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

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 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

Ruth's Hospitality Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**72-1060618**
(State or other jurisdiction of incorporation or organization)	**(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.

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 November 1, 2013 was 35,601,374, which includes 625,945 shares of unvested restricted stock.

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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)

	September 29, 2013	**December 30, 2012**
Assets		
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
Liabilities and Shareholders' Equity		
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

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)

	13 Weeks Ended		39 Weeks Ended	
	September 29, 2013	September 23, 2012	September 29, 2013	September 23, 2012
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
Total revenues	88,582	84,334	297,758	281,710
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
Total costs and expenses	83,765	82,471	269,010	261,172
Operating income	4,817	1,863	28,748	20,538
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
Income from continuing operations before income tax expense	4,310	1,199	27,348	18,061
Income tax expense	1,370	320	7,788	5,296
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	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)

	Common Stock		Additional	Accumulated	Treasury Stock		Shareholders'
	Shares	Value	Paid-in Capital	Deficit	Shares	Value	Equity
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 plan net of shares withheld for tax effects	540	5	(1,819)	-	-	-	(1,814)
Excess tax benefit from stock based 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 value	-	-	(73)	-	-	-	(73)
Excess of redemption value over carrying value of Preferred Shares redeemed	-	-	(35,776)	-	-	-	(35,776)
Shares issued under stock compensation 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)

	39 Weeks Ended September 29, 2013	September 23, 2012
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

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 capitalized interest	$	1,061	$	1,462	
Income taxes	$	2,382	$	1,388	
Noncash investing and financing activities:					
Excess accrual-based acquisition of property and equipment	$	782	$	(410	)

See accompanying notes to condensed consolidated financial statements.

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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 29, 2013	**December 30, 2012**
Senior Credit Facility:		
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):

Declaration Date	Dividend per Share	Record Date	Total Amount	Payment Date
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 is 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):

	13 Weeks Ended		**39 Weeks Ended**	
	September 29, 2013	**September 23, 2012**	**September 29, 2013**	**September 23, 2012**
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 steakhouse restaurants				
Company-owned fish market restaurants	1,146	1,292	5,078	5,209
Franchise operations	3,498	3,256	10,809	9,955
Total segment profit	15,171	13,963	62,958	55,666
Unallocated operating income	161	(203)	3,383	1,487
Marketing and advertising expenses	(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
Interest expense, net	(415)	(680)	(1,346)	(1,759)
Debt issuance costs written off	0	0	0	(807)
Other income (expense)	(92)	16	(54)	89
Income from continuing operations before income tax expense	$4,310	$ 1,199	$27,348	$ 18,061
Capital expenditures:				
Company-owned steakhouse restaurants	$3,094	$ 2,445	$8,565	$ 6,708
Company-owned fish market restaurants	668	295	1,569	927
Corporate assets	848	449	1,511	657
Total capital expenditures	$4,610	$ 3,189	$11,645	$ 8,292

	September 29, 2013	December 30, 2012
Total assets:		
Company-owned steakhouse restaurants	$ 142,163	$ 143,573
Company-owned fish market restaurants	32,183	32,430
Franchise operations	1,545	1,920
Corporate assets - unallocated	15,759	17,962
Deferred income taxes - unallocated	31,677	35,472
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:

	39 Weeks Ended			
	September 29, 2013		September 23, 2012	
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):

	13 Weeks Ended		39 Weeks Ended	
	September 29, 2013	September 23, 2012	September 29, 2013	September 23, 2012
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.

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

	13 Weeks Ended		39 Weeks Ended	
	September 29, 2013	**September 23, 2012**	**September 29, 2013**	**September 23, 2012**
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