

Ruths Hospitality Group, Inc.  
Form 10-Q  
July 27, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 24, 2012

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

**Ruth s Hospitality Group, Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

**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**  
(Address of principal executive offices)

**32789**  
(Zip code)

**(407) 333-7440**

**Registrant's telephone number, including area code**

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

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, 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 July 27, 2012 was 35,372,615, which includes 927,664 shares of unvested restricted stock.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Part I Financial Information</u></b>	<b>3</b>
Item 1. <u>Financial Statements:</u>	3
<u>Condensed Consolidated Balance Sheets as of June 24, 2012 and December 25, 2011</u>	3
<u>Condensed Consolidated Statements of Income (Loss) for Thirteen and Twenty-six Week Periods ended June 24, 2012 and June 26, 2011</u>	4
<u>Condensed Consolidated Statements of Shareholders' Equity for the Twenty-six Week Periods ended June 24, 2012 and June 26, 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Twenty-six Week Periods ended June 24, 2012 and June 26, 2011</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	19
Item 4. <u>Controls and Procedures</u>	20
<b><u>Part II Other Information</u></b>	<b>20</b>
Item 1. <u>Legal Proceedings</u>	20
Item 1A. <u>Risk Factors</u>	20
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 3. <u>Defaults Upon Senior Securities</u>	20
Item 4. <u>Mine Safety Disclosures</u>	21
Item 5. <u>Other Information</u>	21
Item 6. <u>Exhibits</u>	21
<u>Signatures</u>	22

**Table of Contents****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)

	June 24, 2012	December 25, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,489	\$ 3,925
Accounts receivable, less allowance for doubtful accounts 2012 \$371; 2011 \$382	8,423	12,715
Inventory	7,285	7,358
Prepaid expenses and other	1,583	1,448
Deferred income taxes	2,014	1,623
<b>Total current assets</b>	<b>23,794</b>	<b>27,069</b>
Property and equipment, net of accumulated depreciation 2012 \$111,950; 2011 \$104,773	96,398	99,154
Goodwill	22,097	22,097
Franchise rights	32,200	32,200
Trademarks	10,676	10,676
Other intangibles, net of accumulated amortization 2012 \$2,246; 2011 \$2,037	6,261	6,470
Deferred income taxes	35,879	38,928
Other assets	3,170	3,626
<b>Total assets</b>	<b>\$ 230,475</b>	<b>\$ 240,220</b>
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 8,521	\$ 8,014
Accrued payroll	11,911	12,914
Accrued expenses	5,247	9,127
Deferred revenue	22,561	30,082
Other current liabilities	6,390	6,182
<b>Total current liabilities</b>	<b>54,630</b>	<b>66,319</b>
Long-term debt	71,000	22,000
Deferred rent	23,120	23,037
Other liabilities	5,148	5,333
<b>Total liabilities</b>	<b>153,898</b>	<b>116,689</b>
Commitments and contingencies (Note 11)	0	0
Series A 10% Redeemable Convertible Preferred Stock, par value \$0.01 per share; no shares issued and outstanding at June 24, 2012, 25,000 shares authorized, issued and outstanding, liquidation preference of \$25,000 at December 25, 2011	0	23,891

Shareholders equity:

## Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

Common stock, par value \$.01 per share; 100,000,000 shares authorized, 34,373,101 shares issued and outstanding at June 24, 2012 34,150,389 shares issued and outstanding at December 25, 2011	343	341
Additional paid-in capital	166,047	200,524
Accumulated deficit	(89,813)	(101,225)
Treasury stock, at cost; 71,950 shares at June 24, 2012 and December 25, 2011	0	0
 Total shareholders' equity	 76,577	 99,640
 Total liabilities, preferred stock, and shareholders' equity	 \$ 230,475	 \$ 240,220

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****RUTH S HOSPITALITY GROUP, INC AND SUBSIDIARIES****Condensed Consolidated Statements of Income (Loss) Unaudited**

(Amounts in thousands, except share and per share data)

	13 Weeks Ended		26 Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
<b>Revenues:</b>				
Restaurant sales	\$ 91,819	\$ 86,947	\$ 189,106	\$ 181,111
Franchise income	3,243	2,881	6,698	5,938
Other operating income	2,651	2,198	2,911	2,698
<b>Total revenues</b>	<b>97,713</b>	<b>92,026</b>	<b>198,715</b>	<b>189,747</b>
<b>Costs and expenses:</b>				
Food and beverage costs	29,537	26,560	60,664	55,444
Restaurant operating expenses	46,938	44,976	94,432	91,315
Marketing and advertising	2,419	3,167	4,159	6,096
General and administrative costs	6,227	5,353	13,112	11,230
Depreciation and amortization expenses	3,639	3,649	7,346	7,360
Pre-opening costs	75	41	120	42
Restructuring benefit	0	0	0	(502)
<b>Total costs and expenses</b>	<b>88,835</b>	<b>83,746</b>	<b>179,833</b>	<b>170,985</b>
<b>Operating income</b>	<b>8,878</b>	<b>8,280</b>	<b>18,882</b>	<b>18,762</b>
<b>Other expense:</b>				
Interest expense, net	(598)	(739)	(1,079)	(1,569)
Debt issuance costs written-off	0	0	(807)	0
Other	(47)	(219)	(60)	(420)
<b>Income from continuing operations before income tax expense</b>	<b>8,233</b>	<b>7,322</b>	<b>16,936</b>	<b>16,773</b>
<b>Income tax expense (benefit)</b>	<b>2,392</b>	<b>(1,814)</b>	<b>4,983</b>	<b>1,032</b>
<b>Income from continuing operations</b>	<b>5,841</b>	<b>9,136</b>	<b>11,953</b>	<b>15,741</b>
<b>Loss (income) from discontinued operations, net of income tax benefit (expense)</b>	<b>9</b>	<b>(70)</b>	<b>26</b>	<b>(397)</b>
<b>Net income</b>	<b>\$ 5,832</b>	<b>\$ 9,206</b>	<b>\$ 11,927</b>	<b>\$ 16,138</b>
Preferred stock dividends	0	623	514	1,247
Accretion of preferred stock redemption value	0	88	73	176
Excess of redemption value over carrying value of preferred shares redeemed	0	0	35,776	0
<b>Net income (loss) applicable to preferred and common shareholders</b>	<b>\$ 5,832</b>	<b>\$ 8,495</b>	<b>(24,436)</b>	<b>\$ 14,715</b>
<b>Basic earnings (loss) per common share:</b>				
Continuing operations	\$ 0.17	\$ 0.20	\$ (0.71)	\$ 0.34
Discontinued operations	0	0	0	0.01
<b>Basic earnings (loss) per share</b>	<b>\$ 0.17</b>	<b>\$ 0.20</b>	<b>\$ (0.71)</b>	<b>\$ 0.35</b>

## Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

Diluted earnings (loss) per common share:												
Continuing operations	\$	0.17	\$	0.20	\$	(0.71)	\$	0.33				
Discontinued operations		0		0		0		0.01				
Diluted earnings (loss) per share					\$	0.17	\$	0.20	\$	(0.71)	\$	0.34
Shares used in computing net income (loss) per common share:												
Basic		34,304,948		34,075,604		34,237,788		34,037,818				
Diluted		35,133,637		43,233,207		34,237,788		43,196,850				

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****RUTH S HOSPITALITY GROUP, INC AND SUBSIDIARIES****Condensed Consolidated Statements of Shareholders' Equity - Unaudited****for the Twenty-six Weeks ended June 24, 2012 and June 26, 2011****(Amounts in thousands)**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Shareholders Equity
	Shares	Value			Shares	Value	
Balance at December 25, 2011	34,150	\$ 341	\$ 200,524	\$ (101,225)	72	\$ 0	\$ 99,640
Net income	0	0	0	11,927	0	0	11,927
Preferred stock dividends	0	0	0	(514)	0	0	(514)
Accretion of preferred stock redemption value	0	0	(73)	0	0	0	(73)
Excess of redemption value over carrying value of Preferred Shares redeemed	0	0	(35,776)	0	0	0	(35,776)
Shares issued under stock compensation plan including tax effects	223	2	324	0	0	0	325
Stock-based compensation	0	0	1,048	0	0	0	1,048
Balance at June 24, 2012	34,373	\$ 343	\$ 166,047	\$ (89,813)	72	\$ 0	\$ 76,577
Balance at December 26, 2010	33,981	\$ 339	\$ 198,304	\$ (118,282)	72	\$ 0	\$ 80,361
Net income	0	0	0	16,138	0	0	16,138
Preferred stock dividends	0	0	0	(1,247)	0	0	(1,247)
Accretion of preferred stock redemption value	0	0	(176)	0	0	0	(176)
Shares issued under stock compensation plan including tax effects	146	2	3	0	0	0	5
Stock-based compensation	0	0	1,219	0	0	0	1,219
Balance at June 26, 2011	34,127	\$ 341	\$ 199,350	\$ (103,391)	72	\$ 0	\$ 96,299

See accompanying notes to condensed consolidated financial statements.



**Table of Contents****RUTH S HOSPITALITY GROUP, INC AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows Unaudited**

(Amounts in thousands)

	26 Weeks Ended	
	June 24, 2012	June 26, 2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 11,927	\$ 16,138
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	7,346	7,360
Deferred income taxes	2,658	(1,489)
Non-cash interest expense	258	384
Debt issuance costs written-off	807	0
Amortization of below market lease	65	162
Restructuring benefit	0	(502)
Stock-based compensation expense	1,048	1,219
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	4,292	3,162
Inventories	74	629
Prepaid expenses and other	(135)	(79)
Other assets	1	134
Accounts payable and accrued expenses	(4,411)	(4,665)
Deferred revenue	(7,521)	(8,348)
Deferred rent	83	883
Other liabilities	854	(525)
<b>Net cash provided by operating activities</b>	<b>17,346</b>	<b>14,463</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(4,653)	(3,885)
<b>Net cash used in investing activities</b>	<b>(4,653)</b>	<b>(3,885)</b>
<b>Cash flows from financing activities:</b>		
Principal repayments on long-term debt	(19,000)	(19,750)
Principal borrowings on long-term debt	68,000	8,750
Redemption of Series A 10% redeemable convertible preferred stock	(59,740)	0
Dividend payments	(1,103)	(1,247)
Deferred financing costs	(610)	0
Proceeds from exercise of stock options	324	5
<b>Net cash used in financing activities</b>	<b>(12,129)</b>	<b>(12,242)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>564</b>	<b>(1,664)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>3,925</b>	<b>5,018</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,489</b>	<b>\$ 3,354</b>

## Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

### Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest, net of capitalized interest	\$ 912	\$ 1,234
Income taxes	757	1,109

### Noncash investing and financing activities:

Excess accrual-based acquisition of property and equipment	\$ (207)	\$ (427)
Preferred stock dividends accrued	0	596

See accompanying notes to condensed consolidated financial statements.

---

**Table of Contents**

**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 (together, the Company) as of June 24, 2012 and December 25, 2011 and for the fiscal quarters and twenty-six weeks ended June 24, 2012 and June 26, 2011 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 June 24, 2012, there were 133 Ruth s Chris Steak House restaurants, of which 63 were Company-owned, 69 were franchisee-owned, and one location was operating under a management agreement. The franchisee-owned restaurants include fifteen international franchisee-owned restaurants in Aruba, Canada, China (Hong Kong), Mexico, Japan, Taiwan, and the United Arab Emirates. One new Ruth s Chris Steak House franchise location opened during the twenty-six weeks ended June 24, 2012, a second franchise restaurant located in Dubai which opened in April 2012. A new Ruth s Chris Steak House located at Harrah s casino in Cherokee, NC opened in May 2012 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).

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

There were no changes to the number of Company-owned restaurants during the first or second quarters of fiscal year 2012. We expect to grow the number of Company-owned and franchisee owned restaurants in 2012 and 2013. Management anticipates that Ruth s Chris Steak House franchisees will open two to four additional restaurants in 2012. A new Company-owned Ruth s Chris Steak House is targeted to be opened in Cincinnati, OH in November 2012 and a new Company-owned Ruth s Chris Steak House is targeted to be opened in Denver, CO in 2013.

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 June 24, 2012 and June 26, 2011 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 25, 2011.

The Company operates on a 52 or 53-week fiscal year ending on the last Sunday in December. The fiscal quarters ended June 24, 2012 and June 26, 2011 each contained 13 weeks and are referred to herein as the second quarter of fiscal year 2012 and the second quarter of fiscal year 2011, respectively. Fiscal year 2012 is a 53-week year and fiscal year 2011 was a 52-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 certain closed locations (see Note 9) have been reclassified to the discontinued operations line of the condensed consolidated statements of income. 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 require adoption at 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 allow the holder to redeem the Preferred Stock for cash, and for which redemption was not solely within the control of the Company.

**Table of Contents**

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 shares, 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):

	June 24, 2012	December 25, 2011
<b>Senior Credit Facility:</b>		
Revolving credit facility	\$ 71,000	\$ 22,000
Less current maturities		
	\$ 71,000	\$ 22,000

As of June 24, 2012, the Company had an aggregate of \$71 million of outstanding indebtedness under its senior credit facility at a weighted average interest rate of 3.01% with approximately \$24.8 million of borrowings available, net of outstanding letters of credit of approximately \$4.2 million. The 3.01% weighted average interest rate includes a 2.75% interest rate on outstanding indebtedness, plus fees on the Company's unused borrowing capacity and outstanding letters of credit. As of June 24, 2012, the Company was in compliance with all the covenants under its credit facility.

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), reducing the overall facility from \$129.6 million to \$100.0 million and extending the maturity of the borrowings to February 14, 2017. The senior credit facility is available to be used for working capital and other general corporate purposes. 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 also:

decreases the interest rates applicable to borrowings based on the Company's actual leverage ratio, ranging (a) from 2.00% to 2.75% (from 3.25% to 5.00%) above the applicable LIBOR rate or (b) at the Company's option, from 1.00% to 1.75% (from 2.00% to 3.75%) above the applicable base rate;

## Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

reduces the commitment fees charged to any undrawn availability under the revolving loan facility, with such commitment fees based on the Company's actual leverage ratio;

increases the Company's ability to incur capital leases and other general liens, in both cases, to \$10.0 million from \$2.5 million;

---

**Table of Contents**

reduces the minimum fixed charge coverage ratio to 1.25:1.00 (from 1.35:1.00) and the maximum leverage ratio to 2.50:1.00 (from 3.75 to 1.00); and

increases the Company's ability to make capital expenditures to (a) an amount not to exceed 75% of EBITDA if its leverage ratio is equal to or greater than 1.50:1.00 or (b) an unlimited amount if its leverage ratio is less than 1.50:1.00.

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. Junior stock payments, which include both cash dividend payments and repurchases of common or preferred stock, are limited to \$100 million through the end of the agreement. As of June 24, 2012, approximately \$60.2 million of the junior stock payments limit had been used due to the repurchase of preferred stock from BRS. 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 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) 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 June 24, 2012 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.

During the second quarter of fiscal year 2012, 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.

**(5) Franchise Income**

The Company currently has 69 Ruth's Chris Steak House franchise locations, including 15 international locations. No franchise locations were sold or purchased during the second quarters of fiscal years 2012 or 2011. During the twenty-six weeks ended June 24, 2012, the Company opened its second franchise location in Dubai. Franchise income includes opening and development fees and income generated from existing franchise locations.

**(6) Stock-Based Employee Compensation**

Under the 2000 Stock Option Plan, there are 39,046 shares of common stock issuable upon exercise of currently outstanding options at June 24, 2012 and no future grants are able to be made. Under the 2005 Equity Incentive Plan, as amended, at June 24, 2012 there are 1,494,270 shares of common stock issuable upon exercise of currently outstanding options, 927,664 currently outstanding restricted stock awards and 601,524 shares available for future grants. Outstanding restricted stock is not included in common stock outstanding amounts. Total stock compensation expense recognized during the second quarters of fiscal years 2012 and 2011 was \$0.6 million and \$0.5 million, respectively. Total stock compensation expense recognized for the twenty-six weeks of June 24, 2012 and June 26, 2011 was \$1.0 million and \$1.2 million, respectively.

**Table of Contents****(7) Restructuring**

The Company had no accrued restructuring liability as of either June 24, 2012 or December 25, 2011.

The Company accrued lease exit costs related to locations for which a lease was signed and the Company subsequently decided not to open a restaurant. The Company recorded a \$0.5 million reduction in accrued restructuring costs during the first twenty-six weeks of fiscal year 2011. The reduction in the liability was due to a change in the estimated lease exit costs for two leases in Scottsdale, Arizona.

**(8) Income Taxes**

During the second quarter of fiscal year 2012, we recognized income tax expense of \$2.4 million. During the second quarter of fiscal 2011 we recognized an income tax benefit of \$1.8 million. The income tax benefit recognized in the second quarter of fiscal year 2011 was attributable to the beneficial impact of a \$4.4 million reduction of the valuation allowance on certain state deferred tax assets which more than offset the income tax expense associated with pre-tax income.

A reconciliation of the U.S. statutory rate to the effective rate for each period is as follows:

	13 Weeks Ended		26 Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Income tax expense (benefit) at statutory rates	35.0%	35.0%	35.0%	35.0%
Increase (decrease) in income taxes resulting from:				
State income taxes, net of federal benefit	4.5%	5.9%	4.5%	5.8%
Stock compensation expense (benefit)	0.4%	0.6%	1.2%	0.5%
Employment tax credits	(9.7%)	(9.9%)	(9.5%)	(8.7%)
Decrease in valuation allowance	0.0%	(59.7%)	0.0%	(26.1%)
Other	(1.1%)	3.3%	(1.8%)	(0.4%)
Effective tax rate	29.1%	(24.8%)	29.4%	6.1%

The decrease in the valuation allowance recorded in the second quarter of fiscal year 2011 pertains to certain state deferred tax assets, primarily state net operating loss carryforwards. Previously, the Company had recorded a valuation allowance equal to these state deferred tax assets because the Company did not expect to realize the benefit of these state tax loss carryforwards. The Company completed a revision of its corporate structure in the second quarter of fiscal year 2011 which makes it probable that these state tax loss carryforwards will be used in the future. Therefore the valuation allowance was reduced to zero.

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 and state income tax examinations for years before 2007.

**(9) Discontinued Operations**

During the third quarter of fiscal year 2007, the Company was notified that the replacement tenant in the Manhattan-UN, New York, location was placed in default by the landlord and as a result, the Company resumed lease payments with respect to this property during the third quarter of fiscal year 2008. Payments will range from \$0.1 million to \$0.2 million in the aggregate per fiscal quarter 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 June 24, 2012, the recorded liability related to this property was \$1.0 million. The Company accounted 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 whereby such costs are incurred. All of the losses incurred are included in discontinued operations in the accompanying condensed consolidated statements of income (loss).

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





**Table of Contents**

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 for the twenty-six weeks ended June 26, 2011 included a \$0.4 million benefit for a change in estimate of lease exit costs related to the Manhattan UN, New York lease.

Discontinued operations consist of the following (in thousands):

	13 Weeks Ended		26 Weeks Ending	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Revenues	\$ 0	\$ 1,238	\$ 0	\$ 2,357
Loss (income) before income tax	\$ 12	\$ (99)	\$ 37	\$ (522)
Loss (income) from discontinued operations, net of income tax benefit (expense)	\$ 9	\$ (70)	\$ 26	\$ (397)

**(10) 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 twenty-six weeks ended June 24, 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 second quarters of fiscal years 2012 and 2011 excludes stock options and restricted shares of 669,153 and 973,794, respectively, which were outstanding during the period but were anti-dilutive. The weighted average exercise prices of the anti-dilutive stock options for second quarters of fiscal years 2012 and 2011 were \$12.89 and \$10.95 per share, respectively.

Diluted earnings per share for the twenty-six weeks of fiscal year 2012 and 2011 excludes stock options and restricted shares of 1,591,788 and 1,515,348, respectively, which were outstanding during the period but were anti-dilutive. Diluted earnings per share for the twenty-six weeks ended June 24, 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 twenty-six weeks of fiscal year 2012 and 2011 were \$12.63 and \$8.46 per share, respectively.

**Table of Contents**

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

	13 Weeks Ended		26 Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Income from continuing operations	\$ 5,841	\$ 9,136	\$ 11,953	\$ 15,741
Loss (income) from discontinued operations, net of income tax benefit (expense)	9	(70)	26	(397)
Net income	\$ 5,832	\$ 9,206	\$ 11,927	\$ 16,138
Preferred stock dividends	0	623	514	1,247
Accretion of preferred stock redemption value	0	88	73	176
Excess of redemption value over carrying value of preferred stock redeemed	0	0	35,776	0
Undistributed net income (loss)	\$ 5,832	\$ 8,495	\$ (24,436)	\$ 14,715
Undistributed net income allocated to preferred shareholders	0	1,715	0	2,974
Net income (loss) available to common shareholders	\$ 5,832	\$ 6,780	\$ (24,436)	\$ 11,741
Shares:				
Weighted average number of common shares outstanding basic	34,304,948	34,075,604	34,237,788	34,037,818
Basic earnings per common share:				
Continuing operations	\$ 0.17	\$ 0.20	\$ (0.71)	\$ 0.34
Discontinued operations	0	0	0	0.01
Basic earnings per common share	\$ 0.17	\$ 0.20	\$ (0.71)	\$ 0.35

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

	13 Weeks Ended		26 Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Income from continuing operations	\$ 5,841	\$ 9,136	\$ 11,953	\$ 15,741
Loss (income) from discontinued operations, net of income tax benefit (expense)	9	(70)	26	(397)
Net income	\$ 5,832	\$ 9,206	\$ 11,927	\$ 16,138
Preferred stock dividends	0	623	514	1,247
Accretion of preferred stock redemption value	0	88	73	176
Excess of redemption value over carrying value of preferred stock redeemed	0	0	35,776	0
Net income (loss) applicable to preferred and common shareholders	\$ 5,832	\$ 8,495	\$ (24,436)	\$ 14,715
Shares:				
Weighted average number of common shares outstanding basic	34,304,948	34,075,604	34,237,788	34,037,818

Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

Dilutive shares	828,689	536,913	0	538,342
Dilutive convertible preferred stock	0	8,620,690	0	8,620,690
Weighted-average number of common shares outstanding diluted	35,133,637	43,233,207	34,237,788	43,196,850
<b>Diluted earnings per common share:</b>				
Continuing operations	\$ 0.17	\$ 0.20	\$ (0.71)	\$ 0.33
Discontinued operations	0	0	0	0.01
Diluted earnings per common share	\$ 0.17	\$ 0.20	\$ (0.71)	\$ 0.34

**Table of Contents**

**(11) Commitments and Contingencies**

The Company is subject to various claims, legal actions and other matters arising in the normal course of business. Management does not expect disposition of these 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 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 are subject to review and audit by the applicable governmental authorities which could result in liability for additional assessments. In addition, the Company is subject to unclaimed or abandoned property (escheat) laws which require the Company to turn over to certain state government authorities the property of others held by us that has been unclaimed for a specified period of time. The Company is subject to audit by individual U.S. states with regard to escheatment practices. The legislation and regulations related to tax and unclaimed property matters tend to be complex and subject to varying interpretations by both government authorities and taxpayers. Although management believes that its tax positions are reasonable, the Company has recorded accrued liabilities aggregating \$4.0 million in recognition that various taxing authorities may challenge certain of the positions the Company has taken, which may also potentially result in additional liabilities for taxes and interest in excess of accrued liabilities. These accrued liabilities are reviewed periodically and are adjusted as events occur that affect the estimates, such as the availability of new information, the lapsing of applicable statutes of limitations, the conclusion of tax audits, the measurement of additional estimated liability based on current calculations, 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 the Company's results of operations and cash flows in future periods.

In February 2012, the Company entered into a lease for a new Ruth's Chris Steak House restaurant in Cincinnati, Ohio. The restaurant is projected to open in November 2012.

In May 2012, the Company entered into a lease to relocate the Ruth's Chris Steak House restaurant in Houston, Texas from an owned to a leased facility. The relocated restaurant is scheduled to open in early 2013. Based on a recent appraisal of the owned facility coupled with the expected positive cash flows, we concluded that the recognition of an impairment loss was not warranted. Management will continue to assess the recoverability of the financial statement carrying value of the owned facility and the Company may be required to recognize a loss if the expected selling price changes and/or when the property is offered for sale or sold.

In June 2012, the Company entered into a lease for a new Ruth's Chris Steak House restaurant in Denver, Colorado. The restaurant is projected to open in early 2013.

---

**Table of Contents**

**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, will likely result, or other similar words and phrases. Similarly, 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 all other known 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 25, 2011, 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 June 24, 2012, there were 133 Ruth's Chris Steak House restaurants, of which 63 were Company-owned, 69 were franchisee-owned, and one location was operating under a management agreement. The franchisee-owned restaurants include fifteen international franchisee-owned restaurants in Aruba, Canada, China (Hong Kong), Mexico, Japan, Taiwan, and the United Arab Emirates. One new Ruth's Chris Steak House franchise location opened during the twenty-six weeks ended June 24, 2012, a second franchise restaurant located in Dubai which opened in April 2012. A new Ruth's Chris Steak House located at Harrah's casino in Cherokee, NC opened in May 2012 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).

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

There were no changes to the number of Company-owned restaurants during the first or second quarters of fiscal year 2012. We expect to grow the number of Company-owned and franchisee owned restaurants in 2012 and 2013. We anticipate that Ruth's Chris Steak House franchisees will open two to four additional restaurants in 2012. A new Company-owned Ruth's Chris Steak House is targeted to be opened in Cincinnati, OH in November 2012 and a new Company-owned Ruth's Chris Steak House is targeted to be opened in Denver, CO in 2013.

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 25, 2011 provides additional information about our business, operations and financial condition.

**Table of Contents****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.

	13 Weeks Ended		26 Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
<b>Revenues:</b>				
Restaurant sales	94.0%	94.5%	95.2%	95.5%
Franchise income	3.3%	3.1%	3.3%	3.1%
Other operating income	2.7%	2.4%	1.5%	1.4%
<b>Total revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Costs and expenses:</b>				
Food and beverage costs (percentage of restaurant sales)	32.2%	30.5%	32.1%	30.6%
Restaurant operating expenses (percentage of restaurant sales)	51.1%	51.7%	49.9%	50.4%
Marketing and advertising	2.5%	3.4%	2.1%	3.2%
General and administrative costs	6.4%	5.8%	6.6%	5.9%
Depreciation and amortization expenses	3.7%	4.0%	3.7%	3.9%
Pre-opening costs	0.1%	0	0.1%	0
Restructuring benefit	0	0	0	(0.3%)
<b>Total Costs and expenses</b>	<b>96.0%</b>	<b>95.4%</b>	<b>94.5%</b>	<b>93.7%</b>
<b>Operating income</b>	<b>9.1%</b>	<b>9.0%</b>	<b>9.5%</b>	<b>9.9%</b>
<b>Other expense:</b>				
Interest expense, net	(0.6%)	(0.8%)	(0.5%)	(0.8%)
Debt issuance costs written-off	0	0	(0.4%)	0
Other	0	(0.2%)	0	(0.2%)
<b>Income from continuing operations before income tax expense</b>	<b>8.4%</b>	<b>8.0%</b>	<b>8.5%</b>	<b>8.8%</b>
<b>Income tax expense (benefit)</b>	<b>2.4%</b>	<b>(2.0%)</b>	<b>2.5%</b>	<b>0.5%</b>
<b>Income from continuing operations</b>	<b>6.0%</b>	<b>10.0%</b>	<b>6.0%</b>	<b>8.3%</b>
<b>Loss (income) from discontinued operations, net of income tax benefit (expense)</b>	<b>0</b>	<b>(0.1%)</b>	<b>0</b>	<b>(0.2%)</b>
<b>Net income</b>	<b>6.0%</b>	<b>10.1%</b>	<b>6.0%</b>	<b>8.5%</b>
<b>Preferred stock dividends</b>	<b>0</b>	<b>0.7%</b>	<b>0.3%</b>	<b>0.7%</b>
<b>Accretion of preferred stock redemption value</b>	<b>0</b>	<b>0.1%</b>	<b>0</b>	<b>0.1%</b>
<b>Excess of redemption value over carrying value of preferred shares redeemed</b>	<b>0</b>	<b>0</b>	<b>18.0%</b>	<b>0</b>
<b>Net income (loss) applicable to preferred and common shareholders</b>	<b>6.0%</b>	<b>9.3%</b>	<b>(12.3%)</b>	<b>7.7%</b>

**Second Quarter Ended June 24, 2012 (13 Weeks) Compared to Second Quarter Ended June 26, 2011 (13 Weeks)**

*Overview.* Second quarter fiscal year 2012 operating income increased from the second quarter fiscal year 2011 level by \$0.6 million to \$8.9 million. Second quarter fiscal year 2012 operating income was favorably impacted by a \$4.9 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. During the second quarter of fiscal year 2011 we

## Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

recognized a \$4.0 million income tax benefit which was attributable to the reduction of a valuation allowance. Net income for the second quarter of fiscal year 2012 decreased by \$3.4 million to \$5.8 million as compared to the second quarter of fiscal year 2011 primarily due to the income tax benefit.



---

**Table of Contents**

*Restaurant Sales.* Restaurant sales increased \$4.9 million, or 5.6%, to \$91.8 million in the second quarter of fiscal year 2012 from the second quarter of fiscal year 2011. Company-owned comparable restaurant sales for Ruth's Chris Steak House increased 6.0%, which consisted of an entrée increase of 3.8% and an average check increase of 2.2%. Company-owned comparable restaurant sales at Mitchell's Fish Market increased 2.3%, which consisted of an entrée increase of 3.2% and an average check decrease of 0.9%.

*Franchise Income.* Franchise income increased \$0.3 million, or 12.6%, to \$3.2 million in the second quarter of fiscal year 2012 from the second quarter of fiscal year 2011. The increase was driven by one new location which opened in 2012, two locations which opened in the third and fourth quarters of fiscal year 2011 and an increase in comparable franchise-owned restaurant sales of 4.4%.

*Other Operating Income.* Other operating income increased \$0.5 million, or 20.6%, to \$2.7 million in the second quarter of fiscal year 2012 from the second quarter of fiscal year 2011. The increase was primarily due to higher gift card breakage income in the second quarter of fiscal year 2012.

*Food and Beverage Costs.* Food and beverage costs increased \$2.9 million, or 11.2%, to \$29.5 million in the second quarter of fiscal year 2012 from the second quarter of fiscal year 2011. As a percentage of restaurant sales, food and beverage costs increased to 32.2% in the second quarter of fiscal year 2012 from 30.5% in the second quarter of fiscal year 2011. This increase in food and beverage costs as a percentage of restaurant sales was primarily due to unfavorable beef prices.

*Restaurant Operating Expenses.* Restaurant operating expenses increased \$1.9 million, or 4.4%, to \$46.9 million in the second quarter of fiscal year 2012 from the second quarter of fiscal year 2011. Restaurant operating expenses, as a percentage of restaurant sales, decreased to 51.1% in the second quarter of fiscal year 2012 from 51.7% in the second quarter of fiscal year 2011 as leveraging higher comparable restaurant sales offset higher health insurance costs.

*Marketing and Advertising.* Marketing and advertising expenses decreased \$0.8 million, or 23.6%, to \$2.4 million in the second quarter of fiscal year 2012 from the second quarter of fiscal year 2011. As a percentage of total revenues, marketing and advertising decreased to 2.5% in the second quarter of fiscal year 2012 from 3.4% in the second quarter of fiscal year 2011. The decrease in marketing and advertising expenses in the second quarter of fiscal 2012 was primarily due to a shift in the timing of advertising campaigns.

*General and Administrative.* General and administrative expenses increased \$0.8 million to \$6.2 million in the second quarter of fiscal year 2012 from the second quarter of fiscal year 2011 primarily due to increases in personnel costs.

*Depreciation and Amortization Expenses.* Depreciation and amortization expense was \$3.6 million in the second quarter of fiscal year 2012, which was relatively flat compared to the second quarter of fiscal year 2011.

*Interest Expense.* Interest expense decreased \$0.1 million, or 19.1%, to \$0.6 million in the second quarter of fiscal year 2012 from the second quarter of fiscal year 2011. The decrease in expense was due to lower interest rates in the second quarter of fiscal year 2012, which were partially offset by the impact of a higher average debt balance. The lower interest rates were largely attributable to more favorable terms under the Amended and Restated Credit Agreement.

*Income Tax Expense.* During the second quarter of fiscal year 2012, we recognized income tax expense of \$2.4 million. During the second quarter of fiscal 2011 we recognized an income tax benefit of \$1.8 million. The income tax benefit recognized in the second quarter of fiscal year 2011 was attributable to the beneficial impact of a \$4.0 million reduction of the valuation allowance on certain state deferred tax assets which more than offset the income tax expense associated with pre-tax income.

*Income from Continuing Operations.* Income from continuing operations decreased \$3.3 million, or 36.1%, to \$5.8 million in the second quarter of fiscal year 2012 from the second quarter of fiscal year 2011.

*Net Income (Loss) Applicable to Preferred and Common Shareholders.* Net income applicable to preferred and common shareholders was \$5.8 million in the second quarter of fiscal year 2012 compared to \$8.5 million in the second quarter of fiscal year 2011. The decrease in the second quarter of fiscal year 2012 was primarily attributable to a \$4.0 million tax benefit recognized in the second quarter of fiscal year 2011 for the reduction of a valuation allowance.

*Twenty-six weeks ended June 24, 2012 compared to twenty-six weeks ended June 26, 2011*

## Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

*Overview.* The first twenty-six weeks of fiscal year 2012 operating income of \$18.9 million was relatively unchanged compared to the first twenty-six weeks of fiscal year 2011. The first twenty-six weeks of fiscal year 2012 operating income was positively impacted by a \$8.0 million increase in restaurant sales which was more than offset by higher 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. Net income for the first twenty-six weeks of fiscal year 2012 decreased by \$4.2 million to \$11.9 million as compared to the first twenty-six weeks of fiscal year 2011. During the first twenty-six weeks of fiscal year 2011, we recognized a \$0.5 million restructuring benefit and a \$0.4 million discontinued operations benefit. Also, income tax expense for the first twenty-six weeks of fiscal year 2011 was abnormally low due to a \$4.0 million reduction of a valuation allowance.

---

**Table of Contents**

Preferred stock requirements are deducted from net income to arrive at net income (loss) applicable to preferred and common shareholders. During the first twenty-six weeks of fiscal year 2012, we reported a \$24.4 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 fiscal quarter of 2012 to reflect the excess of the redemption value over the carrying value of the preferred shares redeemed.

*Restaurant Sales.* Restaurant sales increased \$8.0 million, or 4.4%, to \$189.1 million in the first twenty-six weeks of fiscal year 2012 from the first twenty-six weeks of fiscal year 2011. Company-owned comparable restaurant sales for Ruth's Chris Steak House increased 4.7%, which consisted of an entrée increase of 2.9% and an average check increase of 1.8%. Company-owned comparable restaurant sales at Mitchell's Fish Market increased 1.2%, which consisted of an entrée increase of 1.6% and an average check decrease of 0.5%.

*Franchise Income.* Franchise income increased \$0.8 million, or 12.8%, to \$6.7 million in the first twenty-six weeks of fiscal year 2012 from the first twenty-six weeks of fiscal year 2011. The increase was driven by one new location which opened during the first twenty-six weeks of fiscal year 2012, two locations which opened in the third and fourth quarters of fiscal year 2011 and an increase in comparable franchise-owned restaurant sales of 6.0%.

*Food and Beverage Costs.* Food and beverage costs increased \$5.3 million, or 9.4%, to \$60.7 million in the first twenty-six weeks of fiscal year 2012 from the first twenty-six weeks of fiscal year 2011. As a percentage of restaurant sales, food and beverage costs increased to 32.1% in the first twenty-six weeks of fiscal year 2012 from 30.6% in the first twenty-six weeks of fiscal year 2011. This increase in food and beverage costs as a percentage of restaurant sales was primarily due to unfavorable beef prices.

*Restaurant Operating Expenses.* Restaurant operating expenses increased \$3.1 million, or 3.4%, to \$94.4 million in the first twenty-six weeks of fiscal year 2012 from the first twenty-six weeks of fiscal year 2011. Restaurant operating expenses, as a percentage of restaurant sales, decreased to 49.9% in the first twenty-six weeks of fiscal year 2012 from 50.4% in the first twenty-six weeks of fiscal year 2011 as leveraging higher comparable restaurant sales offset higher health insurance costs.

*Marketing and Advertising.* Marketing and advertising expenses decreased \$1.9 million, or 31.8%, to \$4.2 million in the first twenty-six weeks of fiscal year 2012 from the first twenty-six weeks of fiscal year 2011. As a percentage of total revenues, marketing and advertising decreased to 2.1% in the first twenty-six weeks of fiscal year 2012 from 3.2% in the first twenty-six weeks of fiscal year 2011. The decrease in marketing and advertising expenses in the first twenty-six weeks of fiscal year 2012 was primarily due to a shift in the timing of advertising campaigns.

*General and Administrative.* General and administrative expenses increased \$1.9 million to \$13.1 million in the first twenty-six weeks of fiscal year 2012 from the first twenty-six weeks of fiscal year 2011 due to increases in legal fees and personnel costs.

*Depreciation and Amortization Expenses.* Depreciation and amortization expense was \$7.3 million in the first twenty-six weeks of fiscal year 2012, which was relatively flat compared to the first twenty-six weeks of fiscal 2011.

*Restructuring Benefit.* In the first twenty-six weeks of fiscal year 2011, a \$0.5 million restructuring benefit was recognized due to a change in the estimated lease exit costs for two leases in Scottsdale, Arizona. The change in estimate was a result of a favorable outcome on the litigation related to the lease commitments.

*Interest Expense.* Interest expense decreased \$0.5 million, or 31.2%, to \$1.1 million in the first twenty-six weeks of fiscal year 2012 from the first twenty-six weeks of fiscal year 2011. The decrease in expense was due to lower interest rates in the first twenty-six weeks of fiscal year 2012, which were partially offset by the impact of a higher average debt balance. The lower interest rates were largely attributable to more favorable terms under the Amended and Restated Credit Agreement.

*Debt Issuance Cost Write-off.* As a consequence of the February 2012 amendment to our senior credit agreement, \$807 thousand of previously deferred debt issuance costs were written off.

*Income Tax Expense.* Income tax expense during the first twenty-six weeks of fiscal year 2012, was \$5.0 million. During the first twenty-six weeks of fiscal year 2011 we recognized income tax expense of \$1.0 million. The income tax expense recognized in the first twenty-six weeks of fiscal year 2011 was partially offset by the beneficial impact of \$4.0 million reduction of the valuation allowance on certain state deferred tax assets which more than offset the income tax expense associated with pre-tax income.

*Income from Continuing Operations.* Income from continuing operations decreased \$3.7 million, or 24.1%, to \$12.0 million in the first twenty-six weeks of fiscal year 2012 from the first twenty-six weeks of fiscal year 2011.

## Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

*Discontinued Operations, net of Income Tax Benefit.* Income from discontinued operations, net of income tax benefit, was \$397 thousand in the first twenty-six weeks of fiscal year 2011. The income in the first twenty-six weeks of fiscal year 2011 was primarily due to a benefit for a change in estimate of lease exit costs related to the Manhattan UN, New York lease.

---

## **Table of Contents**

*Net Income (Loss) Applicable to Preferred and Common Shareholders.* Net income (loss) applicable to preferred and common shareholders was a loss of \$24.4 million in the first twenty-six weeks of fiscal year 2012 compared to \$14.7 million income in the first twenty-six weeks of fiscal year 2011. The loss in the first twenty-six weeks of fiscal year 2012 was attributable to the repurchase of all the outstanding Preferred Stock. We recorded a reduction of net income applicable to shareholders of \$35.8 million in the first twenty-six weeks of fiscal year to reflect the excess of the redemption value over the financial statement carrying value of the preferred shares redeemed.

## **Liquidity and Capital Resources**

### ***Overview***

Our principal sources of cash during the first twenty-six weeks of fiscal year 2012 were net cash provided by operating activities and borrowings from our \$100 million senior credit facility. Our principal use of cash during the first twenty-six weeks of fiscal year 2012 was for the repurchase of all of our issued and outstanding shares of Preferred Stock.

On February 14, 2012, we 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), reducing the overall facility from \$129.6 million to \$100.0 million and extending the maturity of the borrowings to February 14, 2017. The revolving credit facility is available to be used for working capital and other general corporate purposes. The Amended and Restated Credit Agreement now allows for loan advances plus outstanding letters of credit of up to \$100 million to be outstanding at any time that the conditions for borrowings are met. The Amended and Restated Credit Agreement revised the key financial covenants on terms more favorable to us. 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 our 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 us to maintain a minimum fixed charge coverage ratio of 1.25:1.00 and the maximum leverage ratio of 2.50:1.00. Junior stock payments, which include both cash dividend payments and repurchases of common or preferred stock, are limited to \$100 million through the end of the agreement. As of June 24, 2012, \$60.2 million of the junior stock payments limit had been used due to the repurchase of preferred stock from BRS. 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.

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 includes all accrued and unpaid dividends owed on the preferred stock, was funded using borrowings from our \$100 million senior credit facility. As of the date 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.

As of June 24, 2012, we had an aggregate of \$71 million of outstanding indebtedness under our senior credit facility at a weighted average interest rate of 3.01% with approximately \$24.8 million of borrowings available, net of outstanding letters of credit of approximately \$4.2 million. The 3.01% weighted average interest rate includes a 2.75% interest rate on outstanding indebtedness, plus fees on our unused borrowing capacity and outstanding letters of credit. As of June 24, 2012, we were in compliance with all the covenants under our credit facility. We expect that our principal uses of cash for the remainder of fiscal year 2012 will be for capital expenditures on existing and new restaurants and debt repayments on our senior credit facility. We anticipate capital expenditures for fiscal year 2012 will aggregate approximately \$10 million to \$12 million. We believe that our borrowing ability under our senior credit agreement coupled with our anticipated cash flow from operations should provide us with adequate liquidity in fiscal year 2012.

**Table of Contents****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):

	26 Weeks Ended	
	June 24, 2012	June 26, 2011
Net cash provided by (used in):		
Operating activities	\$ 17,346	\$ 14,463
Investing activities	(4,653)	(3,885)
Financing activities	(12,129)	(12,242)
Net increase (decrease) in cash and cash equivalents	\$ 564	\$ (1,664)

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 twenty-six weeks of both fiscal years 2012 and 2011 primarily because operating revenues have exceeded cash based expenses.

Net cash used in investing activities in both periods pertained primarily to restaurant remodel projects.

Financing activities used cash in both periods. During the first twenty-six 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 million of debt using cash provided by operations. During the first twenty-six weeks of fiscal 2011 we repaid \$11 million of debt outstanding under our senior credit facility.

**Off-Balance Sheet Arrangements**

As of June 24, 2012, 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 25, 2011 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 second quarter of fiscal year 2012.

**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 June 24, 2012, the Company had \$71 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 2012 of approximately \$0.7 million.

**Foreign Currency Risk**

## Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

Management 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.

## **Table of Contents**

### ***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. To the extent that the Company is unable to pass increased costs to its guests through price increases, the Company's results of operations would be adversely affected. The Ruth's Chris Steak House menu features a broad selection of high quality USDA Prime grade steaks and other premium offerings. USDA Prime comprises less than 3% of all beef sold in the U.S. The Company has purchase agreements for prime beef representing approximately 35% to 40% of our needs from July through August 2012. The Company currently does not use financial instruments to hedge its risk to market price fluctuations in other food product prices. 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 ranging from \$1.8 to \$2.0 million on pre-tax earnings for the balance of fiscal year 2012.

In the recent 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 June 24, 2012. 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 June 24, 2012 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 June 24, 2012, 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 Management'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**



## Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

There are no material changes to the Risk Factors included in the Company's Form 10-K for the fiscal year ended December 25, 2011. The impact of the 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.

**Table of Contents**

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.	Interactive Data Files
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

\*\* 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 Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

**Table of Contents**

**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: July 27, 2012