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

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **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)

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

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 x 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 x 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	x
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 x

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.

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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)

	June 24, 2012	December 25, 2011
Assets		
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
Total current assets	23,794	27,069
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
Total assets	$ 230,475	$ 240,220
Liabilities and Shareholders Equity		
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
Total current liabilities	54,630	66,319
Long-term debt	71,000	22,000
Deferred rent	23,120	23,037
Other liabilities	5,148	5,333
Total liabilities	153,898	116,689
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:		

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.

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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
Revenues:				
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
Total revenues	97,713	92,026	198,715	189,747
Costs and expenses:				
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)
Total costs and expenses	88,835	83,746	179,833	170,985
Operating income	8,878	8,280	18,882	18,762
Other expense:				
Interest expense, net	(598)	(739)	(1,079)	(1,569)
Debt issuance costs written-off	0	0	(807)	0
Other	(47)	(219)	(60)	(420)
Income from continuing operations before income tax expense	8,233	7,322	16,936	16,773
Income tax expense (benefit)	2,392	(1,814)	4,983	1,032
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 shares redeemed	0	0	35,776	0
Net income (loss) applicable to preferred and common shareholders	$ 5,832	$ 8,495	(24,436)	$ 14,715
Basic earnings (loss) per common share:				
Continuing operations	$ 0.17	$ 0.20	$ (0.71)	$ 0.34
Discontinued operations	0	0	0	0.01
Basic earnings (loss) per share	$ 0.17	$ 0.20	$ (0.71)	$ 0.35

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.

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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 Shares	Common Stock Value	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Value	Shareholders Equity
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.

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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
Cash flows from operating activities:		
Net income	$ 11,927	$ 16,138
Adjustments to reconcile net income to net cash provided by operating activities:		
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
Changes in operating assets and liabilities:		
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)
Net cash provided by operating activities	17,346	14,463
Cash flows from investing activities:		
Acquisition of property and equipment	(4,653)	(3,885)
Net cash used in investing activities	(4,653)	(3,885)
Cash flows from financing activities:		
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
Net cash used in financing activities	(12,129)	(12,242)
Net increase (decrease) in cash and cash equivalents	564	(1,664)
Cash and cash equivalents at beginning of period	3,925	5,018
Cash and cash equivalents at end of period	$ 4,489	$ 3,354

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.

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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 (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.

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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):

Senior Credit Facility:	**June 24, 2012**	**December 25, 2011**
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;

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;

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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.

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(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,	June 26,