governmental authorities, including excise taxes, property taxes, sales and use taxes, and payroll taxes. The taxes and fees remitted by the Company are subject to review and audit by the applicable governmental authorities which could assert claims for additional assessments. Although management believes that the tax positions are reasonable and consequently there are no accrued liabilities for claims which may be asserted, various taxing authorities may challenge certain of the positions taken by the Company which may result in additional liability for taxes and interest. These tax positions are reviewed periodically based on the availability of new information, the lapsing of applicable statutes of limitations, the conclusion of tax audits, the identification of new tax contingencies, or the rendering of relevant court decisions. An unfavorable resolution of assessments by a governmental authority could negatively impact our results of operations and cash flows in future periods.

The Company is subject to unclaimed or abandoned property (escheat) laws which require the Company to turn over to certain state governmental authorities the property of others held by the Company that has been unclaimed for specified periods of time. The Company is subject to audit by individual U.S. states with regard to its escheatment practices. During fiscal year 2012, the Company agreed to pay \$2.5 million to settle certain liabilities pertaining to unclaimed property returns which had not been filed timely, which was paid during the first quarter of fiscal year 2013. The settlement liability was previously accrued and did not affect the fiscal year 2012 or fiscal year 2013 income statements. During fiscal years 2013 and 2014, management expects to enter into settlement discussions with other states in an effort to settle liabilities pertaining to unclaimed property returns which have not been filed timely. Management does not expect the settlement of these liabilities to have a material adverse effect on the financial position, results of operations or liquidity of the Company.

The Company currently buys a majority of its beef from two suppliers. Although there are a limited number of beef suppliers, management believes that other suppliers could provide similar product on comparable terms. A change in suppliers, however, could cause supply shortages and a possible loss of sales, which would affect operating results adversely.





## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains "forward-looking statements" that reflect, when made, the Company's expectations or beliefs concerning future events that involve risks and uncertainties. Forward-looking statements frequently are identified by the words "believe," "anticipate," "expect," "estimate," "intend," "project," "will be," "will continue," "likely result," or other similar words and phrases. Similarly, statements herein that describe the Company's objectives, plans or goals also are forward-looking statements. Actual results could differ materially from those projected, implied or anticipated by the Company's forward-looking statements. Some of the factors that could cause actual results to differ include: changes in economic conditions and general trends; the loss of key management personnel; the effect of market volatility on the Company's stock price; health concerns about beef or other food products; the effect of competition in the restaurant industry; changes in consumer preferences or discretionary spending; reductions in the availability of, or increases in the cost of, USDA Prime grade beef, fish and other food items; labor shortages or increases in labor costs; the impact of federal, state or local government regulations relating to Company employees, the sale or preparation of food, the sale of alcoholic beverages and the opening of new restaurants; harmful actions taken by the Company's franchisees; the Company's ability to protect its name and logo and other proprietary information; the impact of litigation; and the restrictions imposed by the Company's Amended and Restated Credit Agreement. For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2012, which is available on the SEC's website at [www.sec.gov](http://www.sec.gov). All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update this Quarterly Report on Form 10-Q to reflect events or circumstances after the date hereof.

Unless the context otherwise indicates, all references in this report to the "Company," "Ruth's," "we," "us", or "our" or similar words are to Ruth's Hospitality Group, Inc. and its subsidiaries. Ruth's Hospitality Group, Inc. is a Delaware corporation formerly known as Ruth's Chris Steak House, Inc., and was founded in 1965.

### **Overview**

Ruth's Hospitality Group, Inc. is a leading restaurant company focused on the upscale dining segment. The Company owns the Ruth's Chris Steak House, Mitchell's Fish Market, Columbus Fish Market, Mitchell's Steakhouse and Cameron's Steakhouse concepts.

As of September 29, 2013, there were 138 Ruth's Chris Steak House restaurants, of which 63 were Company-owned, 74 were franchisee-owned, and one location was operating under a management agreement. All Company-owned restaurants are located in the United States. The franchisee-owned restaurants include seventeen international franchisee-owned restaurants in Aruba, Canada, China (Hong Kong), El Salvador, Japan, Mexico, Singapore, Taiwan, and the United Arab Emirates. Three new Ruth's Chris Steak House locations opened during the thirty-nine weeks ended September 29, 2013, including a second franchise restaurant located in San Juan in April 2013, a franchise restaurant located in Chattanooga, TN in July 2013 and a franchise restaurant opened in early 2013 in Las Vegas, NV under a licensing agreement with Harrah's Casino under which we receive a fee as a percentage of sales. Due to an expiring lease term, we closed our Ruth's Chris Steak House Company-owned restaurant in Phoenix, AZ, on March 31, 2013. Our Ruth's Chris Steak House in Houston, TX was relocated in July 2013. A franchise restaurant located in Dubai was closed in July 2013. We are targeting to open four new Company-owned restaurants in 2014 – one each in Denver, CO, Dallas, TX, Gaithersburg, MD and Los Angeles, CA. We expect that a franchisee will open one new restaurant during the remainder of 2013.

The Company operates 19 Mitchell's Fish Markets and three Cameron's Steakhouse restaurants, located primarily in the Mid-west and Florida.

In January 2013, we signed an agreement with the Ko Group for the development of four new franchised Ruth's Chris Steak House restaurants to be opened in People's Republic of China over the next three years. The new restaurants are planned for Shanghai and Beijing and will be the first Ruth's Chris Steak House restaurants in People's Republic of China. The Ko Group has had success as an existing franchisee with seven restaurants in Hong Kong, Japan, Taiwan, and Singapore.

Our business is subject to seasonal fluctuations. Historically, our first and fourth quarters have tended to be the strongest revenue quarters due, in part, to the year-end holiday season. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year and comparable restaurant sales for any particular period may decrease.

Our Annual Report on Form 10-K for the fiscal year ended December 30, 2012 provides additional information about our business, operations and financial condition.

## Results of Operations

The table below sets forth certain operating data expressed as a percentage of total revenues for the periods indicated, except as otherwise noted. Our historical results are not necessarily indicative of the operating results that may be expected in the future.

|  | <b>13 Weeks Ended</b> |                  | <b>39 Weeks Ended</b> |                  |
|--|-----------------------|------------------|-----------------------|------------------|
|  | <b>September</b>      | <b>September</b> | <b>September</b>      | <b>September</b> |
|  | <b>29,</b>            | <b>23,</b>       | <b>29,</b>            | <b>23,</b>       |
|  | <b>2013</b>           | <b>2012</b>      | <b>2013</b>           | <b>2012</b>      |
| <b>Revenues:</b>   |                       |                  |                       |                  |
| Restaurant sales   | 95.3%                 | 95.9%            | 94.8%                 | 95.4%            |
| Franchise income   | 3.9%                  | 3.9%             | 3.6%                  | 3.5%             |
| Other operating income   | 0.8%                  | 0.2%             | 1.6%                  | 1.1%             |
| Total revenues   | 100.0%                | 100.0%           | 100.0%                | 100.0%           |
| <b>Costs and expenses:</b>                                     |                       |                  |                       |                  |
| Food and beverage costs (percentage of restaurant sales)       | 31.4%                 | 31.8%            | 31.0%                 | 32.0%            |
| Restaurant operating expenses (percentage of restaurant sales) | 55.5%                 | 55.4%            | 51.0%                 | 51.6%            |
| Marketing and advertising                                      | 2.3%                  | 2.6%             | 2.6%                  | 2.3%             |
| General and administrative costs                               | 8.2%                  | 7.1%             | 7.3%                  | 6.8%             |
| Depreciation and amortization expenses                         | 3.5%                  | 4.2%             | 3.3%                  | 3.9%             |
| Pre-opening costs  | 0.4%                  | 0.2%             | 0.2%                  | 0.1%             |
| Gain on settlements  | (2.4% )               | 0.0%             | (0.7% )               | 0.0%             |
| Total costs and expenses                                       | 94.6%                 | 97.8%            | 90.3%                 | 92.7%            |
| Operating income   | 5.4%                  | 2.2%             | 9.7%                  | 7.3%             |
| <b>Other income (expense):</b>                                 |                       |                  |                       |                  |
| Interest expense, net  | (0.5% )               | (0.8% )          | (0.5% )               | (0.6% )          |
| Debt issuance costs written-off                                | 0.0%                  | 0.0%             | 0.0%                  | (0.3% )          |
| Other  | (0.1% )               | 0.0%             | (0.0% )               | 0.0%             |
| Income from continuing operations before income tax expense    | 4.9%                  | 1.4%             | 9.2%                  | 6.4%             |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Income tax expense  | 1.5%    | 0.4%    | 2.6%    | 1.9%    |
| Income from continuing operations   | 3.3%    | 1.0%    | 6.6%    | 4.5%    |
| Income (loss) from discontinued operations, net of income taxes             | (0.1% ) | (0.1% ) | (0.4% ) | (0.0% ) |
| Net income  | 3.3%    | 1.0%    | 6.2%    | 4.5%    |
| Preferred stock dividends   | 0.0%    | 0.0%    | 0.0%    | 0.2%    |
| Accretion of preferred stock redemption value                               | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| Excess of redemption value over carrying value of preferred shares redeemed | 0.0%    | 0.0%    | 0.0%    | 12.7%   |
| Net income (loss) applicable to preferred and common shareholders           | 3.3%    | 1.0%    | 6.2%    | (8.4% ) |

***Third Quarter Ended September 29, 2013 (13 Weeks) Compared to Third Quarter Ended September 23, 2012 (13 Weeks)***

*Overview.* Operating income for the third quarter of fiscal year 2013 increased from the third quarter of fiscal year 2012 level by \$2.9 million to \$4.8 million. Operating income for the third quarter of fiscal year 2013 was favorably impacted by a \$3.5 million increase in restaurant sales which was somewhat offset by increased restaurant operating expenses. Higher restaurant sales were attributable both to an increase in the number of customers as measured by an increase in entrées and an increase in average check. Operating income for the third quarter of fiscal year 2013 was also favorably impacted by an aggregate gain of \$2.2 million, net of fees incurred, from the settlement of two casualty loss claims which previously arose. Net income for the third quarter of fiscal year 2013 increased by \$2.1 million to \$2.9 million as compared to the third quarter of fiscal year 2012.

Segment profitability information is presented in Note 6 to the financial statements. Not all operating expenses are allocated to operating segments. The Ruth's Chris Steak House, Mitchell's Fish Market and Cameron's Steakhouse restaurant concepts in North America are managed as operating segments. The concepts operate within the full-service dining industry, providing similar products to similar customers. For financial reporting purposes, the Ruth's Chris Steak House and Cameron's Steakhouse restaurants are both included in the Company-owned steakhouse restaurant segment. The Company-owned fish market restaurant segment consists entirely of Mitchell's Fish Market restaurants. The franchise operations are also considered to be a separate operating segment. Third quarter segment profits for the Company-owned steakhouse restaurant segment increased by \$1.1 million to \$10.5 million from the third quarter of fiscal year 2012. The increase was driven by increased revenues. Third quarter segment profits for the Company-owned fish market restaurant segment decreased by \$146 thousand to \$1.1 million from the third quarter of fiscal year 2012 due to a decrease in revenues. The \$0.2 million increase in franchise operations segment profitability is attributable to four new locations and an increase in comparable franchise restaurant sales.

*Restaurant Sales.* Restaurant sales increased \$3.5 million, or 4.3%, to \$84.4 million in the third quarter of fiscal year 2013 from the third quarter of fiscal year 2012. The increase was attributable to a \$2.2 million increase in Company-owned comparable sales for all brands and \$1.3 million in restaurant sales from an increase in operating weeks. Excluding discontinued operations, total operating weeks for all brands during the third quarter of fiscal year 2013 increased to 1,102 from 1,092 in the third quarter of fiscal year 2012. Company-owned comparable restaurant sales for Ruth's Chris Steak House increased 4.2%, which consisted of an entrée increase of 3.2% and an average check increase of 0.9%. Company-owned comparable restaurant sales at Mitchell's Fish Market decreased 1.4%, which consisted of an entrée decrease of 4.8% and an average check increase of 3.5%.

*Franchise Income.* Franchise income increased \$0.2 million, or 7.4%, to \$3.5 million in the third quarter of fiscal year 2013 from the third quarter of fiscal year 2012. The increase was driven primarily by four new locations which opened since September 2012. An increase in comparable franchisee-owned restaurant sales of 1.4% (which included a 1.8% increase in domestic comparable franchisee-owned restaurant sales partially offset by a 0.6% decrease in international comparable franchisee-owned restaurant sales) was offset by the closing of one location in July 2013.

*Other Operating Income.* Other operating income increased \$0.5 million to \$0.7 million in the third quarter of fiscal year 2013 from the third quarter of fiscal year 2012. The increase was attributable to a \$0.1 million increase in our management fee and our share of income at the Cherokee location and a \$0.3 million increase in gift card breakage income in the third quarter of fiscal year 2013.

*Food and Beverage Costs.* Food and beverage costs increased \$0.8 million, or 2.8%, to \$26.5 million in the third quarter of fiscal year 2013 from the third quarter of fiscal year 2012. As a percentage of restaurant sales, food and beverage costs decreased to 31.4% in the third quarter of fiscal year 2013 from 31.8% in the third quarter of fiscal year 2012. This decrease in food and beverage costs as a percentage of restaurant sales was primarily due to a 1.7% increase in menu pricing.

*Restaurant Operating Expenses.* Restaurant operating expenses increased \$1.9 million, or 4.3%, to \$46.8 million in the third quarter of fiscal year 2013 from the third quarter of fiscal year 2012. Restaurant operating expenses, as a percentage of restaurant sales, increased to 55.5% in the third quarter of fiscal year 2013 from 55.4% in the third quarter of fiscal year 2012 primarily due to higher group insurance costs.

*Marketing and Advertising.* Marketing and advertising expenses decreased \$0.2 million to \$2.0 million in the third quarter of fiscal year 2013 from the third quarter of fiscal year 2012. The decrease in marketing and advertising expenses in the third quarter of fiscal 2013 was attributable to a decrease in national advertising spending.

*General and Administrative.* General and administrative expenses increased \$1.3 million to \$7.3 million in the third quarter of fiscal year 2013 from the third quarter of fiscal year 2012 primarily due to a \$1.4 million increase in performance-based compensation.

*Depreciation and Amortization Expenses.* Depreciation and amortization expense decreased \$0.5 million to \$3.1 million in the third quarter of fiscal year 2013 from the third quarter of fiscal year 2012 due to certain property and equipment becoming fully depreciated.

*Pre-opening costs.* Pre-opening costs increased \$0.2 million to \$0.3 million in the first thirty-nine weeks of fiscal year 2013 primarily due to the relocation of our Houston location in July 2013.

*Gain on Settlements.* During the third quarter of fiscal year 2013, the Company settled two casualty loss claims which previously arose and recognized an aggregate gain of \$2.2 million, net of fees incurred. The majority of the gain pertained to compensation awarded by the claims administrator pursuant to the settlement agreement reached in litigation related to the 2010 Deepwater Horizon oil spill in the Gulf of Mexico.

*Interest Expense.* Interest expense decreased \$0.3 million to \$0.4 million in the third quarter of fiscal year 2013 from the third quarter of fiscal year 2012. The decrease in expense was primarily due to a lower average debt balance in the third quarter of fiscal year 2013.

*Income Tax Expense.* During the third quarter of fiscal year 2013, we recognized income tax expense of \$1.4 million. During the third quarter of fiscal 2012 we recognized income tax expense of \$0.3 million. The effective tax rate increased to 31.8% in the third quarter of fiscal year 2013 compared to 26.7% in the third quarter of fiscal year 2012.

*Income from Continuing Operations.* Income from continuing operations of \$2.9 million in the third quarter of fiscal year 2013 increased by \$2.1 million compared to the third quarter of fiscal year 2012 due to the factors noted above.

*Net Income (Loss) Applicable to Preferred and Common Shareholders.* Net income applicable to preferred and common shareholders was \$2.9 million in the third quarter of fiscal year 2013 compared to \$0.8 million in the third quarter of fiscal year 2012.

***Thirty-nine weeks ended September 29, 2013 compared to thirty-nine weeks ended September 23, 2012***

*Overview.* Operating income for the first thirty-nine weeks of fiscal year 2013 increased from the first thirty-nine weeks of fiscal year 2012 by \$8.2 million to \$28.7 million. Operating income for the first thirty-nine weeks of fiscal year 2013 was favorably impacted by a \$13.6 million increase in restaurant sales which was somewhat offset by increased food and restaurant operating expenses. Higher restaurant sales were attributable both to an increase in the number of customers as measured by an increase in entrées and an increase in average check. Operating income for the first thirty-nine weeks of fiscal year 2013 was also favorably impacted by an aggregate gain of \$2.2 million, net of fees incurred, from the settlement of two casualty loss claims which previously arose. Income from continuing operations increased from the first thirty-nine weeks of fiscal year 2012 by \$6.8 million to \$19.6 million. Net income for the first thirty-nine weeks of fiscal year 2013 was adversely impacted by loss from discontinued operations. The first thirty-nine weeks of fiscal year 2013 \$1.2 million loss from discontinued operations, net of income taxes, includes a \$1.2 million loss attributable to property we lease near the United Nations in Manhattan. We recognized the loss as a consequence of a remeasurement of our lease exit costs due to the subtenant abandoning the property. Net income for the first thirty-nine weeks of fiscal year 2013 increased from first thirty-nine weeks of fiscal year 2012 by \$5.6 million to \$18.3 million.

Segment profitability information is presented in Note 6 to the financial statements. Company-owned steakhouse restaurant segment profits for the first thirty-nine weeks of fiscal year 2013 increased by \$6.6 million to \$47.1 million from the first thirty-nine of fiscal year 2012. The increase was driven by increased revenues. Company-owned fish market restaurant segment profits for the first thirty-nine weeks of fiscal year 2013 decreased by \$131 thousand to



\$5.1 million from the first thirty-nine of fiscal year 2012 due to a decrease in revenues. The \$0.9 million increase in franchise operations segment profitability is attributable to four new locations and an increase in comparable franchise restaurant sales.

Preferred stock requirements are deducted from net income to arrive at net income (loss) applicable to preferred and common shareholders. During the first thirty-nine weeks of fiscal year 2012, we reported a \$23.6 million loss applicable to shareholders due to the repurchase of all of the Company's Preferred Stock. We recorded a reduction of net income applicable to shareholders of \$35.8 million in the first thirty-nine weeks of fiscal year 2012 to reflect the excess of the redemption value over the carrying value of the preferred shares redeemed.

*Restaurant Sales.* Restaurant sales increased \$13.6 million, or 5.1%, to \$282.3 million in the first thirty-nine weeks of fiscal year 2013 from the first thirty-nine weeks of fiscal year 2012. The increase was attributable to a \$10.3 million increase in Company-owned comparable sales for all brands and \$3.3 million in restaurant sales from an increase in operating weeks. Excluding discontinued operations, total operating weeks for all brands in the first thirty-nine weeks of fiscal year 2013 increased to 3,312 from 3,276 in the first thirty-nine weeks of fiscal year 2012. Company-owned comparable restaurant sales for Ruth's Chris Steak House increased 5.3%, which consisted of a traffic increase of 2.8% and an average check increase of 2.4%. Company-owned comparable restaurant sales at Mitchell's Fish Market decreased 0.4%, which consisted of a traffic decrease of 1.6% and an average check increase of 1.2%.

*Franchise Income.* Franchise income increased \$0.9 million, or 8.6%, to \$10.8 million in the first thirty-nine weeks of fiscal year 2013 from the first thirty-nine weeks of fiscal year 2012. The increase was driven by a \$0.6 million increase from four new locations which opened since September 2012 and a \$0.2 million increase from an increase in comparable franchisee-owned restaurant sales of 2.0% (which included a 2.3% increase in domestic comparable franchisee-owned restaurant sales and a 0.6% increase in international comparable franchisee-owned restaurant sales).

*Other Operating Income.* Other operating income increased \$1.6 million to \$4.6 million in the first thirty-nine weeks of fiscal year 2013 from the first thirty-nine weeks of fiscal year 2012. The increase was in large part attributable to a \$0.9 million increase in gift card breakage income in the first thirty-nine weeks of fiscal year 2013. Our management fee and our share of income from the Cherokee location was \$0.5 million in the first thirty-nine weeks of fiscal year 2013 and \$0 in the first thirty-nine weeks of fiscal year 2012.

*Food and Beverage Costs.* Food and beverage costs increased \$1.4 million, or 1.7%, to \$87.4 million in the first thirty-nine weeks of fiscal year 2013 from the first thirty-nine weeks of fiscal year 2012. As a percentage of restaurant sales, food and beverage costs decreased to 31.0% in the first thirty-nine weeks of fiscal year 2013 from 32.0% in the first thirty-nine weeks of fiscal year 2012. This decrease in food and beverage costs as a percentage of restaurant sales was primarily due to a 2.4% increase in menu pricing and 0.4% lower beef costs.

*Restaurant Operating Expenses.* Restaurant operating expenses increased \$5.4 million, or 3.9%, to \$144.0 million in the first thirty-nine weeks of fiscal year 2013 from the first thirty-nine weeks of fiscal year 2012. Restaurant operating expenses, as a percentage of restaurant sales, decreased to 51.0% in the first thirty-nine weeks of fiscal year 2013 from 51.6% in the first thirty-nine weeks of fiscal year 2012 due to leveraging higher comparable restaurant sales.

*Marketing and Advertising.* Marketing and advertising expenses increased \$1.3 million to \$7.6 million in the first thirty-nine weeks of fiscal year 2013 from the first thirty-nine weeks of fiscal year 2012. The increase in marketing and advertising expenses in the first thirty-nine weeks of fiscal year 2013 was attributable to planned television advertising spending.

*General and Administrative.* General and administrative expenses increased \$2.8 million to \$21.8 million in the first thirty-nine weeks of fiscal year 2013 from the first thirty-nine weeks of fiscal year 2012 primarily due to a \$2.4 million increase in performance-based compensation and a \$0.2 million increase in stock-based compensation.

*Depreciation and Amortization Expenses.* Depreciation and amortization expense decreased \$1.1 million to \$9.8 million in the first thirty-nine weeks of fiscal year 2013 primarily due to certain property and equipment becoming fully depreciated.

*Pre-opening costs.* Pre-opening costs increased \$0.2 million to \$0.5 million in the first thirty-nine weeks of fiscal year 2013 primarily due to the relocation of our Houston location in July 2013.

*Gain on Settlements.* During the first thirty-nine weeks of fiscal year 2013, the Company settled two casualty loss claims which previously arose and recognized an aggregate gain of \$2.2 million, net of fees incurred. The majority of the gain pertained to compensation awarded by the claims administrator pursuant to the settlement agreement reached in litigation related to the 2010 Deepwater Horizon oil spill in the Gulf of Mexico.

*Interest Expense.* Interest expense decreased \$0.4 million to \$1.3 million in the first thirty-nine weeks of fiscal year 2013 from the first thirty-nine weeks of fiscal year 2012. The decrease in expense was primarily due to a lower

average debt balance in the first thirty-nine weeks of fiscal year 2013.

*Income Tax Expense.* During the first thirty-nine weeks of fiscal year 2013, we recognized income tax expense of \$7.8 million. During the first thirty-nine weeks of fiscal 2012 we recognized income tax expense of \$5.3 million. The effective tax rate decreased to 28.5% in the first thirty-nine weeks of fiscal year 2013 compared to 29.2% in the first thirty-nine weeks of fiscal year 2012. During the first thirty-nine weeks of fiscal year 2013, the Company recognized a state income tax benefit for employment related tax credits aggregating \$1.0 million generated during the years 2006 through 2012. These prior year state tax credits resulted in a discrete \$600 thousand reduction (net of federal and state tax consequences) in income tax expense and lowered the effective income tax rate by 2.2% in the first thirty-nine weeks of fiscal year 2013.

*Income from Continuing Operations.* Income from continuing operations of \$19.6 million in the first thirty-nine weeks of fiscal year 2013 increased by \$6.8 million compared to the first thirty-nine weeks of fiscal year 2012 due to the factors noted above.

*Income (Loss) from Discontinued Operations, net of income taxes.* Income (loss) from discontinued operations, net of income taxes for the first thirty-nine weeks of fiscal year 2013 was a loss of \$1.2 million. The loss includes a \$1.2 million loss, net of income tax benefit, attributable to property we lease near the United Nations in Manhattan. We recognized the loss as a consequence of the remeasurement of our lease exit costs due to the subtenant abandoning the property subleased from us.

*Net Income (Loss) Applicable to Preferred and Common Shareholders.* Net income applicable to preferred and common shareholders was \$18.3 million in the first thirty-nine weeks of fiscal year 2013 compared to \$23.6 million net loss in the first thirty-nine weeks of fiscal year 2012. Net income applicable to preferred and common shareholders in the first thirty-nine weeks of fiscal year 2012 included charges for preferred stock dividends of \$0.5 million and accretion of preferred stock redemption value of \$0.1 million. We also recorded a reduction of net income applicable to shareholders of \$35.8 million in the first fiscal thirty-nine weeks of 2012 to reflect the excess of the redemption value over the carrying value of the preferred shares redeemed.

## Liquidity and Capital Resources

### *Overview*

Our principal sources of cash during the first thirty-nine weeks of fiscal year 2013 were net cash provided by operating activities and borrowings under our \$100 million senior credit facility. Our principal uses of cash during the first thirty-nine weeks of fiscal year 2013 were for capital expenditures, principal repayments on our senior credit facility and dividends.

On March 8, 2012, we repurchased all of our issued and outstanding shares of Preferred Stock for \$60.2 million in cash. The purchase price, which included all accrued and unpaid dividends owed on the preferred stock, was funded using borrowings under our \$100 million senior credit facility. We believe the repurchase of all of the outstanding Preferred Stock enhanced our capital structure by reducing our potentially fully diluted common share base and eliminating the preferred dividends. As a result of the repurchase, our potential fully diluted common share base decreased by approximately 8.6 million shares and the 10% dividend on the preferred stock, which amounted to \$2.5 million in fiscal year 2011, was eliminated.

On May 3, 2013, we announced that our Board of Directors approved a common stock repurchase program. Under the program, we may from time to time purchase up to \$30 million of our outstanding common stock. The share repurchases will be made at our discretion in the open market or in negotiated transactions depending on share price, market conditions or other factors. The share repurchase program does not obligate us to repurchase any dollar amount or number of shares. As of September 29, 2013, no shares have been repurchased under the common stock repurchase program.

We paid quarterly cash dividends of \$0.04 per share, \$1.4 million in aggregate, during each of the second quarter and the third quarter of fiscal year 2013. On November 1, 2013, we announced that our Board of Directors declared a quarterly cash dividend of \$0.04 per share, \$1.4 million in aggregate, to be paid on November 26, 2013 to stockholders of record as of the close of business on November 14, 2013. Future dividends will be subject to the approval of our Board of Directors.

We have reduced borrowing under our senior credit facility by \$8.0 million since the end of fiscal year 2012 and by \$32.0 million since the end of the third quarter of fiscal year 2012. As of September 29, 2013, we had an aggregate of \$37.0 million of outstanding indebtedness under our senior credit facility at a weighted average interest rate of 2.7% with approximately \$58.9 million of borrowings available, net of outstanding letters of credit of approximately \$4.1 million. The 2.7% weighted average interest rate includes a 2.2% interest rate on outstanding indebtedness, plus fees on our unused borrowing capacity and outstanding letters of credit. We amended our senior credit agreement in May

2013 to reset the limit applicable to junior stock payments, which include both cash dividend payments and repurchases of common and preferred stock. As a result of the amendment, we are now permitted to make up to \$100 million in junior stock payments; \$2.8 million of such payments had been made as of September 29, 2013. As of September 29, 2013, we were in compliance with all the covenants under our senior credit facility.

We anticipate capital expenditures for fiscal year 2013 will aggregate approximately \$14 million to \$16 million. We believe that our borrowing ability under our senior credit facility coupled with our anticipated cash flow from operations should provide us with adequate liquidity in fiscal year 2013.

### *Sources and Uses of Cash*

The following table presents a summary of our net cash provided by (used in) operating, investing and financing activities (in thousands):

|   | <b>39 Weeks Ended</b> |                  |
|---|-----------------------|------------------|
|   | <b>September</b>      | <b>September</b> |
|   | <b>29,</b>            | <b>23,</b>       |
|   | <b>2013</b>           | <b>2012</b>      |
| Net cash provided by (used in):           |                       |                  |
| Operating activities                      | \$18,804              | \$ 22,815        |
| Investing activities                      | (9,778 )              | (8,703 )         |
| Financing activities                      | (11,658 )             | (14,125 )        |
| Net decrease in cash and cash equivalents | \$(2,632 )            | \$(13 )          |

Operating cash inflows pertain primarily to restaurant sales and franchise income. Operating cash outflows pertain primarily to expenditures for food and beverages, restaurant operating expenses, marketing and advertising and general and administrative costs. Operating activities provided cash flow during the first thirty-nine weeks of both fiscal years 2013 and 2012 primarily because operating revenues have exceeded cash-based expenses. Cash provided by operating activities was lower in the first thirty-nine weeks of fiscal year 2013 compared to the first thirty-nine weeks of fiscal year 2012 primarily due to the fiscal year 2013 payments of fiscal year 2012 performance based compensation liabilities and a \$2.5 million payment to settle certain liabilities pertaining to unclaimed property.

Cash used in investing activities in both periods pertained primarily to restaurant remodel projects. Investing activities in the first thirty-nine weeks of fiscal year 2013 also included the cost of relocating our Houston restaurant.

Financing activities used cash in both periods. During the first thirty-nine weeks of fiscal year 2013 we reduced the debt outstanding under our senior credit facility by \$8.0 million. We also paid dividends of \$2.8 million during the first thirty-nine weeks of fiscal year 2013. During the first thirty-nine weeks of fiscal year 2012 we repurchased all of our outstanding preferred stock for \$60.2 million, which was funded by our senior credit facility. We also repaid \$11.0 million of debt, net, using cash provided by operations.

### **Off-Balance Sheet Arrangements**

As of September 29, 2013, we did not have any off-balance sheet arrangements.

### **Critical Accounting Policies and Estimates**

The preparation of our financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the periods presented. Our Annual Report on Form 10-K for the fiscal year ended December 30, 2012 includes a summary of the critical accounting policies and estimates that we believe are the most important to aid in the understanding our financial results. There have been no material changes to these critical accounting policies and estimates that impacted our reported amounts of assets, liabilities, revenues or expenses during the third quarter of fiscal year 2013.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Interest Rate Risk***

The Company is exposed to market risk from fluctuations in interest rates. For fixed rate debt, interest rate changes affect the fair market value of such debt but do not impact earnings or cash flows. Conversely for variable rate debt, including borrowings under the Company's senior credit facility, interest rate changes generally do not affect the fair market value of such debt, but do impact future earnings and cash flows, assuming other factors are held constant. At September 29, 2013, the Company had \$37.0 million of variable rate debt outstanding. The Company currently does not use financial instruments to hedge its risk to market fluctuations in interest rates. *Ceteris paribus*, a hypothetical

immediate one percentage point change in interest rates would be expected to have an impact on pre-tax earnings and cash flows for fiscal year 2013 of approximately \$0.4 million.

***Foreign Currency Risk***

The Company believes that fluctuations in foreign exchange rates do not present a material risk to its operations due to the relatively small amount of franchise income it receives from outside the U.S. During the first thirty-nine weeks of fiscal years 2013 and 2012, franchise income attributable to international locations was \$2.1 million and \$1.9 million, respectively.

***Commodity Price Risk***

The Company is exposed to market price fluctuations in beef and other food product prices. Given the historical volatility of beef and other food product prices, this exposure can impact the Company's food and beverage costs. As the Company typically sets its menu prices in advance of its beef and other food product purchases, the Company cannot quickly react to changing costs of beef and other food items. To the extent that the Company is unable to pass the increased costs on to its guests through price increases, the Company's results of operations would be adversely affected. The Company has purchase price agreements for beef representing approximately 70% of its needs from October through December 2013. As of the date of this report, the Company has not entered into significant purchase price arrangements for beef for 2014. The market for USDA Prime grade beef is particularly volatile. If prices increase, or the supply of beef is reduced, operating margin could be materially adversely affected. *Ceteris paribus*, a hypothetical 10% fluctuation in beef prices would have an approximate impact on pre-tax earnings ranging from \$1.0 million to \$1.5 million on pre-tax earnings for fiscal year 2014.

From time to time, the Company enters into to purchase price agreements for other lower volume food products, including seafood. In the past, certain types of seafood have experienced fluctuations in availability. Seafood is also subject to fluctuations in price based on availability, which is often seasonal. If certain types of seafood are unavailable, or if the Company's costs increase, the Company's results of operations could be adversely affected.

### ***Effects of Inflation***

Components of the Company's operations subject to inflation include food, beverage, lease and labor costs. The Company's leases require it to pay taxes, maintenance, repairs, insurance and utilities, all of which are subject to inflationary increases. The Company believes inflation has not had a material impact on its results of operations in recent years.

## **ITEM 4. CONTROLS AND PROCEDURES**

### ***Evaluation of disclosure controls and procedures***

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of September 29, 2013. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 29, 2013 to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by the Company is accumulated and communicated to the Company's management to allow timely decisions regarding the required disclosure.

### ***Changes in internal control over financial reporting***

During the fiscal quarter ended September 29, 2013, there was no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that in the Company's judgment has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



**PART II—OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. While litigation is subject to uncertainties and the outcome of litigated matters is not predictable with assurance, the Company is not aware of any legal proceedings pending or threatened against it that it expects to have a material adverse effect on its financial condition or results of operations.

**ITEM 1A. RISK FACTORS**

There have been no material changes in the risk factors included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2012, as supplemented by the risk factor included in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013. The impact of circumstances and events described in such risk factors could result in significant adverse effects on our financial position, results of operations and cash flows.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

23

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**ITEM 6. EXHIBITS**

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

|          |   |
|----------|---|
| 101.INS* | XBRL Instance Document.                                 |
| 101.SCH* | XBRL Taxonomy Extension Schema Document.                |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF* | XBRL Taxonomy Definition Linkbase Document.             |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document.        |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document. |

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Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration \*statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are not deemed filed for purposes of Section 18 of the Exchange Act and otherwise are not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RUTH'S HOSPITALITY GROUP, INC.

By: **/s/ MICHAEL P. O'DONNELL**  
**Michael P. O'Donnell**  
**Chairman of the Board,**  
**President and Chief**  
**Executive Officer**  
**(Principal Executive Officer)**

By: **/s/ ARNE G. HAAK**  
**Arne G. Haak**  
**Executive Vice President and Chief**  
**Financial Officer of Ruth's Hospitality**  
**Group, Inc. (Principal Financial**  
**Officer)**

By: **/s/ MARK W. OSTERBERG**  
**Mark W. Osterberg**  
**Vice President of Accounting and**  
**Chief**  
**Accounting Officer (Principal**  
**Accounting Officer)**

Date: November 6, 2013