



2008 ANNUAL REPORT



Dear Shareholders,

Business conditions were certainly very challenging in 2008. The macro economic environment, driven by increasing unemployment, record foreclosures, and tight credit markets have reset consumer discretionary spending levels, and have impacted our business in a very significant way. In response to these issues, we have focused our efforts on managing cost inputs that are within our control at both the corporate and restaurant level, reducing debt, and maximizing free cash flow. Specifically, we have reduced our corporate infrastructure and implemented various cost containment initiatives at the restaurant level. We also completed a sale leaseback transaction, which generated approximately \$17.0 million in net proceeds that were used to pay down our bank debt, and announced that we would not pursue new unit developments during 2009. Finally, we have amended our senior credit agreement to provide us additional financial flexibility, and will continue to focus on driving various top-line and margin improvement initiatives throughout 2009.

For the year ended December 28, 2008, total revenues grew 27.1% to \$405.8 million from \$319.2 million, while restaurant sales grew 28.5% to \$390.4 million from \$303.7 million. The increase was due primarily to an additional \$74.5 million contributed from the 22 Mitchell's restaurants which we acquired in February 2008. We also generated \$40.8 million from Ruth's Chris Steak House restaurants opened during 2007 and 2008, offset by a comparable sales decrease at Ruth's Chris Steak House of 10.3%. Based on the upscale steakhouse Knapp-Track Index, our comparable sales performance was relatively in line with our peers, and during the second half of 2008, we gained market share even as the overall category has contracted. The Company's net loss was \$53.9 million for 2008, including \$81.3 million in pre-tax loss on impairment and \$8.9 million in pre-tax restructuring costs, compared to net income of \$18.1 million for 2007.

During 2008, we opened five Ruth's Chris Steak House restaurants in Fresno, California; Forth Worth, Texas; New Orleans, Louisiana; Princeton, New Jersey; and South Barrington, Illinois. In the aggregate, these locations had a very successful year, exceeding the systems sales average by 20%. Our franchise partners opened seven Ruth's Chris Steak House restaurants during 2008 in Aruba; Myrtle Beach, South Carolina; Raleigh and Wilmington, North Carolina; Ridgeland, Mississippi; Savannah, Georgia; and Wilkes-Barre, Pennsylvania. The Ruth's Chris Steak House system ended 2008 with 66 corporate restaurants and 64 franchise restaurants.

Since assuming the role of President and Chief Executive Officer of the Company in August, we have bolstered our executive team through the appointment of industry veterans Kevin Toomy as Senior Vice President and Chief Operating Officer of Ruth's Chris Steak House and Sam Tancredi as Senior Vice President and Chief Operating Officer of Mitchell's Fish Market. We have also rationalized our corporate support center, which combined with other supply chain and restaurants level initiatives, have resulted in approximately \$3.5 million in savings during 2008. We expect to leverage many costs across both brands, capturing efficiencies by combining purchasing power, as well as corporate functions in the areas of marketing, human resources, public relations, and accounting. We believe all of these efforts will generate approximately \$10.0 to \$12.0 million in savings for 2009.

We are in the midst of broadening Ruth's Chris Steak House's demographic reach by reemphasizing our previous position as a classic steakhouse with great service and sizzling steaks that, for years, was priced below its nearest competitors. Our current value proposition includes price certainty and bundled menus that are designed to make us more relevant to today's value-conscious consumer and drive guest traffic. At Mitchell's, we are creating other bundled offers that are high value with less emphasis on discounted promotions, and augmenting them with early-week specials that will be rolled out in the coming months.

While there is still clearly a great deal of work ahead of us, we are at the same time proud of what we have accomplished so far. I am thankful to be surrounded by an incredible team in the field both at Ruth's Chris Steak House and Mitchell's, as well as by a devoted group in our support center. I also appreciate the ongoing dedication of our Ruth's Chris Steak House franchisees which are truly the heart and soul of the Ruth's Chris brand. All of these groups share my passion and are similarly dedicated to making the Company the financial success that our shareholders deserve.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. O'Donnell', with a stylized, flowing script.

Michael P. O'Donnell
President and Chief Executive Officer
Ruth's Hospitality Group, Inc.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 28, 2008**

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

(State or Other Jurisdiction of
Incorporation or Organization)

500 International Parkway, Suite 100
Heathrow, Florida

(Address of Principal Executive Offices)

72-1060618

(I.R.S. Employer
Identification No.)

32746

(Zip Code)

Registrant's Telephone Number, Including Area Code: (407) 333-7440

Securities Registered Pursuant to Section 12(b) of the Act:

Common stock, par value \$0.01 per share

(Title of class)

The NASDAQ Stock Market LLC

(Name of exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

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

As of June 29, 2008, the last day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock, par value \$0.01 per share, held by non-affiliates of the registrant was approximately \$100,521,019.

The number of shares outstanding of the registrant's common stock as of March 13, 2009, was 24,107,986.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of Form 10-K, to the extent not set forth herein, is incorporated herein by reference to the registrant's Proxy Statement for the 2009 Annual Meeting of Shareholders to be held on or around May 21, 2009, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the registrant's fiscal year.

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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K and the materials incorporated by reference herein contain “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, statements herein that describe the Company’s objectives, plans or goals also are forward-looking statements. Actual results could differ materially from those projected, implied or anticipated by the Company’s forward-looking statements. Some of the factors that could cause actual results to differ include: changes in economic conditions and general trends; the loss of key management personnel; the effect of market volatility on the Company’s stock price; the Company’s ability to integrate the restaurants acquired in the Mitchell’s acquisition; the Company’s ability to realize the anticipated benefits of acquired restaurants; 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; the restrictions imposed by the Company’s credit agreement; failure of internal controls over financial reporting; and the portion of the Company’s voting power controlled by one principal stockholder. For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, please see Item 1A. “Risk Factors” in this Annual Report on Form 10-K as well as the Company’s other filings with the Securities and Exchange Commission (the “SEC”), all of which are available on the SEC’s website at 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 Annual Report on Form 10-K to reflect events or circumstances after the date hereof. Stockholders and other security holders or buyers of the Company’s securities or its other creditors should not assume that material events subsequent to the date of this report have not occurred.

Unless the context otherwise indicates, all references in this report to the “Company,” “Ruth’s Chris,” “we,” “us” or “our” or similar words are to Ruth’s Hospitality Group, Inc., and its wholly owned subsidiaries. Ruth’s Hospitality Group, Inc. is a Delaware corporation, and was originally founded in 1965.

PART I

Item 1. BUSINESS

Introduction

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 December 28, 2008, there were 130 Ruth's Chris Steak House restaurants, of which 66 were company-owned and 64 were franchisee-owned, including thirteen international franchisee-owned restaurants in Mexico, China (Hong Kong), Taiwan, Japan, Canada and Aruba. The Company also operates 19 Mitchell's Fish Markets and three Cameron's Steakhouse restaurants, located primarily in the mid-west and Florida.

We have a 52/53 week fiscal year ending the last Sunday in December. Our 2008 fiscal year ended December 28, 2008, our 2007 fiscal year ended December 30, 2007, and our 2006 fiscal year ended December 31, 2006. Fiscal years 2008 and 2007 each had 52 weeks, fiscal year 2006 had 53 weeks.

The following description of our business should be read in conjunction with the information in our Management's Discussion and Analysis of Results of Operations of Financial Condition incorporated by reference in Item 7 of this Form 10-K and our consolidated financial statements incorporated by reference in Item 8 of this Form 10-K.

Background

The Company was founded in 1965 when Ruth Fertel mortgaged her home for \$22,000 to purchase the "Chris Steak House," a 60-seat restaurant located near the New Orleans Fair Grounds racetrack. After a fire destroyed the original restaurant, Ruth relocated her restaurant to a new 160-seat facility nearby. As the terms of the original purchase prevented the use of the "Chris Steak House" name at a new location, Ruth added her name to that of the original restaurant—thus creating the "Ruth's Chris Steak House" brand.

The Company's expansion began in 1972, when Ruth opened a second restaurant in Metairie, a suburb of New Orleans. In 1976, the first franchisee-owned Ruth's Chris Steak House opened in Baton Rouge, Louisiana. In July 1999, affiliates of Madison Dearborn Partners LLC ("Madison Dearborn") and certain unaffiliated investors acquired all of the Company's outstanding capital stock. On May 19, 2005, the Company reincorporated in Delaware by merging Ruth's Chris Steak House, Inc., a Louisiana corporation, into a newly formed Delaware subsidiary. In August 2005, the Company and certain selling shareholders completed an initial public offering of the Company's common stock, which is currently listed on the Nasdaq Global Select Market.

On February 19, 2008, the Company acquired all of the operating assets and intellectual property of Columbus, Ohio based Mitchell's Fish Market, which operates 19 restaurants operating under the names Mitchell's Fish Market and Columbus Fish Market, and Cameron's Steakhouse, which operates three restaurants operating under the names Cameron's Steakhouse and Mitchell's Steakhouse from Cameron Mitchell Restaurants, LLC (CMR).

In connection with the acquisition, the Company changed its name from Ruth's Chris Steak House, Inc. to Ruth's Hospitality Group, Inc. The name change was made in order for the Company to have a name that would better represent the business after the acquisition, as the Company began operating some restaurants that are not considered steak houses. The name change was approved by our stockholders at our 2008 annual meeting and became effective on May 23, 2008.

Restaurant Concepts

Ruth's Chris Steak House

With 130 locations, Ruth's Chris Steak House is the largest upscale steakhouse company in the world. The menu features a broad selection of high-quality USDA Prime grade steaks and other premium offerings served in Ruth's Chris' signature fashion—"sizzling" and topped with seasoned butter—complemented by other traditional menu items inspired by its New Orleans heritage. Ruth's Chris complements its distinctive food offerings with an award-winning core wine list, featuring bottles priced between \$24 and \$2,000 and many selections offered by the glass.

The Ruth's Chris brand reflects its more than 40-year commitment to the core values instilled by its founder, Ruth Fertel, of caring for guests by delivering the highest quality food, beverages and genuine hospitality in a warm and inviting atmosphere.

Mitchell's Fish Market

Acquired by the Company in 2008, Mitchell's Fish Market is a 19 location upscale seafood concept whose success has been built on a reputation for excellent guest service and a superior menu featuring the freshest seafood flown in daily from around the world. Mitchell's Fish Market is open for both lunch and dinner, offering a menu of more than 80 seafood choices that changes frequently based on availability and season. Popular menu items include the Mitchell's Fish Market 12 Species of Fresh Catch, top quality fish selections that are hand filleted in a temperature controlled seafood cutting room.

Mitchell's/Cameron's Steakhouse

Mitchell's/Cameron's Steakhouse is a modern American steakhouse concept offering hand selected prime steaks aged to perfection, along with a selection of true Japanese Kobe beef. Complementing its selection of prime steaks and the freshest seafood are house-made side dishes and a wine list featuring 200 of the world's finest labels. Mitchell's Steakhouse has two locations in the Columbus, Ohio area. Cameron's Steakhouse is located in Birmingham, MI.

2008 Developments

- On February 19, 2008, the Company acquired all of the operating assets and intellectual property of Columbus, Ohio based Mitchell's Fish Market for \$92.0 million, which operates 19 restaurants operating under the names Mitchell's Fish Market and Columbus Fish Market, and Cameron's Steakhouse, which operates three restaurants operating under the names Cameron's Steakhouse and Mitchell's Steakhouse from Cameron Mitchell Restaurants, LLC (CMR).
- On April 23, 2008, the Company announced that Craig S. Miller had departed from his roles as the Company's Chairman, Chief Executive Officer and President. In August 2008 the Company announced the appointment of Michael P. O'Donnell as President and Chief Executive Officer.
- On September 17, 2008, the Company completed its sale of five restaurant properties to Sovereign Investment Company for an aggregate purchase price of \$17.6 million. Concurrent with the sales transaction, the Company entered into agreements to lease the properties back for initial terms of between 12 and 20 years, along with two five-year options. The properties are located in Metairie, LA; Palm Beach and Sarasota, FL; Columbus, OH; and Palm Desert, CA. Proceeds from the transaction were used to reduce the Company's outstanding debt balance on its revolving credit facility.
- On October 30, 2008, the Company reported that it had completed a corporate reorganization to better support the new strategy of little or moderate company-owned restaurant growth. \$2.2 million in pre-tax personnel related charges were incurred in connection with the corporate restructuring.

- Upon completing the fourth fiscal quarter of 2008, the Company recorded impairment and restructuring charges as follows: \$32.1 million in FAS 144 charges for existing restaurants and corporate facilities property and equipment; \$49.2 million in FAS 142 impairment charges of goodwill, franchise rights, and trademarks; and \$6.7 million in contingent lease liability charges and write-offs of capitalized development costs on 2009 scheduled company-owned restaurant development. Additionally, the Company recorded a net of tax charge of \$0.5 million for discontinued operations.
- During the fourth fiscal Quarter of 2008, the Company, due to declining comparable restaurant sales, anticipated a breach of its maximum Consolidated Leverage Ratio, contained in its senior credit facility, as of December 28, 2008. As a result, the Company began negotiations with its bank group, and on February 26, 2009, the Company announced that it had signed an amendment on its credit agreement to provide the Company with requested covenant relief and to make other changes to the existing agreement. The amendment reduces the revolving loan commitment from \$250.0 million to \$175.0 million, with additional reductions scheduled beginning December 31, 2009 through the final maturity date of February 19, 2013. The amendment decreases the Company's Fixed Charge Coverage Ratio and increases its maximum Leverage Ratio, in each case beginning with the fourth quarter of 2008 and continuing through the second quarter of 2010, after which these two covenants reset to their original levels. The amendment increases the interest rates applicable to borrowings based on the Company's actual leverage ratio, ranging from 2.50% to 4.25% above the applicable LIBOR rate or, at the Company's option, from 1.25% to 3.00% above the applicable base rate.

Our Strengths

The Company believes that the key strengths of its business model are the following:

Premier Upscale Steakhouse Brand

The Company believes that Ruth's Chris is one of the strongest brands in the upscale steakhouse segment of the restaurant industry. The Company's Ruth's Chris restaurants continue to receive numerous awards at the local and national level. Many continue to be ranked best steakhouse by local publications in the areas in which they operate. In addition, the Company has been recognized for its award-winning core wine list, for which a majority of its company-owned restaurants received "Awards of Excellence" from *Wine Spectator* magazine in 2008.

Premier Upscale-Casual Seafood Concept

Mitchell's Fish Market is an award-winning, upscale, yet comfortable, seafood restaurant and bar recognized for its high quality food, contemporary dining atmosphere, and excellent service. Mitchell's Fish Market is committed to fresh seafood and all of its seafood is flown in daily. Year after year, Mitchell's Fish Market continues to earn "best seafood restaurant" awards from guests and publications as well as recognition for its high quality food, warm and inviting atmosphere and excellent service.

Appealing Dining Experience

At our Ruth's Chris restaurants, the Company seeks to exceed guests' expectations by offering high-quality food with courteous, friendly service in the finest tradition of Southern hospitality. The Company's entire restaurant staff is dedicated to ensuring that guests enjoy a superior dining experience. The Company's team-based approach to table service is designed to enhance the frequency of guest contact and speed of service without intruding on the guest experience.

Mitchell's upscale casual restaurants, with their sophisticated yet comfortable atmosphere and emphasis on fresh seafood, are a wonderful complement to Ruth's Chris restaurants. The Company believes that Mitchell's

Fish Market shares many characteristics of the Ruth's Chris model, including solid unit economics, broad guest appeal, a focus on banquet sales, and a robust bar business.

Solid Unit Economics

The Company believes that it has successfully operated restaurants in a wide range of markets and achieved attractive rates of return on invested capital. The strength of the Ruth's Chris brand has allowed the Company to generate high unit volumes within one to two years of opening in new markets. The Company's 16 newest company-owned Ruth's Chris restaurants that opened in 2006, 2007 and 2008 generated average unit volumes of approximately \$4.7 million (on an annualized basis of 52 weeks) in fiscal 2008, compared to average unit volumes of approximately \$5.0 million in fiscal 2008 for those restaurants, excluding acquired locations, in its existing Ruth's Chris company-owned restaurant base which have been open for at least fifteen months.

Our Strategy

The Company believes there continues to be opportunities to grow its business, strengthen its competitive position and enhance its brand through the continued implementation of the following strategies:

Improve Profitability

The Company intends to improve profitability by continuing to implement key operating initiatives. These operating initiatives include:

- ensuring consistency of food quality through more streamlined preparation and presentation;
- increasing emphasis on wine sales by providing wine education for employees;
- enhancing brand awareness through increased marketing at the national, regional and local levels;
- enhancing and/or developing innovative marketing programs, such as its websites, www.ruthschris.com, www.mitchellsfishmarket.com, www.mitchellssteakhouse.com and www.camerons-steakhouse.com, Ruth's Chris and Mitchell's gift cards and a recognition program for frequent guests; and
- improving guest traffic through increased focus on table utilization and efficiency, including enhancement of its online reservation and table management system.
- Implementing various cost control initiatives in the Company's supply chain, its restaurant level costs and the corporate support center which are expected to generate \$10.0 to \$12.0 million in savings for 2009.

Expand Relationships with New and Existing Franchisees

The Company intends to grow its franchising business by developing relationships with a limited number of new franchisees and by expanding the rights of existing franchisees to open new restaurants. The Company believes that building relationships with quality franchisees is a cost-effective way to strengthen the Ruth's Chris brand and generate additional revenues. Franchisees opened 36 Ruth's Chris restaurants from 1999 to the end of 2008 and the Company granted 11 new franchisee rights during that period. In fiscal 2008, existing and new franchisees opened four and three restaurants, respectively. During fiscal 2008, the Company also entered into two development agreements with new franchisees. Overall, there are 17 outstanding franchise locations to be built as of December 28, 2008. The Company intends to continue to focus on providing operational guidance to its franchisees, including the sharing of "best practices" from company-owned Ruth's Chris restaurants.

The Company currently is evaluating plans to franchise Mitchell's Fish Market.

Menu

Ruth's Chris Steak House

The Ruth's Chris menu features a broad selection of high-quality USDA Prime grade steaks and other premium offerings served in Ruth's Chris signature fashion—"sizzling" and topped with seasoned

butter—complemented by other traditional menu items inspired by its New Orleans heritage. USDA Prime is a meat grade label, which refers to the evenly distributed marbling that enhances the flavor of the steak. The Ruth's Chris menu also includes premium quality lamb chops, veal chops, fish, chicken and lobster. Dinner entrees are generally priced from \$19.95 to \$45.95, with guest checks averaging approximately \$74.00. While Ruth's Chris is predominantly open dinner hours only, five select locations open for lunch five days a week and an additional eleven locations open for lunch one day per week. The lunch menu offers entrees generally ranging in price from \$12.95 to \$33.95, with guest checks averaging approximately \$42.00. The Ruth's Chris core menu is similar at all of its restaurants. The Company occasionally introduces new items such as specials and prix-fixe offerings that allow it to give its guests additional choices while taking advantage of fresh sourcing and advantageous cost opportunities.

The Company's Ruth's Chris restaurants offer eleven to thirteen standard appetizer items, including New Orleans-style barbecued shrimp, mushrooms stuffed with crabmeat, shrimp remoulade, Louisiana seafood gumbo, onion soup au gratin, crabtini, as well as seven different salads. They also offer eight to ten types of potatoes and eight to twelve types of vegetables as side dishes ranging in price from \$6.95 to \$9.50. For dessert, creme brulee, bread pudding with whiskey sauce, chocolate sin cake, fresh seasonal berries with sweet cream sauce and other selections are available for \$6.95 to \$9.95 each.

The Company's core wine list features bottles typically ranging in price from \$24 to \$2,000. Individual restaurants supplement their 200-bottle core wine list with a minimum of 50 additional selections that reflect local market tastes. Most of the Company's Ruth's Chris restaurants also offer approximately 30 to 40 wines-by-the-glass and numerous beers, liquors and alcoholic dessert drinks. Wine sales account for 67% of the approximately 25% of total beverage sales.

Mitchell's Fish Market

Although the menu changes frequently based on availability and season, it includes more than 80 seafood choices, including fish from all over the world. Popular menu items include the Mitchell's Fish Market 12 Species of Fresh Catch, top quality fish selections that are hand filled on-site in a temperature controlled seafood cutting room. The Mitchell's Fish Market menu offers traditional seafood favorites such as Chesapeake Bay Crab Cakes and Fish and Chips, which is prepared with Pacific cod. Menu offerings also include non-seafood items such as steak and chicken. Mitchell's Fish Market also offers an award winning dessert menu that features desserts such as Seven-Layer Carrot Cake, Sharkfin Pie and other selections ranging in price from \$5.95 to \$6.95

Mitchell's Fish Markets are open for lunch and dinner daily. Lunch entrees are priced from \$8.50 to \$18.95, with guest checks averaging approximately \$22.00. Dinner entrees are priced from \$15.50 to \$29.95, with guest checks averaging approximately \$38.00. The Mitchell's Fish Market core menu is similar at all 19 company-owned restaurants.

The Mitchell's Fish Market core wine list features bottles typically ranging in price from \$26 to \$195. Individual restaurants supplement their approximately 60 bottle core wine list with a minimum of 15 to 20 additional selections that reflect local market tastes. Restaurants also offer approximately 24 types of wine-by-the-glass. Wine sales account for half of the approximately 20% of total beverage sales.

Purchasing

The Company's ability to maintain consistent quality throughout its restaurants depends in part upon its ability to acquire food and other supplies from reliable sources in accordance with its specifications. Purchasing at the restaurant level is directed primarily by the executive chef, who is trained in the Company's purchasing philosophy and specifications, and who works with its regional and corporate managers to ensure consistent sourcing of meat, fish, produce and other supplies.

During fiscal 2008 the Company purchased more than 70% of the beef it used in its company-owned Ruth's Chris restaurants from one vendor, New City Packing Company, Inc., with which it has locked prices on 50% of

prime beef requirements for 2009. In addition, the Company has a long-term distribution arrangement with a national food and restaurant supply distributor, Distribution Market Advantage, Inc. (DMA), which purchases products for the Company from various suppliers and through which currently 48 of its company-owned restaurants receive a significant portion of their food supplies. The Company purchased more than 80% of the fresh seafood served in its Mitchell's Fish Market from Michael's Finer Meats and Seafood.

Restaurant Operations and Management

Ruth's Chris Steak House and Mitchell's Steakhouses

The Ruth's Chris Chief Operating Officer has primary responsibility for managing its company-owned restaurants and participates in analyzing restaurant-level performance and strategic planning. The Company has seven regional vice presidents that oversee restaurant operations at six to eight company-owned restaurants and one regional vice president that has oversight responsibility for franchise-owned restaurants.

The Company's typical company-owned restaurant employs five managers, including a general manager, two front-of-the-house managers, an executive chef and a sous chef. The Company's company-owned restaurants also typically have approximately 70 hourly employees. The general manager of each restaurant has primary accountability for ensuring compliance with the Company's operating standards. The front-of-the-house managers assist the general manager in the day-to-day operations of the restaurant and are directly responsible for the supervision of the bar, host, server, runner and service assistant personnel. The executive chef supervises and coordinates all back-of-the-house operations, including ensuring that its quality standards are being met and maintaining a safe, efficient and productive work environment.

Mitchell's Fish Market

The Mitchell's Fish Market Chief Operating Officer has primary responsibility for managing its restaurants and participates in analyzing restaurant-level performance and strategic planning. The Company has a Vice President of Operations and three regional directors that oversee restaurant operations at five to six company-owned restaurants.

The typical Mitchell's Fish Market restaurant employs five to six managers based on sales volume, including a general manager, two dining room managers, an executive chef and one or two sous chefs. The restaurants also typically have approximately 70 hourly associates. The general manager of each restaurant has primary accountability for ensuring compliance with the Company's operating standards. The front-of-the-house managers assist the general manager in the day-to-day operations of the restaurant and are directly responsible for the supervision of the bar, host, server, runner and service assistant personnel. The executive chef supervises and coordinates all back-of-the-house operations, including ensuring that its quality standards are being met and maintaining a safe, efficient and productive work environment.

Quality Control

The Company strives to maintain quality and consistency in its company-owned Ruth's Chris and Mitchell's Fish Market restaurants through careful training and supervision of personnel and standards established for food and beverage preparation, maintenance of facilities and conduct of personnel. The primary goal of the Company's training and supervision programs is to encourage its employees to display the characteristics of its brand and values that distinguish it from its competitors. Restaurant managers in its Ruth's Chris company-owned restaurants must complete a training program that is typically seven weeks long, during which they are instructed in multiple areas of restaurant management, including food quality and preparation, guest service, alcoholic beverage service, liquor regulation compliance and employee relations. Restaurant managers also receive operations manuals relating to food and beverage preparation and restaurant operations. The Company

instructs chefs and assistants on safety, sanitation, housekeeping, repair and maintenance, product and service specifications, ordering and receiving food products and quality assurance.

Restaurant managers in its Mitchell's Fish Markets are certified by the National Restaurant Association Educational Foundation (NRAEF) for food safety. The Company also employs CNS FoodSafe, a third-party food safety firm, that developed a program exclusively for Mitchell's Fish Markets to ensure proper training, routine inspections and achieving the highest standards for cleanliness throughout the restaurant. General managers and certified coaches provide all other employee training at the restaurants. The Company requires that all restaurant-level employees be able to demonstrate knowledge of its systems, standards and operating philosophy.

On a daily basis at our Ruth's Chris restaurants, the executive chef, together with the restaurant managers, oversees a line check system of quality control and must complete a quality assurance checklist verifying the flavor, presentation and proper temperature of the food and beverages. At our Mitchell's Fish Markets, quality checks are performed twice daily by the chef and management team to verify stringent specifications for flavor, presentation and that proper temperature of food and beverages are met.

Outside consultants are utilized to perform random visits to all company- and franchisee-owned restaurants throughout the year to perform health inspections that are above and beyond local health inspections. In addition, the Company's regional vice presidents and directors perform system-wide quality assessments of all aspects of restaurant operations, with a focus on back-of-the-house functions, on a regular basis.

Marketing and Promotions

The goals of the Company's marketing efforts are to increase comparable restaurant sales by attracting new guests, increase the frequency of visits by current guests, improve brand recognition in new markets or markets where it intends to open a restaurant and to communicate the overall uniqueness, value and quality exemplified by our restaurants. The Company uses multiple media channels to accomplish these goals and complements its national advertising with targeted local media such as print, radio and outdoor.

Advertising

In fiscal 2008, the Company spent \$13.8 million, or 3.4% of its revenues, in total advertising expenditures. Of its total advertising expenditures, \$10.7 million, or 77%, was spent on local media and local events. This local media spending was split between local, entertainment and business magazines and newspapers, outdoor billboards and airport dioramas, local radio, internet media and local community events such as golf tournaments, art gatherings and charitable events. Direct mail was utilized in all concepts to highlight specific market initiatives. In fiscal 2008, the Company spent approximately \$3.1 million, or 23% of total advertising expenditures, on national media for the Ruth's Chris Steak House brand, consisting primarily of national radio, national newspapers (USA Today), and national magazines including in-flight magazines, sponsorships, and online initiatives.

In fiscal 2008, the Company optimized its online marketing efforts for all brands. Online advertisements were placed and appeared on highly visited sites. The Company also utilized paid search at the main internet search sites. The Company used local online advertising for sites catering to company and franchise geographic locations. Ruth's Chris website was upgraded with additional functionality and enhanced restaurant directions and site navigation. The Company's online strategy also included an increased emphasis on targeted emails with special offers and announcements. Communication included seasonal specials, holiday offers, and personalized birthday and anniversary invitations.

Ruth's Chris Steak House's current food-focused advertising campaign is integrated into all marketing communications including television, radio, print and outdoor advertisement. In addition, the Company uses its websites, www.ruthschris.com, www.mitchellsfishmarket.com, www.mitchellssteakhouse.com and

www.camerons-steakhouse.com to help increase brand identity and facilitate online reservations and gift card sales. In fiscal 2008, Ruth's Chris Steak House launched its first co-branded campaign with American Express Membership Rewards program and participated in direct marketing initiatives including an incentive offer and points program. Many of the Company's locations also schedule events to strengthen community ties and increase local market presence. The Company's franchisees also conduct their own local media and advertising plans.

At Mitchell's and Columbus Fish Markets "Fish any Fresher would still be in the Ocean" advertising campaign and branding message is integrated into all marketing communications. Direct mail campaigns, local radio DJ endorsements and local print media placements are used to keep the concept top of mind with consumers.

Mitchell's and Cameron's Steakhouses received marketing support with direct mail, print media, as well as targeted sponsorship opportunities in their communities.

Gift Cards

The Company sells Ruth's Chris gift cards at its Ruth's Chris Steak House restaurants (with the exception of its Aruba, Hong Kong, Japan and Taiwan locations), through its toll-free reservation system and on its website. Ruth's Chris patrons frequently purchase gift cards for holidays, including Christmas, Hanukkah, Valentine's Day, Mothers' Day and Fathers' Day, and other special occasions such as birthdays, graduations and anniversaries. These gift cards are popular as holiday gifts and among business professionals celebrating promotions. In fiscal 2008, system-wide gift card sales were approximately \$38.8 million. Ruth's Chris gift cards are redeemable at both company- and franchise-owned Ruth's Chris restaurants.

The Company sells Mitchell's gift cards at its Mitchell's Steak House and Mitchell's Fish Market restaurants and on its website. In fiscal 2008, system-wide gift card sales were approximately \$2.6 million. Mitchell's gift cards are redeemable at Mitchell's Fish Market, Mitchell's Steakhouse, Columbus Fish Market and Cameron's Steakhouse restaurants.

Franchise Program and Relationship

The Company's 64 franchise-owned Ruth's Chris restaurants are owned by 25 franchisees with the three largest franchisees owning eight, six and six restaurants, respectively. Currently, the Company has open agreements with franchisees for an aggregate of 17 additional Ruth's Chris restaurants. Prior to 2004, each franchisee entered into a ten-year franchise agreement with three ten-year renewal options for each restaurant. Each agreement grants the franchisee territorial protection, with the option to develop a certain number of restaurants in their territory. The Company's franchise agreements generally include termination clauses in the event of nonperformance by the franchisee and non-compete clauses if the agreement is terminated. To date, only two franchisees have had the Company's franchise agreement terminated or a restaurant closed as a result of nonperformance.

Under the Company's franchise program, the Company offers certain services and licensing rights to the franchisee to help maintain consistency in system-wide operations. The Company's services include training of personnel, site selection and construction assistance, providing the new franchisee with standardized operating procedures and manuals, business and financial forms, consulting with the new franchisee on purchasing and supplies and performing supervisory quality control services. The Company conducts reviews of its franchisee-owned restaurants on an ongoing basis, in order to ensure compliance with its standards.

Under the Company's franchise program, each franchise arrangement consists of a development agreement and a separate franchise agreement for each restaurant. The Company's new form of development agreement grants exclusive rights to a franchisee to develop a minimum number of restaurants in a defined area, typically

during a five-year period. Individual franchise agreements govern the operation of each restaurant opened and have a 20-year term with two renewal options each for additional 10-year terms if certain conditions are met. The Company's new form of franchise agreement requires franchisees to pay a 5% royalty on gross revenues plus up to a 1% advertising fee applied to national advertising expenditures. Under the Company's prior form of franchise agreement, franchisees pay a 5% royalty on gross revenues, of which the Company has applied 1% to national advertising.

Under the Company's form of development agreement, and unless agreed otherwise, the Company collects a \$50,000 development fee for each restaurant the franchisee has rights to develop. Under the Company's new form of the franchise agreement, it collects up to \$100,000 of the franchise fee at the time of executing the franchise agreement for each restaurant. To date, the Company has used its new form of agreement with fourteen new franchisees (four of which are located outside of the United States) and five existing franchisees.

The Company's existing franchise agreements signed before 2004 generally limit the number of restaurants each franchisee can develop to two. The Company expanded its domestic franchise base in 2004 by first offering existing franchisees the opportunity to open additional restaurants in its existing territories. In order to obtain these new rights, existing franchisees were required to sign the Company's new form of development and franchise agreement which commits the franchisee to a store development schedule. These new franchise rights and obligations enable the Company to better manage the growth of its franchise system. The Company anticipates opening three to five franchise restaurants in 2009.

The Company currently is evaluating plans to franchise Mitchell's Fish Market.

Information Systems and Restaurant Reporting

All of the Company's restaurants use computerized point-of-sale systems, which are designed to improve operating efficiency, provide corporate management timely access to financial and marketing data and reduce restaurant and corporate administrative time and expense. These systems record each order and print the food requests in the kitchen for the cooks to prepare. The data captured for use by operations and corporate management includes gross sales amounts, cash and credit card receipts and quantities of each menu item sold. Sales and receipts information is generally transmitted to the corporate office daily, where it is reviewed and reconciled by the accounting department before being recorded in the accounting system.

The Company's corporate systems provide management with operating reports that show company-owned restaurant performance comparisons with budget and prior year results. These systems allow the Company to monitor company-owned restaurant sales, food and beverage costs, labor expense and other restaurant trends on a regular basis.

Service Marks

The Company has registered the main service marks "Ruth's Chris" and its "Ruth's Chris Steak House, U.S. Prime & Design" logo, as well as other service marks used by its restaurants with the United States Patent and Trademark Office and in the foreign countries in which its restaurants operate. The Company has also registered in other foreign countries on anticipation of new store openings within those countries. The Company is not aware of any infringing uses that could materially affect its business. The Company believes that its service marks are valuable to the operation of its restaurants and are important to its marketing strategy.

As part of the Mitchell's acquisition, which was completed on February 19, 2008, the Company acquired the federally registered service mark "Mitchell's Fish Market" and the common law service marks "Mitchell's Steakhouse", "Columbus Fish Market" and "Cameron's Steakhouse" together with any and all other trade names, common law trade and service marks, state registered trade and service marks, and trade dress owned or used by the seller in connection with the steakhouse and seafood restaurants so acquired.

Seasonality

The Company's business is subject to seasonal fluctuations. Historically, the percentage of its annual revenues earned during the first and fourth fiscal quarters have been higher due, in part, to increased restaurant sales during the year-end holiday season.

Employees

As of December 28, 2008, the Company employed 6,102 persons, of whom 559 were salaried and 5,543 were hourly personnel, who were employed in the positions set forth in the table below. None of the Company's employees are covered by a collective bargaining agreement.

<u>Functional Area</u>	<u>Number of Employees</u>
Senior Officers / Corporate VPs / Operations VPs	32
General Managers	87
Managers	199
Regional Corporate Chefs / Executive Chefs	89
Sous Chefs	92
Non-salaried restaurant staff	5,540
Corporate salaried	60
Corporate non-salaried	3
Total number of employees	<u>6,102</u>

Executive Officers of the Registrant

Certain information regarding our executive officers is provided below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Michael P. O'Donnell	52	President and Chief Executive Officer, Ruth's Hospitality Group, Inc.
Robert M. Vincent	56	Executive Vice President and Chief Financial Officer, Ruth's Hospitality Group, Inc.
Kevin W. Toomy	54	Senior Vice President, Chief Operating Officer, Ruth's Chris Steak House
Samuel A. Tancredi	56	Senior Vice President, Chief Operating Officer, Mitchell's Fish Market
Sarah C. Jackson	50	Senior Vice President, Human Resources, Ruth's Hospitality Group, Inc.

Michael P. O'Donnell has served as the Company's President and Chief Executive Officer since August 2008. Prior to that, Mr. O'Donnell served as the Chief Executive Officer, President and Chairman of the Board of Champps Entertainment, Inc., an experience that culminated in the successful sale of the company to Fox and Hound Restaurant Group in late 2007. Prior to that, Mr. O'Donnell held the position of President, Chief Executive Officer and Director of Sbarro, Inc., where he was responsible for all operational and strategic aspects of managing more than 1,000 restaurants including Sbarro, Boulder Creek Steak & Saloon, Rothmann's Steakhouse and Carmela's of Brooklyn brands. Additionally, Mr. O'Donnell held the position of President and Chief Executive Officer of New Business at Outback Steakhouse, Inc., where he was responsible for all non-Outback Steakhouse brands. Prior to that, he served as President of the Roy's brand at Outback Steakhouse, Inc. Mr. O'Donnell serves on the Board of Directors for Ruth's Hospitality Group, Inc., Cosi, Inc., Sbarro, Inc., and Logan's Roadhouse, Inc.

Robert M. Vincent has served as the Company's Executive Vice President and Chief Financial Officer of Ruth's Hospitality Group, Inc., since March 2008. From 2000 to 2008, Mr. Vincent served as Executive Vice President—Finance, Chief Financial Officer and Treasurer of Uno Restaurant Holdings Corporation, where he was responsible for the management of all accounting and financial activity for the system of more than 200

company-owned and franchised casual full-service restaurants. From 1992 to 2000, Mr. Vincent served as the Senior Vice President—Finance, Chief Financial Officer and Treasurer, and Vice President—Finance and Controller of Uno Restaurant Holdings Corporation. Additionally, Mr. Vincent served as the Chief Financial Officer for Omega Corporation from 1988 to 1992 and as the Vice President—Finance for Boston Restaurant Associates, Inc. from 1985 to 1988, where he was responsible for the management of financial activity for a chain of retail restaurants.

Kevin W. Toomy has served as the Senior Vice President and Chief Operating Officer of Ruth's Chris Steak House since October 2008. Mr. Toomy joined Ruth's Hospitality Group Inc. in September 2008 as the Company's Vice President of Special Projects. Prior to joining the Company, Mr. Toomy served as the Owner and President of the Goldcoast Seafood Grill in South Florida. Additionally, Mr. Toomy was a Joint Venture Partner for the Roy's and Outback Steakhouse brands.

Samuel A. Tancredi has served as the Senior Vice President and Chief Operating Officer of Mitchell's Fish Market since September 2008. Prior to joining the Company, from 2006 to 2008, Mr. Tancredi was a Franchisee and Chief Operating Officer of six Paradise Bakery & Cafes. From 2001 to 2006, Mr. Tancredi served as President and Franchisee Development Partner of nine Bonafish Grills. Prior to that, from 1998 to 2001, he served as President of Outback Catering. Mr. Tancredi also served as the Regional Vice President and Vice President for New Concepts of Louisville, KY based Chi Chi's from 1981 to 1987.

Sarah C. Jackson has served as the Company's Senior Vice President, Human Resources since December 2006. From August 2006 to December 2006, Ms. Jackson served as the Vice President of Human Resources. Prior to joining the Company, from April 2004 to July 2006, Ms. Jackson served as the Vice President of Human Resources and Training for Romacorp, Inc. In November 2005, Romacorp, Inc. filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. From May 1989 to April 2004, Ms. Jackson held various leadership positions with Darden Restaurants, Inc.

Government Regulation

The Company is subject to extensive federal, state and local government regulation, including regulations relating to public health and safety, zoning and fire codes and the sale of alcoholic beverages and food. The Company maintains the necessary restaurant, alcoholic beverage and retail licenses, permits and approvals. Federal and state laws govern the Company's relationship with its employees, including laws relating to minimum wage requirements, overtime, tips, tip credits and working conditions. A significant number of the Company's hourly employees are paid at rates related to the federal or state minimum wage.

The offer and sale of franchises are subject to regulation by the U.S. Federal Trade Commission ("FTC") and many states. The FTC requires that the Company furnish to prospective franchisees a franchise offering circular containing prescribed information. A number of states also regulate the sale of franchises and require state registration of franchise offerings and the delivery of a franchise offering circular to prospective franchisees. The Company's noncompliance could result in governmental enforcement actions seeking a civil or criminal penalty, rescission of a franchise, and loss of its ability to offer and sell franchises in a state, or a private lawsuit seeking rescission, damages and legal fees.

Competition

The restaurant business is highly competitive and highly fragmented, and the number, size and strength of the Company's competitors vary widely by region. The Company believes that restaurant competition is based on, among other things, quality of food products, customer service, reputation, restaurant location, name recognition and price. The Company's restaurants compete with a number of upscale steakhouses and upscale casual seafood restaurants within their markets, both locally owned restaurants and restaurants within regional or national chains. The principal upscale steakhouses with which the Company competes are Fleming's, The Capital

Grille, Smith & Wollensky, The Palm, Del Frisco's and Morton's of Chicago. The principal seafood restaurants with which the Company competes are McCormick & Schmick's, Legal Seafood, Bonefish Grill and The Oceanaire Seafood Room. Many of the Company's competitors are better established in certain of its existing markets and/or markets into which it intends to expand.

Available Information

The Company maintains a website on the Internet at www.rhgi.com. The Company makes available free of charge, through the investor relations section of its website, its Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports electronically filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934. Such information is available as soon as reasonably practicable after it files such reports with the SEC. Additionally, our Code of Ethics may be accessed within the Investor Relations section of our website. Information found on our website is not part of this Annual Report on Form 10-K or any other report filed with the SEC.

Item 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating the Company and its business. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to us or that the Company currently deems immaterial may also impair its business operations. If any of these certain risks and uncertainties were to actually occur, the Company's business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of the Company's common stock could decline and its investors may lose all or part of their investment. These risks and uncertainties include, but are not limited to, the following:

Current levels of market volatility and the contraction of the capital and real estate markets are unprecedented and are unlikely to improve in the near future, which could adversely affect our business and results of operations and increase the volatility of our common stock.

Dramatic declines in the housing market, with falling home prices and increasing foreclosures and unemployment, have resulted in significant market turmoil and tightening of credit. In turn, this has led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The Company currently anticipates that the difficult conditions in the financial markets are not likely to improve in the near future. The significant deterioration in economic conditions in any of the Company's markets has and will continue to reduce guest traffic and required certain of the Company's affected restaurants to lower their prices, which reduce the Company's total revenues and operating income. For the fourth fiscal quarter of 2008, the Company's Ruth's Chris company-owned restaurants experienced an 18.5% decrease in comparable restaurants sales compared with the fourth fiscal quarter of 2007. Ruth's Chris company-owned restaurants generated reduced average unit volumes of approximately \$5.0 million in fiscal 2008, compared to average unit volumes of approximately \$5.6 million in fiscal 2007. The Company believes these economic conditions and market volatility have and may continue to adversely affect the price of its common stock. Any changes in economic conditions, or a continuation or increase in the severity of the current economic downturn would affect the Company's ability to attract guests or price its menu items at favorable levels, which would result in significant reductions in revenue and/or operating income and, in turn, the market price for its common stock.

The Company has recently replaced many members of its management and substantially reduced its corporate headcount, and the failure to successfully adapt to these changes and/or a failure by its new management team to successfully manage its operations may reduce net income.

In 2008 we have replaced a large portion of our senior management team, including our Chief Executive Officer and our Chief Financial Officer. Our future success depends on the ability of our senior management

team, many of whom have been with Ruth's Chris for less than 12 months, to work together and successfully implement our strategies while maintaining the strength of our brand. If our senior management team fails to work together successfully, or if one or more of our senior managers is unable to effectively implement our business strategy, we may be unable to operate our business in the manner in which we expect. Furthermore, we recently had a substantial reduction in our corporate headcount. This reduction will require remaining corporate team members to fulfill new roles that they have not been filling in the past. If we cannot operate our corporate platform in an effective manner, it may impact our business operations in a material adverse manner.

Market volatility could adversely affect our stock price.

Many factors affect the trading price of our stock, including factors over which we have no control, such as reports on the economy or the price of commodities, as well as negative or positive announcements by competitors, regardless of whether the report relates directly to our business. In addition to investor expectations, trading activity in our stock can reflect the portfolio strategies and investment allocation changes of institutional holders and non-operating initiatives such as a share repurchase program. Any failure to meet market expectations whether for sales growth rates, earnings per share or other metrics could adversely affect our share price.

We may not be able to successfully integrate into our business the operations of restaurants that we have acquired, which may adversely affect our business, financial condition and results of operations.

On February 19, 2008, the Company completed the acquisition of the Mitchell's Fish Market, operating under the names Mitchell's Fish Market and Columbus Fish Market, and Cameron's Steakhouse, operating under the names Cameron's Steakhouse and Mitchell's Steakhouse from Cameron Mitchell Restaurants, LLC (CMR). These restaurants are the first the Company owned that focus primarily on serving seafood and that do not have the "Ruth's Chris" brand. Achieving the expected benefits of these restaurants and any other restaurants that the Company acquires will depend in a large part on our ability to successfully integrate the operations of the acquired restaurants and personnel in a timely and efficient manner and develop their brands. The risks involved in the integration of this acquisition include:

- the development of a new brand and the operation of restaurants that serve a seafood-based menu as opposed to the Company's current steak-based menu;
- challenges and costs associated with the acquisition and integration of restaurant operations located in markets where Ruth's Chris has limited or no experience;
- possible disruption to the Company's business as a result of the diversion of management's attention from its normal operational responsibilities and duties; and
- consolidation of the corporate, information technology, accounting and administrative infrastructure and resources of the acquired restaurants into the Company's business.

If the Company cannot overcome the challenges and risks that we face in integrating the operations of newly acquired restaurants, our business, financial condition and results of operations could be adversely affected.

We may not realize the anticipated benefits of the restaurants we have acquired.

Even after successfully integrating the Mitchells' brand into our operations, there can be no assurance that the acquisition will result in the realization of the anticipated benefits. We acquired Mitchell's with the expectation that the acquisition will result in various benefits for the combined company including, among others, business and growth opportunities and significant synergies from increased efficiency and effectiveness in restaurant and corporate support. However, we may not be able to realize the synergies, goodwill, business opportunities and growth prospects anticipated in connection with the acquisition. Achieving the anticipated benefits of the acquisition is subject to a number of uncertainties and other factors. If these factors limit our

ability to achieve the anticipated benefits of the acquisition, our expectations of future results of operations, including the synergies expected to result from the acquisition, may not be met. If such difficulties are encountered or if such synergies, business opportunities and growth prospects are not realized, our business, financial condition and results of operations could be adversely affected.

Turmoil in the financial services industry, volatility in securities trading markets and general economic downturns may adversely affect our ability to access the credit and capital markets to finance a portion of our working capital requirements and support our liquidity needs.

The Company has exposure to many different financial institutions and counterparties including under its existing senior credit facility and other credit and financing arrangements, including interest rate swaps. Many of these transactions expose the Company to credit risk in the event that any of its lenders or counterparties are unable to honor its commitments or otherwise defaults under a financing agreement. Credit and capital markets have recently experienced a great deal of turmoil, and certain leading financial institutions have either declared bankruptcy or have shown significant deterioration in their financial stability. If any of these counterparties declares bankruptcy and/or becomes insolvent, they may not be able to perform under their contracts with the Company, which could leave the Company with reduced or no senior credit facility or unhedged against changes in interest rates. The constriction of the credit markets, if not alleviated, could increase the Company's cost of borrowing or limit its ability to obtain additional financing on terms it finds acceptable. Any significant limitations on its ability to access the financing provided under our existing credit facility or under any of the Company's other credit or financing arrangements could materially and adversely affect the Company's business and results of operations.

Our failure to comply with our debt covenants due to a sustained reduction in comparable restaurant sales could have a material adverse effect on our business, financial condition or results of operations.

In the fourth fiscal quarter of 2008, the Company's Ruth's Chris comparable restaurant sales decreased 18.5% from the fourth fiscal quarter 2007. Negative comparable restaurant sales trends have continued through the first nine weeks of 2009. If restaurant sales trends continue to deteriorate throughout the balance of 2009, the impact on EBITDA may result in a breach of compliance with one or several of our financial covenants under our revised Credit Agreement. As a result, we cannot assure you that we will be able to comply with these covenants. Our failure to comply with the covenants contained in the instruments governing our indebtedness could result in an event of default, which could materially and adversely affect our operating results and our financial condition. Consequently, our ability to fund working capital, fund planned capital expenditures, make scheduled payments of principal or interest on our revolver, or refinance the indebtedness, is subject to general economic conditions, competitive environment and other factors.

Negative publicity surrounding the Company's restaurants or the consumption of beef generally, or shifts in consumer tastes, could reduce sales in one or more of its restaurants and make its brand less valuable.

The Company's success depends, in large part, upon the popularity of its menu offerings. Negative publicity resulting from poor food quality, illness, injury or other health concerns (including e-coli, Bovine Spongiform Encephalopathy (mad cow disease), Hepatitis A and foot and mouth disease), whether related to one of the Company's restaurants or to the beef or seafood industries in general, or operating problems related to one or more restaurants, could make the Company's menu offerings less appealing to consumers and reduce demand in its restaurants. In addition, any other shifts in consumer preferences away from the kinds of food the Company offers, particularly beef and seafood, whether because of dietary or other health concerns or otherwise, would make its restaurants less appealing and adversely affect revenues.

In addition, some types of seafood have been subject to adverse publicity due to certain levels of contamination at their source, which can adversely affect both supply and market demand. The Company's Mitchell's restaurants maintain an in-house inspection program for seafood purchases and, in the past, have not

experienced any detriment from contaminated seafood. However, future seafood contamination or inadequate supplies of seafood could have a significant and materially adverse effect on the Company's operating results and profitability.

The Company may not be able to compete successfully with other restaurants, which could reduce its revenues.

The restaurant industry is intensely competitive with respect to price, service, location, food quality, atmosphere and overall dining experience. The Company's competitors include a large and diverse group of well-recognized upscale steakhouse and upscale casual restaurant chains, including steakhouse and seafood chains as well as restaurants owned by independent local operators. Some of the Company's competitors may have substantially greater financial, marketing and other resources, and may be better established in the markets where its restaurants are or may be located. If the Company cannot compete effectively in one or more of its markets, the Company may be unable to maintain recent levels of comparable restaurant sales growth and/or may be required to close existing restaurants.

If the Company's vendors or distributors do not deliver food and beverages in a timely fashion it may experience short-term supply shortages and/or increased food and beverage costs.

The Company's ability to maintain consistent quality throughout company-owned restaurants depends in part upon its ability to purchase USDA Prime and Choice grade beef, seafood and other food products in accordance with its rigid specifications. During fiscal 2008, the Company purchased more than 70% of the beef it used in company-owned restaurants from one vendor, New City Packing Company, Inc., with which it has locked prices on 50% of prime beef requirements in 2009. In addition, the Company currently has a long-term distribution arrangement with a national food and restaurant supply distributor, Distribution Market Advantage, Inc. (DMA), which purchases products for the Company from various suppliers, and through which 48 of its company-owned restaurants receive a significant portion of their food supplies. The Company also purchased more than 80% of the fresh seafood served in its Mitchell's Fish Market from Michael's Finer Meats and Seafood. If these or other vendors or distributors cease doing business with the Company, it could experience short-term supply shortages in certain company-owned restaurants and could be required to purchase supplies at higher prices until the Company is able to secure an alternative supply source. Any delay the Company experiences in replacing vendors or distributors on acceptable terms could increase food costs or, in extreme cases, require it to temporarily remove items from the menu of one or more restaurants.

Increases in the prices of, or reductions in the availability of, any of our core food products could reduce the Company's operating margins and revenues.

The Company purchases large quantities of beef, particularly USDA Prime grade beef, which is subject to extreme price fluctuations due to seasonal shifts, climate conditions, industry demand and other factors. The Company's beef costs represented approximately 34.2% of its food and beverage costs during fiscal 2008. During fiscal 2008, the Company entered into contracts with beef suppliers to establish set pricing on a portion of its anticipated beef purchases. In fiscal 2009, the Company has negotiated set pricing for approximately 50% of its prime beef requirements, which represents 25% of its beef purchases. The market for USDA Prime grade beef is particularly volatile. For example, in late 2003, increased demand, together with the impact of supply rationalization during late 2001 and 2002, resulted in shortages of USDA Prime grade beef, requiring the Company to pay significantly higher prices for the USDA Prime grade beef it purchased. If prices for the types of beef the Company uses in its restaurants increase in the future and it chooses not to pass, or cannot pass, these increases on to its guests, the Company's operating margins would decrease. If certain kinds of beef become unavailable for the Company to purchase, its revenues would decrease as well.

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 our costs increase, our results of operations could be adversely affected.

Labor shortages or increases in labor costs could slow the Company's growth or harm its business.

The Company's success depends in part upon its ability to continue to attract, motivate and retain employees with the qualifications to succeed in its industry and the motivation to apply the Company's core service philosophy, including regional operational managers, restaurant general managers and chefs. If the Company is unable to continue to recruit and retain sufficiently qualified individuals, its business and growth could be adversely affected. Competition for these employees could require the Company to pay higher wages, which could result in higher labor costs. In addition, the Company has a substantial number of hourly employees who are paid wage rates at or based on the federal or state minimum wage and who rely on tips as a large portion of their income. Increases in the minimum wage or decreases in allowable tip credits would increase the Company's labor costs. The Company may be unable to increase its prices in order to pass these increased labor costs on to its guests, in which case its margins would be negatively affected.

Regulations affecting the operation of the Company's restaurants could increase operating costs and restrict growth.

Each of the Company's restaurants must obtain licenses from regulatory authorities allowing it to sell liquor, beer and wine, and each restaurant must obtain a food service license from local health authorities. Each restaurant's liquor license must be renewed annually and may be revoked at any time for cause, including violation by the Company or its employees of any laws and regulations relating to the minimum drinking age, advertising, wholesale purchasing and inventory control. In certain states, including states where the Company has a large number of restaurants or where it plans to open restaurants in the near term, the number of liquor licenses available is limited and licenses are traded at market prices. If the Company is unable to maintain existing licenses, or if it chooses to open a restaurant in those states, the cost of a new license could be significant. Obtaining and maintaining licenses is an important component of each of the Company's restaurant's operations, and the failure to obtain or maintain food and liquor licenses and other required licenses, permits and approvals would materially adversely impact existing restaurants or the Company's growth strategy.

The Company is also subject to a variety of federal and state labor laws, such as minimum wage and overtime pay requirements, unemployment tax rates, workers' compensation rates and citizenship requirements. Government-mandated increases in minimum wages, overtime pay, paid leaves of absence and mandated health benefits, or increased tax reporting and tax payment requirements for employees who receive gratuities, or a reduction in the number of states that allow tips to be credited toward minimum wage requirements could increase the Company's labor costs and reduce its operating margins. In addition, the Federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. Although the Company's restaurants are designed to be accessible to the disabled, it could be required to make modifications to its restaurants to provide service to, or make reasonable accommodations for, disabled persons.

The Company's strategy to open franchisee-owned restaurants subjects it to extensive government regulation, compliance with which might increase its investment costs and restrict its growth.

The Company is subject to the rules and regulations of the FTC and various state laws regulating the offer and sale of franchises. The FTC requires that the Company furnish to prospective franchisees a franchise offering circular containing prescribed information and can restrict its ability to sell franchises. A number of states also regulate the sale of franchises and require the obtaining of a permit and/or registration of the franchise offering circular with state authorities and the delivery of the franchise offering circular to prospective franchisees. Non-compliance with those laws could result in governmental enforcement actions seeking a civil or criminal penalty, rescission of a franchise, and loss of the Company's ability to offer and sell franchises in a state, or a private lawsuit seeking rescission, damages and legal fees, which could have a material adverse effect on its business.

The Company's franchisees could take actions that harm its reputation and reduce its royalty revenues.

The Company does not exercise control over the day-to-day operations of its franchisee-owned restaurants. While the Company attempts to ensure that franchisee-owned restaurants maintain the same high operating standards that it demands of company-owned restaurants, one or more of these restaurants may fail to maintain these standards. Any operational shortcomings of the Company's franchisee-owned restaurants are likely to be attributed to its system-wide operations and could adversely affect its reputation and damage its brand as well as have a direct negative impact on the royalty income it receives from those restaurants.

The Company's failure to enforce its service marks or other proprietary rights could adversely affect its competitive position or the value of its brands.

The Company owns certain common law service mark rights and a number of federal and international service mark registrations, most importantly the Ruth's Chris Steak House, Mitchell's and Cameron's names and logos, copyrights relating to text and print uses, and other proprietary intellectual property rights. The Company believes that its service marks, copyrights and other proprietary rights are important to its success and competitive position. Protective actions the Company takes with respect to these rights may fail to prevent unauthorized usage or imitation by others, which could harm the Company's reputation, brand or competitive position and, if the Company commences litigation to enforce its rights, cause us to incur significant legal expenses.

Litigation concerning food quality, health and other issues could require the Company to incur additional liabilities and/or cause guests to avoid its restaurants.

Occasionally, the Company's guests file complaints or lawsuits against it alleging that the Company is responsible for some illness or injury they suffered at or after a visit to its restaurants. The Company is also subject to a variety of other claims arising in the ordinary course of its business, including personal injury claims, contract claims, claims from franchisees, claims alleging violations of federal and state law regarding workplace and employment matters and discrimination and similar matters. In addition, the Company could become subject to class action lawsuits related to these matters in the future. For example, in fiscal 2005 the Company settled a class-action claim based on violation of wage and hour laws in California. The restaurant industry has also been subject to a growing number of claims that the menus and actions of restaurant chains have led to the obesity of certain of their guests. In addition, the Company is subject to "dram shop" statutes. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Recent litigation against restaurant chains has resulted in significant judgments, including punitive damages, under dram shop statutes. Regardless of whether any claims against the Company are valid or whether it is liable, claims may be expensive to defend and may divert time and money away from the Company's operations and hurt its performance. A judgment significantly in excess of the Company's insurance coverage for any claims would materially adversely affect its financial condition and results of operations. Adverse publicity resulting from these claims may negatively impact revenues at one or more of the Company's restaurants.

The terms of the Company's senior credit agreement may restrict its ability to operate its business and to pursue its business strategies.

The Company's senior credit agreement contains, and any agreements governing future indebtedness would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on it. The Company's senior credit agreement limits its ability, among other things, to:

- pay dividends or purchase stock;
- borrow money or issue guarantees;
- make investments;

- use assets as security in other transactions;
- sell assets or merge with or into other companies;
- enter into transactions with affiliates;
- sell stock in its subsidiaries; and
- create or permit restrictions on its subsidiaries' ability to make payments to it.

The Company's ability to engage in these types of transactions is limited even if it believes that a specific transaction would contribute to its future growth or improve its operating results. The Company's senior credit agreement also requires it to achieve specified financial and operating results and maintain compliance with certain financial ratios. The Company anticipated a breach of its maximum Consolidated Leverage Ratio as of the end of the fourth fiscal quarter of 2008. As a result, the Company began negotiations with its bank group, and on February 26, 2009, the Company announced that it had signed an amendment on its credit agreement to provide the Company with requested covenant relief and to make other changes to the existing agreement. The Company's ability to comply with these ratios may be affected by events outside of its control. Any non-compliance would result in a default under its senior credit agreement and could result in its lenders declaring the Company's senior debt immediately due and payable, which would have a material adverse effect on its ability to operate as a going concern.

Failure of our internal controls over financial reporting could harm our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Our growth and acquisition of other restaurant companies with procedures not identical to our own could place significant additional pressure on our system of internal control over financial reporting. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our common stock.

Approximately 17.1% of the Company's voting power is controlled by one principal stockholder whose interests may conflict with those of its other stockholders.

Affiliates of Madison Dearborn hold approximately 17.1% of the Company's voting power. As a result of this ownership, as well as the fact that a representative of Madison Dearborn serves on the Company's board of directors, Madison Dearborn has significant influence in the consideration of all matters requiring the approval of its stockholders and/or its board of directors. These matters include the election of directors, the adoption of amendments to the Company's amended and restated certificate of incorporation and by-laws and approval of mergers or sales of substantially all of its assets. This influence may also have the effect of delaying or preventing a change in control of the Company or discouraging others from making tender offers for its shares, which could prevent stockholders from receiving a premium for their shares. So long as affiliates of Madison Dearborn continue to own a significant amount of the outstanding shares of the Company's common stock and a representative of Madison Dearborn continues to serve on its board of directors, they will continue to be able to influence the Company's decisions and may pursue corporate actions that conflict with the interests of its other stockholders. The Company's amended and restated certificate of incorporation also provides that affiliates of Madison Dearborn and their representatives are not required to offer any corporate opportunity of which they become aware to the Company and therefore they could take any such opportunity for themselves or offer it to other companies in which they have an investment.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Company-owned restaurants are generally located in spaces leased by wholly-owned direct or indirect subsidiaries of Ruth's Hospitality Group, Inc. Restaurant lease expirations, including renewal options, range from approximately two years to 30 years. Sixty of its Ruth's Chris leases, including those not yet commenced, provide for an option to renew for terms ranging from approximately five years to 15 years. Twenty-four of its Mitchell's leases, including those not yet commenced, provide for at least one option to renew. Historically, the Company has not had difficulty in renewing its leases in a timely manner. Restaurant leases provide for a specified annual rent, and some leases call for additional or contingent rent based on sales volumes over specified levels.

On September 17, 2008, the Company completed its sale of five restaurant properties to Sovereign Investment Company. Concurrent with the sales transaction, the Company entered into agreements to lease the properties back for initial terms of between 12 and 20 years, along with two five-year options. The properties are located in Metairie, Louisiana; Palm Beach and Sarasota, Florida; Columbus, Ohio (Columbus Fish Market); and Palm Desert, California.

The Company currently owns the real estate for three Ruth's Chris operating restaurants: Ft. Lauderdale (7,800 square feet); Houston, Texas (7,200 square feet); and Columbus, Ohio (8,100 square feet).

In addition to the restaurants set forth in the table below, the Company owns an office building of approximately 75,860 square feet in Heathrow, Florida, which houses its corporate headquarters, and an office building in Metairie, Louisiana of approximately 22,000 square feet. On October 30, 2008, the Company reported that it has entered into an agreement to sell its Heathrow, Florida office building in a sale leaseback transaction to Saxa Properties, LLC. The buyer is still completing due diligence, for which the deadline has been extended through the end of March 2009.

The following table sets forth information about the Company's existing company-owned and franchisee-owned restaurants as of December 28, 2008. As of December 28, 2008, the Company operated 66 Ruth's Chris company-owned restaurants and 22 Mitchell's restaurants. In addition, its franchisees operated 64 restaurants. Company-owned Ruth's Chris restaurants range in size from approximately 6,000 to approximately 13,000 square feet. The Company expects that future restaurants will range in size from 8,000 to 10,000 square feet with approximately 230 to 250 seats. Company-owned Mitchell's restaurants range in size from approximately 6,000 to 11,000 square feet with approximately 225 to 250 seats.

Company-Owned Ruth's Chris Restaurants			Franchisee-Owned Ruth's Chris Restaurants	
<u>Year Opened</u>	<u>Locations</u>	<u>Property Leased or Owned</u>	<u>Year Opened</u>	<u>Locations</u>
1972	Metairie, LA**	Leased	1976	Baton Rouge, LA
1977	Lafayette, LA	Leased	1985	Austin, TX
1977	Houston, TX	Owned	1985	Mobile, AL
1983	Washington, D.C.	Leased	1986	Atlanta (Buckhead), GA
1984	Beverly Hills, CA	Leased	1987	Pittsburgh, PA
1985	Fort Lauderdale, FL	Owned	1987	Hartford, CT
1986	Phoenix, AZ	Leased	1988	Philadelphia, PA
1986	Nashville, TN	Leased	1989	Honolulu, HI
1987	San Francisco, CA	Leased	1989	Las Vegas, NV
1987	N. Palm Beach, FL**	Leased	1991	Richmond, VA
1988	Seattle, WA	Leased	1992	Baltimore, MD
1989	Memphis, TN	Leased	1993	Birmingham, AL

Company-Owned Ruth's Chris Restaurants

<u>Year Opened</u>	<u>Locations</u>	<u>Property Leased or Owned</u>
1990	Weehawken, NJ	Leased
1990	Scottsdale, AZ	Leased
1992	Palm Desert, CA**	Leased
1992	Minneapolis, MN	Leased
1992	Chicago, IL	Leased
1993	Arlington, VA	Leased
1993	Manhattan, NY	Leased
1994	San Juan, Puerto Rico	Leased
1994	San Diego, CA	Leased
1995	Westchester, NY	Leased
1996	Dallas, TX	Leased
1996	Troy, MI	Leased
1996	Tampa, FL	Leased
1996	Bethesda, MD	Leased
1997	Kansas City, MO	Leased
1997	Irvine, CA	Leased
1997	Portland, OR	Leased
1997	Jacksonville, FL	Leased
1998	Louisville, KY	Leased
1998	Parsippany, NJ	Leased
1998	Northbrook, IL	Leased
1999	Columbus, OH	Owned
1999	Coral Gables, FL	Leased
1999	Ponte Vedra, FL	Leased
1999	Winter Park, FL	Leased
2000	Sarasota, FL**	Leased
2000	Del Mar, CA	Leased
2000	Boca Raton, FL	Leased
2001	Orlando, FL	Leased
2001	Greensboro, NC	Leased
2002	Woodland Hills, CA	Leased
2002	Fairfax, VA	Leased
2002	Bellevue, WA	Leased
2002	Washington, D.C. (Conv.)	Leased
2003	Walnut Creek, CA	Leased
2005	Roseville, CA	Leased
2005	Boston, MA	Leased
2005	Sacramento, CA	Leased
2006	Pasadena, CA	Leased
2006	Bonita Springs, FL	Leased
2006	Providence, RI	Leased
2007	Lake Mary, FL*	Land Leased
2007	Naples, FL	Leased
2007	Anaheim, CA*	Land Leased
2007	Biloxi, MS	Leased
2007	Knoxville, TN	Leased
2007	Tyson's Corner, VA	Leased
2007	Santa Barbara, CA	Leased
2007	West Palm Beach, FL	Leased
2008	Ft. Worth, TX	Leased
2008	New Orleans, LA	Leased
2008	Princeton, NJ	Leased
2008	Fresno, CA	Leased
2008	South Barrington, IL	Leased

Franchisee-Owned Ruth's Chris Restaurants

<u>Year Opened</u>	<u>Locations</u>
1993	San Antonio, TX
1993	Taipei, Taiwan
1993	Cancun, Mexico
1993	Sandy Springs, GA
1994	Las Vegas, NV
1994	Indianapolis, IN
1995	Denver, CO
1995	Long Island, NY
1995	Toronto, Canada
1996	Taichung, Taiwan
1996	Indianapolis, IN
1997	Hong Kong
1997	Raleigh (Cary), NC
1998	Annapolis, MD
1998	Maui, HI
1999	Atlanta (Centennial Park), GA
2000	Pikesville, MD
2000	San Antonio (Sunset), TX
2000	Wailea, HI
2001	Kaohsiung, Taiwan
2001	King of Prussia, PA
2001	Queensway, Hong Kong
2001	Cabo San Lucas, Mexico
2003	Mississauga, Canada
2005	Virginia Beach, VA
2005	Baltimore, MD
2005	Atlantic City, NJ
2005	Charlotte, NC (SouthPark)
2006	St. Louis, MO
2006	Ocean City, MD
2006	Destin, FL
2006	Salt Lake City, UT
2006	Mauna Lani, HI
2006	Huntsville, AL
2006	Edmonton, Canada
2007	Aspen, CO
2007	Charlotte, NC (Uptown)
2007	Waikiki, HI
2007	Columbia, SC
2007	Mishawaka, IN
2007	Tokyo, Japan
2007	Madison, WI
2007	Calgary, Canada
2007	Rogers, AR
2007	Park City, UT
2008	Aruba
2008	Myrtle Beach, SC
2008	Wilmington, NC
2008	Ridgeland, MS
2008	Wilkes-Barre, PA
2008	Raleigh, NC
2008	Savannah, GA

Company-Owned Mitchell's Fish Market Restaurants			Company-Owned Mitchell's Steak house Restaurants		
Year Acquired	Locations	Property Leased or Owned	Year Acquired	Locations	Property Leased or Owned
2008	Grandview, OH**	Leased	2008	Columbus (Downtown), OH	Leased
2008	Crosswoods, OH	Leased	2008	Birmingham, MI	Leased
2008	Pittsburgh - Waterfront, PA	Leased	2008	Polaris, OH	Leased
2008	Newport, KY	Leased			
2008	Louisville, KY	Leased			
2008	Lansing, MI	Leased			
2008	Birmingham, MI	Leased			
2008	Cleveland, OH	Leased			
2008	West Chester, OH	Leased			
2008	Glenview, IL	Leased			
2008	Carmel, IN	Leased			
2008	Livonia, MI	Leased			
2008	Pittsburgh (South Hills Galleria), PA	Leased			
2008	Tampa, FL	Leased			
2008	Rochester Hills, MI	Leased			
2008	Brookfield, WI	Leased			
2008	Sandestin, FL	Leased			
2008	Jacksonville, FL	Leased			
2008	Stamford, CT	Leased			

* The Company owns the building and leases the land pursuant to a long-term ground lease.

**These restaurants were previously owned, but were sold and leased back in fiscal 2008.

The Company has also entered into lease commitments to develop four additional company-owned Ruth's Chris restaurants in Dedham, Massachusetts; Thousand Oaks, California; Reno, Nevada; and Phoenix, Arizona. In addition, the Company has entered into lease commitments to develop one Mitchell's Fish Market and one Cameron's Steakhouse, both located in Phoenix, Arizona. The Company does not intend to develop these restaurants in 2009 and is negotiating with the various landlords for a release of its obligations.

Item 3. LEGAL PROCEEDINGS

In Re: Katherine Bush; In Re: Melia Stop; In Re: Shelly Goorevich.

In November 2007, the Company was named as the respondent in two Equal Employment Opportunity Commission (EEOC) charges filed by two former employees wherein each charging party filed a claim of discrimination against the Company on the basis of their sex. Separately, the Company received written demand for both monetary and non-monetary relief from counsel for the two charging parties accompanied by threatened litigation seeking putative, class-wide relief for similarly situated individuals. Subsequently, the company was named as the respondent in a third similar Equal Employment Opportunity Commission (EEOC) charge filed by a current employee. The Company has responded to the charges, denied liability, considers the claims without merit and will vigorously defend them. The Company is not currently able to determine the outcome of the pending EEOC charges, whether class-wide certification will occur, any possible exposures or whether such exposures would be material.

Nikko Rose and Brandon Rose v. Ruth's Chris Steak House Boston, LLC.

In November 2007 one current and one former employee filed a complaint in the United States District Court for the District of Massachusetts alleging that one of the Company's affiliates violated the Fair Standards Labor Act ("FLSA") by inappropriately taking the "tip credit" set forth in section 203 (m) of the FLSA. Plaintiffs filed the action seeking putative, class-wide relief though no judicial certification has been made. The Company is not currently able to determine the outcome of this pending action, whether class-wide certification will occur, any possible exposures or whether such exposures would be material.

Also, in November 2007, the same plaintiffs filed a complaint in the Massachusetts Superior Court for Suffolk County alleging that the Company violated Massachusetts General Laws, chapter 149, section 152A, by failing to remit to the wait staff the full amount of alleged service tips that the Company includes on its guest checks for private banquets. Plaintiffs also filed this action as a putative class action though no judicial certification had been made. In December 2008, the parties agreed to settle plaintiff's claims and the action was dismissed with prejudice.

David Niles v. Ruth's Hospitality Group, Inc.

In September 2008, a former employee filed a complaint in the United States District Court for the Southern District of New York alleging that the Company violated the Fair Standards Labor Act ("FLSA") by inappropriately taking the "tip credit" set forth in section 203 (m) of the FLSA and also alleging that the Company violated New York Labor Law Section 196-d by retaining a portion of plaintiff's tips and distributing them to non-tipped or managerial employees. Plaintiff filed the action seeking putative, class-wide relief though no judicial certification has been made. The Company is not currently able to determine the outcome of this pending action, whether class-wide certification will occur, any possible exposures or whether such exposures would be material.

From time to time, the Company has been named as a defendant in other litigation arising in the normal course of business. Claims typically pertain to "slip and fall" accidents at its restaurants, employment claims and claims from guests alleging illness, injury or other food quality, health or operational concerns. Other claims and disputes have arisen in connection with supply contracts, the site development and construction of system restaurants, and with respect to franchise matters. Certain of these claims are not covered by existing insurance policies; however, many are referred to and are covered by insurance, except for deductible amounts, and have not had a material effect on us. As of the date of hereof, we believe that the ultimate resolution of any such claims in the ordinary course of business will not materially affect our financial condition or earnings.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2008.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is listed on the Nasdaq Global Select Market under the trading symbol "RUTH." As of March 10, 2009, there were 37 holders of record of its common stock. The transfer agent and registrar for its common stock is American Stock Transfer & Trust Company, 59 Maiden Lane, New York, NY 10038, telephone (800) 937-5449.

There were no repurchases of the Company's equity securities by or on behalf of it during the fourth quarter of fiscal 2008 and the Company does not have a formal or publicly announced stock repurchase program.

The Company's common stock has been listed on the Nasdaq Global Select Market (formerly the Nasdaq National Market) since its initial public offering on August 8, 2005. The following table sets forth, for the period indicated, the highest and lowest closing sale price for its common stock for fiscal 2007 and fiscal 2008, as reported by the Nasdaq Global Select Market:

	<u>High</u>	<u>Low</u>
Fiscal Year ended December 30, 2007		
First Quarter	\$22.67	\$18.35
Second Quarter	\$20.55	\$16.95
Third Quarter	\$18.14	\$14.25
Fourth Quarter	\$14.46	\$ 8.76
Fiscal Year ended December 28, 2008		
First Quarter	\$ 8.94	\$ 6.27
Second Quarter	\$ 8.27	\$ 5.30
Third Quarter	\$ 5.35	\$ 3.56
Fourth Quarter	\$ 4.15	\$.92

The closing sale price for its common stock on March 10, 2009 was \$0.94.

Dividend Policy

The Company currently expects to retain all future earnings to finance the growth of its business. Since its acquisition by affiliates of Madison Dearborn in 1999, the Company has not paid, and has no current plans to pay in the future, cash dividends to holders of its common stock. The payment of dividends is within the discretion of the Company's board of directors and will depend on its earnings, capital requirements and operating and financial condition, among other factors. In addition, the Company's senior credit facilities limit its ability to pay dividends. The Company may not pay a dividend if there is a default (or if a default would result from such dividend payment) under its senior credit facilities, and may not pay dividends in excess of an aggregate of \$1.0 million in any fiscal year.

Unregistered Recent Sales of Securities

None.

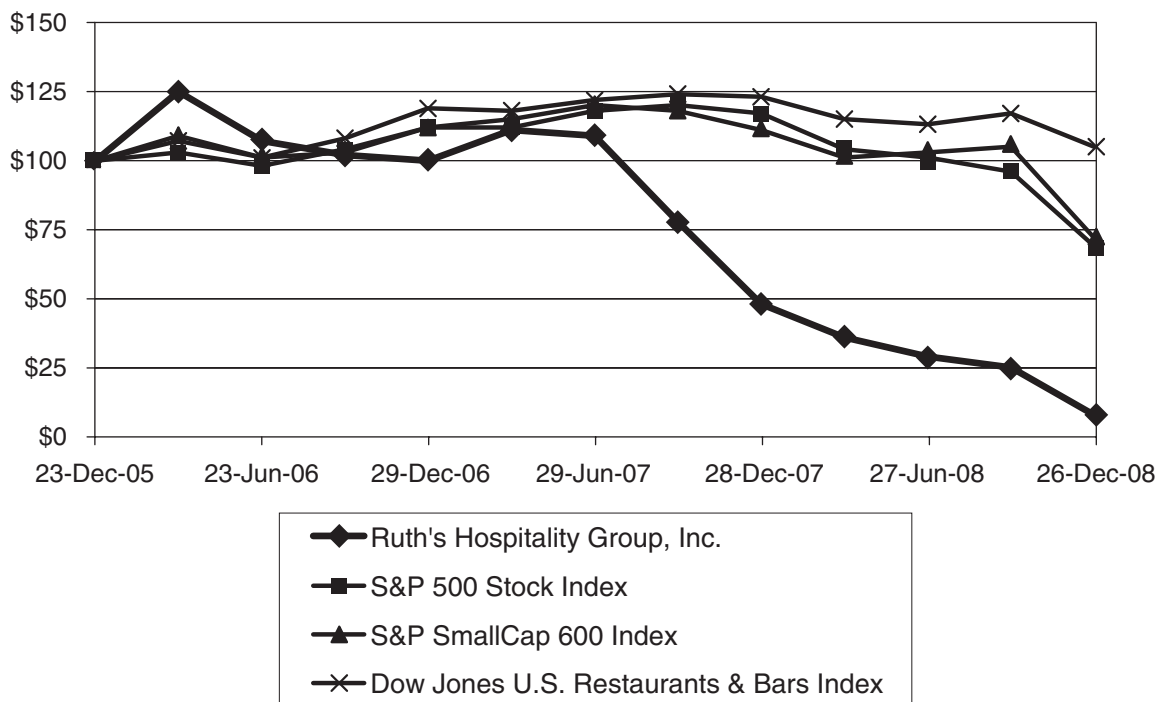
Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this Annual Report on Form 10-K for information regarding securities authorized for issuance under the Company's equity compensation plans.

Performance Graph

The following table and graph shows the cumulative total stockholder return on the Company's Common Stock with the S&P 500 Stock Index, the S&P SmallCap 600 Index and the Dow Jones U.S. Restaurants & Bars Index, in each case assuming an initial investment of \$100 on December 23, 2005 and full dividend reinvestment.

CUMULATIVE TOTAL RETURN
Assuming an investment of \$100 and reinvestment of dividends



	12/23/05	3/24/06	6/23/06	9/22/06	12/29/06	3/30/07	6/29/07	9/28/07	12/28/07	3/28/08	6/27/08	9/26/08	12/26/08
Ruth's Hospitality Group, Inc.	\$100	\$125	\$107	\$102	\$100	\$111	\$109	\$ 78	\$ 48	\$ 36	\$ 29	\$ 25	\$ 8
S&P 500 Stock Index	100	103	98	104	112	112	118	120	117	104	101	96	69
S&P SmallCap 600 Index	100	109	101	103	112	115	120	118	111	101	103	105	72
Dow Jones U.S. Restaurants & Bars Index	100	107	101	108	119	118	122	124	123	115	113	117	105

All amounts rounded to the nearest dollar.

The stock performance graph should not be deemed filed or incorporated by reference into any other filing made by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the stock performance graph by reference in another filing.

Item 6. SELECTED FINANCIAL DATA

The following table sets forth the Company's selected financial data for the year indicated and should be read in conjunction with the disclosures in Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition and Item 8, Financial Statements and Supplementary Data, of this report.

	Fiscal Year				
	2004	2005	2006	2007	2008
	(\$ in thousands)				
Income Statement Data:					
Revenues:					
Restaurant sales	\$179,083	\$199,621	\$254,718	\$303,658	\$390,441
Franchise income	9,500	11,432	12,399	12,896	12,703
Other operating income	646	777	4,362	2,617	2,641
Total revenues	<u>189,229</u>	<u>211,830</u>	<u>271,479</u>	<u>319,171</u>	<u>405,785</u>
Costs and expenses:					
Food and beverage costs	60,303	61,804	82,017	97,432	122,974
Restaurant operating expenses	81,200	91,155	113,746	141,477	200,078
Marketing and advertising	6,634	6,696	8,328	8,447	13,819
General and administrative costs	10,938	15,208	22,974	25,111	29,429
Depreciation and amortization expenses	6,345	6,489	8,690	12,010	17,031
Pre-opening costs	364	1,623	2,046	5,020	2,869
Hurricane and relocation costs, net of insurance proceeds	—	2,660	(3,948)	(3,478)	—
Loss on impairment	—	—	970	—	81,273
Restructuring expense	—	—	—	—	8,926
Loss on the disposal of property and equipment, net	—	—	13	1,229	508
Operating income (loss)	<u>23,445</u>	<u>26,195</u>	<u>36,643</u>	<u>31,923</u>	<u>(71,122)</u>
Other income (expense):					
Interest expense	(10,320)	(8,453)	(2,856)	(5,956)	(10,334)
Accrued dividends and accretion on mandatorily redeemable senior preferred stock	(5,071)	(1,891)	—	—	—
Other	<u>(1,099)</u>	<u>(39)</u>	<u>34</u>	<u>724</u>	<u>868</u>
Income (loss) from continuing operations before income tax expense	6,955	15,812	33,822	26,691	(80,588)
Income tax expense (benefit)	<u>736</u>	<u>5,043</u>	<u>10,098</u>	<u>8,541</u>	<u>(27,395)</u>
Income (loss) from continuing operations	6,219	10,769	23,724	18,150	(53,193)
Discontinued operations, net of income tax benefit	<u>3,777</u>	<u>(164)</u>	<u>(66)</u>	<u>4</u>	<u>690</u>
Net income (loss)	<u>\$ 2,442</u>	<u>\$ 10,933</u>	<u>\$ 23,790</u>	<u>\$ 18,146</u>	<u>\$ (53,883)</u>

	Fiscal Year				
	2004	2005	2006	2007	2008
	(\$ in thousands, except per share data)				
Less dividends earned on junior preferred stock and warrant expense	5,373	3,753	—	—	—
Net income (loss) available to common shareholders	\$ (2,931)	\$ 7,180	\$ 23,790	18,146	(53,883)
Basic earnings (loss) per common share:					
Continuing operations	\$ 0.07	\$ 0.39	\$ 1.02	\$ 0.78	\$ (2.28)
Discontinued operations	(0.32)	0.01	0.01	—	(.03)
Basic earnings (loss) per share ..	\$ (0.25)	\$ 0.40	\$ 1.03	\$ 0.78	\$ (2.31)
Diluted earnings (loss) per common share:					
Continuing operations	\$ 0.07	\$ 0.38	\$ 1.01	\$ 0.78	\$ (2.28)
Discontinued operations	(0.32)	0.01	0.01	—	(.03)
Diluted earnings (loss) per share	\$ (0.25)	\$ 0.39	\$ 1.02	\$ 0.78	\$ (2.31)
Shares used in computing net income (loss) per common share:					
Basic	11,917,093	17,961,198	23,175,323	23,206,864	23,308,906
Diluted	11,917,093	18,710,141	23,429,185	23,399,446	23,308,906
Balance Sheet Data (at end of fiscal year):					
Cash and cash equivalents	\$ 3,906	\$ 8,985	\$ 4,690	\$ 12,311	\$ 3,876
Total assets	113,482	134,196	209,720	260,278	293,519
Total long-term debt including current portion	80,931	38,500	68,000	96,750	160,250
Mandatorily redeemable senior preferred stock	39,857	—	—	—	—
Total shareholders' equity (deficit) ...	(51,513)	40,265	67,978	88,067	37,142

* Certain prior year amounts have been reclassified to conform with the current year presentation of discontinued operations and other income. These reclassifications had no effect on previously reported net income.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Overview

Ruth's Hospitality Group, Inc. is a leading restaurant company focused on the upscale dining segment. The Ruth's Chris menu features a broad selection of high-quality USDA Prime and Choice grade steaks and other premium offerings served in Ruth's Chris' signature fashion—"sizzling" and topped with seasoned butter—complemented by other traditional menu items inspired by our New Orleans heritage. The Ruth's Chris restaurants reflect the more than 40-year commitment to the core values instilled by our founder, Ruth Fertel, of caring for our guests by delivering the highest quality food, beverages and service in a warm and inviting atmosphere. We believe that Ruth's Chris is one of the strongest brands in the upscale steakhouse category.

Our restaurants cater to families and special occasion diners, in addition to the business clientele traditionally served by upscale steakhouses, by providing a dining experience designed to appeal to a wide range

of guests. We believe our focus on creating this broad appeal provides us with opportunities to expand into a wide range of markets, including many markets not traditionally served by upscale steakhouses.

We offer USDA Prime and Choice grade steaks that are aged and prepared to exact company standards and cooked in 1,800-degree broilers. We also offer veal, lamb, poultry and seafood dishes, and a broad selection of appetizers, including New Orleans-style barbequed shrimp, mushrooms stuffed with crabmeat, shrimp remoulade, Louisiana seafood gumbo, onion soup au gratin, crabtini and seven salad variations. We complement our distinctive food offerings with an award-winning core wine list, typically featuring bottles priced at between \$24 and \$2,000 and many selections offered by the glass. The current average check is \$42 at lunch and \$74 at dinner.

As of December 28, 2008, there were 130 Ruth's Chris restaurants, of which 66 were company-owned and 64 were franchisee-owned, including 13 international franchisee-owned restaurants in Aruba, Mexico, Hong Kong, Taiwan, Japan and Canada. In fiscal 2008, we had total revenues of \$405.8 million and operating income (excluding loss on impairment and restructuring costs) of \$19.1 million.

On February 19, 2008, we completed the acquisition of the operating assets and intellectual property of Mitchell's Fish Market, operating under the names Mitchell's Fish Market and Columbus Fish Market, and Cameron's Steakhouse, operating under the names Cameron's Steakhouse and Mitchell's Steakhouse from Cameron Mitchell Restaurants, LLC (CMR) for approximately \$93.0 million, including capitalized acquisition costs. There are currently 19 Mitchell's Fish Markets and three Cameron's Steakhouse's with locations in the Midwest, Northeast, and Florida. Mitchell's Fish Market is an award-winning, upscale, yet comfortable, seafood restaurant and bar recognized for its high quality food, contemporary dining atmosphere, and excellent service. We believe that Mitchell's focus on upscale casual dining is a wonderful complement to our own brand.

Mitchell's Fish Market is committed to fresh seafood and all of its seafood is flown in daily. Although the menu changes frequently based on availability and season, it includes more than 80 seafood choices, including fish from all over the world. The current average check is \$22 at lunch and \$38 at dinner. The Cameron's Steakhouses are a sophisticated 21st century update of the upscale American steakhouse.

Key Financial Terms and Metrics

We evaluate our business using a variety of key financial measures:

Restaurant Sales. Restaurant sales consist of food and beverage sales by company-owned restaurants. Restaurant sales are primarily influenced by total operating weeks in the relevant period and comparable restaurant sales growth. Total operating weeks is the total number of company-owned restaurants multiplied by the number of weeks each is in operation during the relevant period. Total operating weeks is impacted by restaurant openings and closings, as well as changes in the number of weeks included in the relevant period. Comparable restaurant sales growth reflects the change in year-over-year or quarter-over-quarter, as applicable, sales for the comparable restaurant base. We define the comparable restaurant base to be those company-owned restaurants in operation for not less than fifteen months prior to the beginning of the fiscal quarter including the period being measured. Comparable restaurant sales growth is primarily influenced by the number of entrées sold and the average guest check. The number of entrees sold is influenced by the popularity of our menu items, our guest mix, our ability to deliver a high quality dining experience and overall economic conditions. Average guest check, a measure of total restaurant sales divided by the number of entrées, is driven by menu mix and pricing.

Franchise Income. Franchise income includes (1) franchise and development option fees charged to franchisees and (2) royalty income. Franchise royalties consist of 5.0% of adjusted gross sales from each franchisee-owned restaurant. We evaluate the performance of our franchisees by measuring franchisee-owned restaurant operating weeks, which is impacted by franchisee-owned restaurant openings and closings, and comparable franchisee-owned restaurant sales growth, which together with operating weeks, drives its royalty income.

Other Operating Income. Other operating income includes banquet related guarantee and services revenue and other incidental guest fees as well as other licensing fees and income and discounts associated with the sale of gift cards. While we always honor gift cards, even beyond any stated expiration dates on the card and as required in several jurisdictions, our historical experience has shown that very few cards are redeemed after 18 months following the issue date. As such, we record in other operating income the full remaining value (original issue less any partial redemptions) of any gift cards unredeemed after 18 months from the date of last activity, subject to limitations in some jurisdictions in which we operate.

Food and Beverage Costs. Food and beverage costs include all restaurant-level food and beverage costs of company-owned restaurants. We measure food and beverage costs by tracking cost of sales as a percentage of restaurant sales and cost per entrée. Food and beverage costs are generally influenced by the cost of food and beverage items, distribution costs and menu mix.

Restaurant Operating Expenses. We measure restaurant-operating expenses for company-owned restaurants as a percentage of restaurant sales. Restaurant operating expenses include the following:

- Labor costs, consisting of restaurant management salaries, hourly staff payroll and other payroll-related items, including taxes and fringe benefits. We measure our labor cost efficiency by tracking hourly and total labor costs as a percentage of restaurant sales;
- Operating costs, consisting of maintenance, utilities, bank and credit card charges, and any other restaurant-level expenses; and
- Occupancy costs, consisting of both fixed and variable portions of rent, common area maintenance charges, insurance premiums and real property taxes.

Marketing and Advertising. Marketing and advertising includes all media, production and related costs for both local restaurant advertising and national marketing. We measure the efficiency of our marketing and advertising expenditures by tracking these costs as a percentage of total revenues. We have historically spent approximately 2.5% to 4.0% of total revenues on marketing and advertising and expect to maintain this level in the near term. All franchise agreements executed based on our new form of franchise agreement include up to a 1.0% advertising fee in addition to the 5.0% royalty fee. We spend this designated advertising fee on national advertising and record these fees as liabilities against which specified advertising and marketing costs will be charged.

General and Administrative. General and administrative costs include costs relating to all corporate and administrative functions that support development and restaurant operations and provide an infrastructure to support future company and franchisee growth. General and administrative costs are comprised of management, supervisory and staff salaries and employee benefits, travel, information systems, training, corporate rent, professional and consulting fees, technology and market research. We measure our general and administrative expense efficiency by tracking these costs as a percentage of total revenues. We expect these expenses to decrease over time as a result of cost reduction efforts currently in place and our ability to leverage the investments made in our people and systems.

Depreciation and Amortization. Depreciation and amortization includes depreciation of fixed assets and certain definite life intangible assets. We depreciate capitalized leasehold improvements over the shorter of the total expected lease term or their estimated useful life. As a result of the loss on impairment recorded in fiscal 2008, depreciation and amortization are expected to decrease.

Pre-Opening Costs. Pre-opening costs consist of costs incurred prior to opening a company-owned restaurant, which are comprised principally of manager salaries and relocation costs, employee payroll and related training costs for new employees, including practice and rehearsal of service activities as well as lease costs incurred prior to opening. We expect these costs to decrease as a result of a decrease in the rate of company-owned restaurant growth.

Results of Operations

The table below sets forth certain operating data expressed as a percentage of total revenues for the periods indicated. Our historical results are not necessarily indicative of the operating results that may be expected in the future. Certain prior year amounts have been reclassified to conform with the current year presentation of discontinued operations and other income. These reclassifications had no effect on previously reported net income.

	Fiscal Year Ended		
	December 31, 2006	December 30, 2007	December 28, 2008
Revenues:			
Restaurant sales	93.8%	95.1%	96.2%
Franchise income	4.6%	4.1%	3.1%
Other operating income	1.6%	0.8%	0.7%
Total revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Food and beverage costs (percentage of total revenues)	30.2%	30.5%	30.3%
Restaurant operating expenses (percentage of total revenues)	41.9%	44.3%	49.3%
Marketing and advertising	3.1%	2.6%	3.4%
General and administrative costs	8.5%	7.9%	7.3%
Depreciation and amortization expenses	3.2%	3.8%	4.2%
Pre-opening costs	0.8%	1.6%	0.7%
Hurricane and relocation costs, net of insurance proceeds	(1.5)%	(1.1)%	—
Loss on impairment	0.4%	—	20.0%
Restructuring costs	—	—	2.2%
Loss on the disposal of property and equipment, net	—	0.4%	0.1%
Operating income	13.4%	10.1%	(17.5)%
Other income (expense):			
Interest expense	(1.1)%	(1.9)%	(2.5)%
Other	—	0.2%	0.2%
Income (loss) from continuing operations before income tax expense	12.3%	8.4%	(19.8)%
Income tax expense (benefit)	3.7%	2.7%	(6.8)%
Income (loss) from continuing operations	8.6%	5.7%	(13.0)%
Discontinued operations, net of income tax benefit	—	—	—
Net income (loss)	8.6%	5.7%	(13.0)%

Fiscal Year 2008 Compared to Fiscal Year 2007

Restaurant sales. Restaurant sales increased \$86.7 million, or 28.5%, to \$390.4 million in fiscal 2008 from \$303.7 million in fiscal 2007. This increase was due primarily to an additional \$74.5 million contributed from 22 Mitchell's restaurants acquired during fiscal 2008, and \$40.8 million from restaurants opened during fiscal 2007 and 2008. This increase was offset by a decrease in comparable restaurant sales. Ruth's Chris comparable restaurants experienced a sales decrease of 10.3%, consisting of a 10.2% decrease in entrée growth (traffic) partially offset by sales mix shifts as per entrée check average remained unchanged from 2007.

Franchise Income. Franchise income decreased \$0.2 million, or 1.6%, to \$12.7 million in fiscal 2008 from \$12.9 million in fiscal 2007. The decrease was driven primarily by a \$0.3 million reduction in franchise fees. Operational weeks increased 19.2% while blended comparable franchise-owned restaurant sales decreased 9.9%.

Other Operating Income. Other operating income remained unchanged at \$2.6 million in fiscal 2008 from fiscal 2007.

Food and Beverage Costs. Food and beverage costs increased \$25.6 million, or 26.3%, to \$123.0 million in fiscal 2008 from \$97.4 million in fiscal 2007. The increase was due to higher restaurant sales and partially offset by lower meat costs. As a percentage of restaurant sales, food and beverage costs decreased to 31.5% in fiscal 2008 from 32.1% in fiscal 2007. This decrease in food and beverage costs as a percentage of restaurant sales was due to favorable beef costs and modest price increases, partially offset by higher seafood, grocery, produce, and dairy costs.

Restaurant Operating Expenses. Restaurant operating expenses increased \$58.6 million, or 41.4%, to \$200.1 million in fiscal 2008 from \$141.5 million in fiscal 2007. The increase was due to higher restaurant sales in fiscal 2008, increased hourly labor costs, staffing related to new restaurant openings and increased occupancy costs. Restaurant operating expenses, as a percentage of restaurant sales, increased to 51.2% in fiscal 2008 from 46.6% in fiscal 2007. This increase in restaurant operating expenses as a percentage of restaurant sales was due to increased labor, operating, and occupancy expenses of newly opened restaurants as well as reduced fixed expense leverage experienced from lower comparable restaurant sales.

Marketing and Advertising. Marketing and advertising expenses increased \$5.4 million, or 64.3%, to \$13.8 million in fiscal 2008 from \$8.4 million in fiscal 2007. Marketing and advertising expenses, as a percentage of total revenues, increased to 3.4% in fiscal 2008 from 2.6% in fiscal 2007. This increase was primarily due to value promotions introduced during the second half of 2008 aimed at improving guest traffic.

General and Administrative Costs. General and administrative costs increased \$4.3 million, or 17.1%, to \$29.4 million in fiscal 2008 from \$25.1 million in fiscal 2007. General and administrative costs, as a percentage of total revenues, decreased to 7.2% in fiscal 2008 from 7.9% in fiscal 2007. This decrease was primarily due to our corporate reorganization completed during the 4th quarter of 2008.

Depreciation and Amortization Expenses. Depreciation and amortization expense increased \$5.0 million, or 41.7%, to \$17.0 million in fiscal 2008 from \$12.0 million in fiscal 2007. The increase was due primarily to the addition of new Ruth's Chris company-owned restaurants and acquired restaurants during 2007 and 2008 as well as investments at our existing company-owned restaurants and corporate headquarters.

Pre-Opening Costs. Pre-opening costs decreased \$2.1 million, or 42.0%, to \$2.9 million in fiscal 2008 from \$5.0 million in fiscal 2007. This decrease was due to the opening of five new Ruth's Chris company-owned restaurants in fiscal 2008 versus eight locations during fiscal 2007.

Hurricane and Relocation costs net of insurance proceeds. We recognized income, net of relocation costs, of \$0.0 million in fiscal 2008 from \$3.5 million in fiscal 2007. These net insurance proceeds recognized in 2007 related to our business interruption losses and property losses in New Orleans and Metairie, Louisiana and Biloxi, Mississippi as a result of Hurricane Katrina. We finalized the claim in fiscal 2007 and do not expect further proceeds related to the Hurricane Katrina.

Loss on Impairment. We recognized a loss on the impairment of long-lived and intangible assets of \$81.3 million in fiscal 2008 compared with no impairments in fiscal 2007. Of the total loss on impairment recognized, \$32.1 million was related to the impairment of long-lived assets, \$12.1 million was related the impairment of the Mitchell's Fish Market and Mitchell's Steakhouse trademarks and \$5.9 million was related to the impairment of franchise rights for three company-owned restaurants acquired in 2007. The remaining \$31.2 million was related to the impairment of goodwill.

Restructuring Expenses. We recognized restructuring expenses of \$8.9 million in fiscal 2008 compared with \$0.0 million in fiscal 2007. Of the \$8.9 million, \$2.2 million was severance related costs, \$6.0 million was

related to contingent lease liability charges and write-offs of capitalized development costs on 2009 scheduled company-owned restaurant development. The remaining \$0.7 million was related to a contingent lease liability for vacated leased office space.

Interest Expense. Interest expense, net of interest income, increased \$4.3 million, or 71.7%, to \$10.3 million in fiscal 2008 from \$6.0 million in fiscal 2007. This increase was primarily due to the additional borrowings related to the 2007 and 2008 acquired restaurants as well as higher interest rates on those borrowings. Interest expense during the year included a \$1.0 million “mark to market” non-cash charge related to an interest rate swap.

Income Tax Expense (Benefit). Income tax expense decreased \$35.9 million, or 422.4%, to a net benefit of \$(27.4) million in fiscal 2008 from a \$8.5 million expense in fiscal 2007. The decrease was due to a net loss before income tax that was partially offset by an increase in the annual effective tax rate from 32.0% in fiscal 2007 to 34.0% in fiscal 2008.

Income (Loss) from Continuing Operations. Income from continuing operations decreased \$71.4 million, or 392.3%, to a loss of \$53.2 million in fiscal 2008 from income of \$18.2 million in fiscal 2007.

Discontinued Operations, net of Income Tax Benefit. Discontinued operations resulted in \$690,000 of expense in fiscal 2008 compared to \$4,000 of expense in fiscal 2007. Discontinued operations income and expense relates to former operations in Cleveland, Ohio and Manhattan, NY. On June 25, 2006 we closed our Cleveland, Ohio restaurant whose lease term ended in September 2006. We determined that the closed restaurant should be accounted for as discontinued operations because we do not expect any further direct or indirect cash flows from the discontinued restaurant as the restaurant has completely ceased operation.

On December 24, 2004, we closed our Manhattan-UN, New York restaurant operation, one of our two Ruth’s Chris Steak House locations in Manhattan, New York. Prior to and including 2004, we experienced operating losses at our Manhattan-UN, New York restaurant location, which was a leased property. During August 2005, we entered into an agreement with the Manhattan-UN, New York landlord whereby: (1) we made a one-time payment of \$0.3 million to the landlord for rent, commission on replacement lease, and attorney’s fees; (2) the existing lease was terminated; and (3) we allowed the landlord to contract with a third party replacement tenant; and (4) adjusted the remaining contingent lease term from eleven years to six years. Under the agreement, after the third anniversary, if the replacement tenant defaulted on the new lease anytime during the six years, we would be required to enter into a new agreement with the landlord for the remaining term. During the third quarter of fiscal 2007, we were notified that the replacement tenant was placed in default by the landlord and as a result, we resumed lease payments with respect to this property during the third quarter of fiscal 2008. Payments will equal \$0.1 million in the aggregate per fiscal quarter through September 2016. We will attempt to sublease the property for the duration of the lease term in order to recover some or all of the amounts paid with respect to the lease. We have so far been unable to find a sub-lessee for part or all of the remaining lease term. At December 28, 2008, we maintained a contingent lease liability of \$1.1 million related to this property.

Fiscal Year 2007 Compared to Fiscal Year 2006

Restaurant sales. Restaurant sales increased \$48.9 million, or 19.2%, to \$303.7 million in fiscal 2007 from \$254.7 million in fiscal 2006. This increase was due primarily to an additional \$31.7 million contributed from 13 restaurants acquired during fiscal 2006 and 2007, and \$26.5 million from restaurants opened during fiscal 2006 and 2007. This increase was partially offset by a reduction of \$6.7 million from the additional week of operations during fiscal 2006 as well as a \$2.6 million decrease in comparable restaurant sales. Comparable restaurants open throughout both fiscal years experienced a sales decrease of 1.0%, consisting of a 4.7% decrease in entrée growth (traffic) partially offset by a 3.7% increase in per entrée spending. The increase in per entrée spending was driven by a shift in sales mix as well as menu price increases of approximately 2.0% and 2.8% taken in January 2007 and October 2007. These factors increased the average per check spending to \$74.36 for fiscal 2007.

Franchise Income. Franchise income increased \$0.5 million, or 4.0%, to \$12.9 million in fiscal 2007 from \$12.4 million in fiscal 2006. The increase was due primarily to the opening of ten new franchise-owned restaurants in 2007 as well as the full-year impact of seven new franchisee-owned restaurants that opened during fiscal 2006. These increases were partially offset by the acquisition by the Company of seven franchise-owned restaurants during fiscal 2006 and three franchise-owned restaurants in the third quarter of fiscal 2007, as well as a comparable restaurant sales decrease of 0.2%.

Other Operating Income. Other operating income decreased \$1.8 million, or 40.9%, to \$2.6 million in fiscal 2007 from \$4.4 million in fiscal 2006. The decrease is due to the recognition of \$2.0 million in gift card related revenues in fiscal 2007 compared to \$3.7 million in fiscal 2006.

Food and Beverage Costs. Food and beverage costs increased \$15.4 million, or 18.8%, to \$97.4 million in fiscal 2007 from \$82.0 million in fiscal 2006. The increase was due to higher restaurant sales and partially offset by lower meat costs. As a percentage of restaurant sales, food and beverage costs decreased to 32.1% in fiscal 2007 from 32.2% in fiscal 2006. This decrease in food and beverage costs as a percentage of restaurant sales was due to favorable beef costs and modest price increases, partially offset by higher produce and dairy costs.

Restaurant Operating Expenses. Restaurant operating expenses increased \$27.8 million, or 24.5%, to \$141.5 million in fiscal 2007 from \$113.7 million in fiscal 2006. The increase was due to higher restaurant sales in fiscal 2007, increased hourly labor costs, staffing related to new restaurant openings and increased occupancy costs. Restaurant operating expenses, as a percentage of restaurant sales, increased to 46.6% in fiscal 2007 from 44.7% in fiscal 2006. This increase in restaurant operating expenses as a percentage of restaurant sales was due to increased labor, operating, and occupancy expenses of newly opened restaurants as well as reduced fixed expense leverage experienced from lower comparable restaurant sales and the additional operating week during fiscal 2006.

Marketing and Advertising. Marketing and advertising expenses increased \$0.1 million, or 1.2%, to \$8.4 million in fiscal 2007 from \$8.3 million in fiscal 2006. Marketing and advertising expenses, as a percentage of total revenues, decreased to 2.6% in fiscal 2007 from 3.1% in fiscal 2006. This decrease was primarily due to reduced utilization of television and national radio as well as reduced agency fees during fiscal 2007.

General and Administrative Costs. General and administrative costs increased \$2.1 million, or 9.1%, to \$25.1 million in fiscal 2007 from \$23.0 million in fiscal 2006. General and administrative costs, as a percentage of total revenues, decreased to 7.9% in fiscal 2007 from 8.5% in fiscal 2006. This increase is due to \$0.8 million in non-cash compensation expense under FAS123R, \$0.6 million of non-recurring severance and Mitchell's acquisitions costs, and the full year impact of the support personnel hired during 2006 and fiscal 2007. These increases were partially offset by reduced levels of incentive compensation.

Depreciation and Amortization Expenses. Depreciation and amortization expense increased \$3.3 million, or 37.9%, to \$12.0 million in fiscal 2007 from \$8.7 million in fiscal 2006. The increase was due primarily to the addition of new company-owned restaurants and acquired restaurants during 2006 and 2007 as well as investments at our existing company-owned restaurants and corporate headquarters.

Pre-Opening Costs. Pre-opening costs increased \$3.0 million, or 150.0%, to \$5.0 million in fiscal 2007 from \$2.0 million in fiscal 2006. This increase was due to the opening of eight new company-owned restaurants in fiscal 2007 versus three locations during fiscal 2006.

Hurricane and Relocation costs net of insurance proceeds. We recognized income, net of relocation costs, of \$3.5 million in fiscal 2007 from \$3.9 million in fiscal 2006. These net insurance proceeds related to our business interruption losses and property losses in New Orleans and Metairie, Louisiana and Biloxi, Mississippi as a result of Hurricane Katrina. We finalized our claim in fiscal 2007 and do not expect any significant expenses or proceeds related to the Hurricane Katrina in the future.

Interest Expense. Interest expense, net of interest income, increased \$3.1 million, or 106.9%, to \$6.0 million in fiscal 2007 from \$2.9 million in fiscal 2006. This increase was primarily due to the additional borrowings related to the 2006 and 2007 acquired restaurants as well as higher interest rates on those borrowings. Interest expense during the year included a \$1.2 million “mark to market” non-cash charge related to an interest rate swap.

Income Tax Expense. Income tax expense decreased \$1.6 million, or 15.8%, to \$8.5 million in fiscal 2007 from \$10.1 million in fiscal 2006. The decrease was primarily due to a reduced income before income tax and partially offset by an increase in the annual effective tax rate from 29.9% in fiscal 2006 to 32.0% in fiscal 2007.

Income from Continuing Operations. Income from continuing operations decreased \$5.5 million, or 23.2%, to \$18.2 million in fiscal 2007 from \$23.7 million in fiscal 2006.

Discontinued Operations, net of Income Tax Benefit. Discontinued operations resulted in \$4,000 of expense in fiscal 2007 compared to \$66,000 of income in fiscal 2006. Discontinued operations income and expense relates to former operations in Cleveland, Ohio and Manhattan, NY. On June 25, 2006 we closed our Cleveland, Ohio restaurant whose lease term ended in September 2006. We determined that the closed restaurant should be accounted for as discontinued operations because we do not expect any further direct or indirect cash flows from the discontinued restaurant as the restaurant has completely ceased operation. On December 24, 2004, we closed our Manhattan-UN, New York restaurant operation, one of our two Ruth’s Chris Steak House locations in Manhattan, New York. Prior to and including 2004, we experienced operating losses at our Manhattan-UN, New York restaurant location, which was a leased property. During August 2005, we entered into an agreement with the Manhattan-UN, New York landlord whereby: (1) we made a one-time payment of \$0.3 million to the landlord for rent, commission on replacement lease, and attorney’s fees; (2) the existing lease was terminated; and (3) we allowed the landlord to contract with a third party replacement tenant; and (4) adjusted the remaining contingent lease term from eleven years to six years. Under the agreement, after the third anniversary, if the replacement tenant defaulted on the new lease anytime during the six years, we would be required to enter into a new agreement with the landlord for the remaining term. During the third quarter of fiscal 2007, we were notified that the replacement tenant was placed in default by the landlord and as a result, we resumed lease payments with respect to this property during the third quarter of fiscal 2008. Payments will equal \$0.1 million in the aggregate per fiscal quarter through September 2016. We will attempt to sublease the property for the duration of the lease term in order to recover some or all of the amounts paid with respect to the lease. We have so far been unable to find a sub-lessee for part or all of the remaining lease term. At December 30, 2007, we maintained a contingent lease liability of \$0.2 million related to this property.

Potential Fluctuations in Quarterly Results and Seasonality

Our quarterly operating results may fluctuate significantly as a result of a variety of factors. See “Risk Factors,” which discloses certain material risks that could affect its quarterly operating results.

Our business is also subject to seasonal fluctuations. Historically, the percentages of our annual total revenues during the first and fourth fiscal quarters have been higher 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. In the future, operating results may fall below the expectations of securities analysts and investors. If this occurs, the price of our common stock would likely decrease. The following table presents summary quarterly results of operations for fiscal 2007 and fiscal 2008.

	Quarter Ended				Quarter Ended			
	April 1, 2007	July 1, 2007	September 30, 2007	Decem ber 30, 2007	March 30, 2008	June 29, 2008	September 28, 2008	Decem ber 28, 2008
	(\$ in millions, except per share data)							
Total revenues	\$81.5	\$78.5	\$70.1	\$89.0	\$98.6	\$108.1	\$ 99.3	\$ 99.8
Cost and expenses	70.6	69.4	66.3	80.8	89.3	103.4	97.9	95.6
Operating margin	<u>\$10.9</u>	<u>\$ 9.1</u>	<u>\$ 3.8</u>	<u>\$ 8.2</u>	<u>\$ 9.3</u>	<u>\$ 4.7</u>	<u>\$ 1.4</u>	<u>\$ 4.2</u>
Interest expense, net	(1.0)	(1.2)	(1.5)	(2.3)	(3.2)	(1.2)	(2.5)	(3.4)
Loss on impairment	—	—	—	—	—	—	—	(81.3)
Restructuring expenses	—	—	—	—	—	—	—	(8.9)
Loss on the disposal of property and equipment, net	—	—	—	—	—	—	—	(0.4)
Other	—	—	—	—	0.3	0.2	0.2	(0.1)
Income (loss) from continuing operations before income tax	9.9	7.9	2.3	5.9	6.4	3.7	(0.9)	(89.9)
Income tax expense (benefit)	3.2	2.7	0.9	1.9	1.9	1.0	(0.4)	(29.8)
Income (loss) from continuing operations	<u>6.7</u>	<u>5.2</u>	<u>1.4</u>	<u>4.1</u>	<u>4.5</u>	<u>2.7</u>	<u>(0.5)</u>	<u>(60.1)</u>
Discontinued operations, net of income tax benefit	—	—	—	—	—	—	0.1	0.6
Net income (loss)	<u>\$ 6.7</u>	<u>\$ 5.2</u>	<u>\$ 1.4</u>	<u>\$ 4.1</u>	<u>\$ 4.5</u>	<u>\$ 2.7</u>	<u>\$ (0.6)</u>	<u>\$(60.7)</u>
Less dividends earned on junior preferred stock and warrant expense	—	—	—	—	—	—	—	—
Net Income (loss) available to common shareholders	<u>\$ 6.7</u>	<u>\$ 5.2</u>	<u>\$ 1.4</u>	<u>\$ 4.1</u>	<u>\$ 4.5</u>	<u>\$ 2.7</u>	<u>\$ (0.6)</u>	<u>\$(60.7)</u>
Basic earnings (loss) per share:								
Continuing operations	<u>\$0.29</u>	<u>\$0.23</u>	<u>\$0.08</u>	<u>\$0.18</u>	<u>\$0.19</u>	<u>\$ 0.11</u>	<u>\$(0.02)</u>	<u>\$(2.57)</u>
Discontinued operations	—	—	—	—	—	—	—	(0.03)
Basic earnings (loss) per share	<u>\$0.29</u>	<u>\$0.23</u>	<u>\$0.08</u>	<u>\$0.18</u>	<u>\$0.19</u>	<u>\$ 0.11</u>	<u>\$(0.02)</u>	<u>\$(2.60)</u>
Diluted earnings (loss) per share:								
Continuing operations	<u>\$0.29</u>	<u>\$0.23</u>	<u>\$0.08</u>	<u>\$0.18</u>	<u>\$0.19</u>	<u>\$ 0.11</u>	<u>\$(0.02)</u>	<u>\$(2.57)</u>
Discontinued operations	—	—	—	—	—	—	—	(0.03)
Diluted earnings (loss) per share	<u>\$0.29</u>	<u>\$0.23</u>	<u>\$0.08</u>	<u>\$0.18</u>	<u>\$0.19</u>	<u>\$ 0.11</u>	<u>\$(0.02)</u>	<u>\$(2.60)</u>
Shares (in millions) used in computing net income per common share:								
Basic	23.2	23.2	23.2	23.2	23.6	24.3	23.3	23.4
Diluted	23.4	23.4	23.4	23.4	23.7	24.4	23.3	23.4
Quarterly percentage of annual revenues	25.5%	24.6%	22.8%	27.9%	24.3%	26.6%	24.5%	24.6%
Operating margin (1)	13.4%	11.6%	5.5%	9.3%	9.4%	4.4%	1.4%	4.2%

- (1) Our measure of operating margin consists of operating income for a period divided by the total revenues for such period. Operating margin is used by the our management and investors to determine our ability to control expenses in relation to our total revenues, which allows our management and investors to more thoroughly evaluate our current performance as compared to past performance. We believe it is useful to our management and investors when presented on a quarterly basis because it allows our management and investors to accurately view seasonal fluctuations in these operating results.

During the fiscal quarter ended December 28, 2008, we recorded a loss on impairment of long-lived assets in the amount of \$32.1 million. These charges were related to the full impairment of fixtures and equipment and leasehold improvements at one Mitchell's Steakhouse, two Mitchell's Fish Market locations, three company-owned Ruth's Chris Steak House restaurants and our Millwork shop located in Sanford, Florida. In addition, we recorded a partial loss on impairment of fixtures and equipment and leasehold improvements at one Mitchell's Fish Market location, two company-owned Ruth's Chris Steak House restaurants and our corporate office building located in Heathrow, Florida.

Liquidity and Capital Resources

Our principal sources of cash during fiscal 2008 were net cash provided by operating activities and borrowings under our senior credit facilities. Our principal uses of cash during fiscal 2008 included the acquisition of the Mitchell's restaurants, capital expenditures and debt service. We expect that our principal uses of cash in the future will be to service debt.

During the fourth fiscal Quarter of 2008, we anticipated, due to declining comparable restaurant sales, a breach of our maximum Consolidated Leverage Ratio as of December 28, 2008. As a result, we began negotiations with our bank group, and on February 26, 2009, we signed an amendment reducing the revolving loan commitment from \$250.0 million to \$175.0 million, with additional reductions scheduled beginning December 31, 2009 through the final maturity date of February 19, 2013. The amendment decreases our Fixed Charge Coverage Ratio and increases our maximum Consolidated Leverage Ratio, in each case beginning with the fourth quarter of 2008 and continuing through the second quarter of 2010, after which these two covenants reset to their original levels. The amendment increases the interest rates applicable to borrowings based on our actual leverage ratio, ranging from 2.50% to 4.25% above the applicable LIBOR rate or, at our option, from 1.25% to 3.00% above the applicable base rate. As of December 28, 2008, we were in compliance with our covenants under the amended senior revolving credit facility.

In the fourth fiscal quarter of 2008, our Ruth's Chris comparable restaurant sales decreased 18.5% from the fourth fiscal quarter 2007. Negative comparable restaurant sales trends have continued through the first nine weeks of 2009. If restaurant sales trends continue to deteriorate throughout the balance of 2009, the impact on EBITDA may result in a breach of compliance with one or several of the financial covenants under the revised Credit Agreement. As a result, we cannot assure compliance with these covenants. Failure to comply with the covenants contained in the instruments governing the indebtedness could result in an event of default, which could materially and adversely affect our operating results and financial condition. Consequently, the ability to fund working capital, fund planned capital expenditures, make scheduled payments of principal or interest on the debt balance, or refinance the indebtedness, is subject to general economic conditions, competitive environment and other factors as described in Part I, Item 1A, "Risk Factors," in this Form 10-K. Based on internal financial forecasts, we expect to be in compliance with our financial covenants under the revised Credit Agreement in fiscal 2009.

Cash Flows

The following table summarizes our primary sources of cash in the periods presented:

	Fiscal Year		
	2006	2007	2008
Net cash provided by (used in):			
Operating activities	\$ 47,668	\$ 34,772	\$ 37,073
Investing activities	(84,218)	(56,082)	(107,949)
Financing activities	32,255	28,931	62,441
Net increase (decrease) in cash and cash equivalents	<u>\$ (4,295)</u>	<u>\$ 7,621</u>	<u>\$ (8,435)</u>

Our operations have not required significant working capital and, like many restaurant companies, we have been able to operate with negative working capital. Restaurant sales are primarily by cash or by credit card, and

restaurant operations do not require significant inventories or receivables. In addition, we receive trade credit for the purchase of food, beverage and supplies, thereby reducing the need for incremental working capital to sustain operations.

Operating Activities. Net cash provided by operating activities was \$47.7 million and \$34.8 million in fiscal 2006 and fiscal 2007, respectively, compared to \$37.1 million in fiscal 2008. The increase in net cash from operating activities from fiscal 2007 was primarily due to increase in payables, offset by lower net income.

Investing Activities. Net cash used in investing activities was \$84.2 million and \$56.1 million in fiscal 2006 and fiscal 2007, respectively, compared to \$108.0 million in fiscal 2008. The increase in 2008 resulted primarily from the acquisition of Mitchell's Fish Market and Steakhouses, offset by lower capital expenditures and \$17.0 million in proceeds from the sale-leaseback of five restaurants.

Financing Activities. Net cash provided by financing activities totaled \$32.3 million in fiscal 2006 and \$28.9 million in fiscal 2007 compared to \$62.4 million in fiscal 2008. The increase was driven by increased net borrowings made during fiscal 2008 to finance the Mitchell's acquisition.

Capital Expenditures

Capital expenditures and other acquisitions totaled \$125.0 million in fiscal 2008, \$56.2 million in fiscal 2007 and \$87.6 million in fiscal 2006. Capital expenditures in fiscal 2008 resulted from approximately \$93.0 million related to the acquisition of Mitchell's, \$24.3 million related to new restaurant construction, \$3.1 million for remodels, and \$4.6 million of maintenance capital. We anticipate capital expenditures in fiscal 2009 will be approximately \$10.0 million to \$12.0 million resulting from \$1.1 million related to remaining investments in restaurant construction, \$5.1 million for remodels and \$5.0 million in maintenance capital. We do not expect to open any company-owned restaurants in fiscal 2009.

Senior Credit Facility

On September 27, 2005, we entered into a senior credit facility with Wells Fargo Bank, National Association, as administrative agent, Bank of America, N.A., as documentation agent, and JPMorgan Chase Bank, National Association, Wells Fargo Bank, National Association as co-lead arrangers and Wachovia Bank, N.A. We used the \$38.5 million funded at closing under the Credit Agreement to prepay and retire borrowings under our previous credit facility and to pay related fees and expenses.

On May 17, 2006, we completed an amendment to our existing senior revolving credit facility to increase our availability under the facility to \$100.0 million. This amendment also provides that the revolving credit facility may be further increased by \$25.0 million upon our request (for a total commitment of \$125.0 million). The financial covenants, restrictive covenants and terms of the increased revolving credit facility were not amended.

On August 7, 2007, we completed a second amendment to our senior credit facility to increase our availability under the facility to \$150.0 million. Our ability to request additional funding through the revolving credit facility also increased with this amendment to \$50.0 million, for a total potential borrowing of \$200.0 million. The amendment also provided that \$50.0 million in proceeds may be utilized to repurchase our common stock, extended the maturity date of the outstanding principal from March 11, 2010 to August 7, 2012, and changed the maximum Consolidated Leverage Ratio in the financial covenants to 3.25:1.00. All other financial covenants, restrictive covenants and terms of the increased revolving credit facility remained unchanged.

On September 13, 2007, we entered into a three year interest rate swap to limit the variability of our interest payments. The notional amounts total \$75.0 million through September 17, 2008, \$50.0 million through September 17, 2009 and \$25.0 million through its expiration on September 17, 2010 of the then outstanding debt under our senior credit facility. Previously, we had two interest rate swaps in place that were terminated as a

result of this new transaction. We do not use hedge accounting to account for this swap. The changes in the fair value of the interest rate swap contracts were recorded to interest expense.

On February 19, 2008, we amended and restated our existing credit facility to increase the revolving loan commitment to \$250.0 million. The amended and restated credit extended the maturity date of the outstanding principal from March 11, 2010 to February 19, 2013, and changed the maximum Consolidated Leverage Ratio in the financial covenants to 3.50:1.00.

As of December 28, 2008, we had an aggregate of \$160.3 million of outstanding indebtedness under our senior credit facility at a weighted average interest rate of 4.802%. We had approximately \$86.2 million of borrowings available under our revolving credit facility, net of outstanding letters of credit of approximately \$3.5 million. As of the February 26, 2009 amendment date, the outstanding indebtedness under our senior credit facility was unchanged at \$160.3 million, at a weighted average interest rate of 6.461%. Under the amended revolving loan commitment as of this date, we had approximately \$11.2 million of borrowings available under our revolving credit facility, net of outstanding letters of credit of approximately \$3.5 million. We are required to maintain certain financial covenants and are also subject to several restrictive covenants under our borrowings. Our obligations under the senior credit facility are guaranteed by each of our existing and future subsidiaries and are secured by substantially all of our assets and a pledge of the capital stock of our subsidiaries.

Contractual Obligations

The following table summarizes our contractual obligations as of December 28, 2008:

	Payments due by period				
	Total	Less than 1 year	1-2 years	3-5 years	More than 5 years
	(in millions)				
Long-term debt obligations	\$160.3	\$ —	\$ —	\$160.3	\$ —
Operating lease obligations	<u>327.7</u>	<u>23.4</u>	<u>23.6</u>	<u>66.3</u>	<u>214.4</u>
Total	<u>\$488.0</u>	<u>\$23.4</u>	<u>\$23.6</u>	<u>\$226.6</u>	<u>\$214.4</u>

Off-Balance Sheet Arrangements

As of December 28, 2008, we do not have any off-balance sheet arrangements as defined by the SEC.

Critical Accounting Policies and Estimates

Our discussion and analysis of results of operations and financial condition are based upon our audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements is based, in part, on our critical accounting policies that require us to make estimates and judgments that affect the amounts reported in those financial statements. Our significant accounting policies, which may be affected by our estimates and assumptions, are more fully described in Note 2 to our consolidated financial statements that appear elsewhere in Item 8. Critical accounting policies are those that we believe are most important to portraying our financial condition and results of operations and also require the greatest amount of subjective or complex judgments by management. Judgments or uncertainties regarding the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing the combined financial statements.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Equipment consists primarily of restaurant equipment, furniture, fixtures and smallwares. Depreciation is generally calculated using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term, including renewal periods, or the estimated useful life of the asset. Repairs and maintenance are expensed as incurred; renewals and betterments are capitalized. Estimated useful lives are generally as follows: equipment—3 to 5 years; furniture and fixtures—5 to 7 years. Judgments and estimates made by us related to the expected useful lives of these assets are affected by factors such as changes in economic conditions and changes in operating performance. If these assumptions change in the future, we may be required to record additional impairment charges for these assets.

Impairment of Long-Lived Assets

We review property and equipment (which includes leasehold improvements) for impairment when events or circumstances indicate these assets might be impaired. We test impairment using historical cash flow and other relevant facts and circumstances as the primary basis for our estimates of future cash flows. The analysis is performed at the restaurant level for indicators of permanent impairment. In determining future cash flows, we make significant estimates with respect to future operating results of each restaurant over its remaining lease term. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset-carrying amount exceeds its fair value. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record additional impairment charges for these assets.

During the fiscal quarter ended December 28, 2008, we recorded a loss on impairment of long-lived assets in the amount of \$32.1 million. These charges were related to the full impairment of fixtures and equipment and leasehold improvements at one Mitchell's Steakhouse, two Mitchell's Fish Market locations, three company-owned Ruth's Chris Steak House restaurants and our Millwork shop located in Sanford, Florida. In addition, we recorded a partial loss on impairment of fixtures and equipment and leasehold improvements at one Mitchell's Fish Market location, two company-owned Ruth's Chris Steak House restaurants and our corporate office building located in Heathrow, Florida.

Goodwill, Franchise Rights and Trademarks

Goodwill and other indefinite lived assets resulted primarily from our acquisition of franchisee-owned restaurants. The most significant acquisitions were completed in 1996, 1999, 2006, 2007 and 2008. Goodwill, trademarks and franchise rights with indefinite lives are not subject to amortization. However, such assets must be tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and at least annually. We completed the most recent impairment test in December 2008, and determined that impairment losses related to goodwill and other indefinite lived assets in the amount of \$49.2 million should be recorded. In assessing the recoverability of goodwill and other indefinite lived assets, market values and projections regarding estimated future cash flows and other factors are used to determine the fair value of the respective assets. The estimated future cash flows were projected using significant assumptions, including future revenues and expenses, and potential unit growth. If these estimates or related projections change in the future, we may be required to record impairment charges for these assets.

Insurance Liability

We maintain various insurance policies for workers' compensation, employee health, general liability, and property damage. Pursuant to those policies, we are responsible for losses up to certain limits and are required to estimate a liability that represents our ultimate exposure for aggregate losses below those limits. This liability is

based on management's estimates of the ultimate costs to be incurred to settle known claims and claims not reported as of the balance sheet date. Our estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions, and economic conditions. If actual trends differ from our estimates, our financial results could be impacted.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. This Statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. We recognize deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities resulted in a net deferred tax asset, an evaluation is made of the probability of our ability to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized. The realization of such net deferred tax will generally depend on whether we will have sufficient taxable income of an appropriate character within the carry-forward period permitted by the tax law. Without sufficient taxable income to offset the deductible amounts and carry forwards, the related tax benefits will expire unused. We have evaluated both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. Measurement of deferred items is based on enacted tax laws.

Share-Based Compensation

FAS 123R requires the recognition of compensation expense in the Consolidated Statements of Income related to the fair value of employee share-based options. Determining the fair value of share-based awards at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise and the expected dividends. Judgment is also required in estimating the amount of share-based awards expected to be forfeited prior to vesting. If actual forfeitures differ significantly from these estimates, share-based compensation expense could be materially impacted. Prior to adopting FAS 123R, we applied APB Opinion No. 25, and related Interpretations, in accounting for our stock-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for fixed stock option grants in 2005.

Prior to the adoption of FAS 123R, we presented the tax savings resulting from tax deductions resulting from the exercise of stock options as an operating cash flow, in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option." FAS 123R requires us to reflect the tax savings resulting from tax deductions in excess of expense reflected in its financial statements as a financing cash flow related to certain stock option transactions.

Recent Accounting Pronouncements For Future Application

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, ("SFAS 141(R)"), a replacement of SFAS No. 141, *Business Combinations*. The provisions of SFAS No. 141(R) establish principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest acquired and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of a business combination, and applies to business combinations for which the acquisition date is on or after December 15, 2008, and may not be early adopted. We are currently evaluating the impact that SFAS No. 141(R) will have on the consolidated financial statements and expects the adoption of this standard will not have a material impact on our consolidated balance sheet, statements of income or cash flows.

Other accounting standards that have been issued by the FASB or other standards-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.

Item 7A. 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 December 28, 2008, the Company had \$160.3 million of variable rate debt of which \$50.0 million has been converted to fixed rates through the use of interest rate swaps. Holding other variables constant (such as foreign exchange rates and debt levels), 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 2008 of approximately \$1.1 million.

The Company has an interest rate swap to manage its exposure on its debt facility. By using the interest rate swap to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it does not possess credit risk.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

During fiscal 2008, interest expense included a \$1.0 million "mark to market" non-cash charge related to an interest rate swap.

Foreign Currency Risk

In accordance with the Company's franchise agreements relating to the Company's international locations, the Company receives royalties from those franchisees in U.S. dollars, and therefore the Company believes that fluctuations in foreign exchange rates do not present a material risk to its operations.

Commodity Price Risk

The Company is exposed to market price fluctuations in beef and other food product prices. Given the historical volatility of beef and other food product prices, this exposure can impact the Company's food and beverage costs. As the Company typically sets its menu prices in advance of its beef and other food product purchases, the Company cannot quickly take into account changing costs of beef and other food items. To the extent that the Company is unable to pass the increased costs on to its guests through price increases, the Company's results of operations would be adversely affected. In fiscal 2009, the Company has negotiated set pricing for approximately 50% of its prime beef requirements, which represents 25% of its beef purchases. The Company currently does not use financial instruments to hedge its risk to market price fluctuations in other food product prices.

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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements, together with the related notes and report of independent registered accounting firm, are set forth in the pages indicated in Item 15 of this Annual Report on Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. 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 December 28, 2008. 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 December 28, 2008 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.

Change in internal controls over financial reporting

During the fiscal quarter ending December 28, 2008, there was no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that in the Company's judgment has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act).

Management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 28, 2008. In making this assessment, management applied the criteria based on the "Internal Control—Integrated Framework" set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's assessment included documenting, evaluating, and testing the design and operating effectiveness of the Company's internal control over financial reporting. Based upon this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 28, 2008.

KPMG LLP, the Company's independent registered public accounting firm, has audited the financial statements included herein and issued an audit report on the Company's internal control over financial reporting as of December 28, 2008, which follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Ruth's Hospitality Group, Inc.:

We have audited Ruth's Hospitality Group, Inc.'s internal control over financial reporting as of December 28, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ruth's Hospitality Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Ruth's Hospitality Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 28, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ruth's Hospitality Group, Inc. and subsidiaries as of December 30, 2007 and December 28, 2008, and the related consolidated statements of income (loss), shareholders' equity (deficit), and cash flows for the fifty-three weeks ended December 31, 2006, fifty-two weeks ended December 30, 2007, and fifty-two weeks ended December 28, 2008, and our report dated March 13, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Orlando, Florida
March 13, 2009
Certified Public Accountants

Item 9B. OTHER INFORMATION

None.

PART III**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this Item for executive officers is set forth under “Executive Officers of the Registrant” in Part I, Item 1 of this report. The other information required by this Item is incorporated by reference to the sections entitled “Election of Directors,” “Executive Officers,” “Audit Committee Disclosure,” “Board of Directors and Corporate Governance” and “Section 16A Beneficial Ownership Reporting Compliance” in the Company’s Proxy Statement for the 2009 Annual Meeting of Stockholders.

There have been no material changes to the procedures through which stockholders may recommend nominees to our Board of Directors since April 7, 2008, which is the date of our last proxy statement. We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. The text of our Code of Ethics is posted on our website: www.rhgi.com—click on “Investors,” then click on “Corporate Governance” and then click on “Code of Ethics.” Our Company intends to disclose future amendments to, or waivers from, certain provisions of the Code of Ethics on the Company’s website within four business days following the date of such amendment or waiver. Stockholders may request a free copy of the Code of Ethics from: Ruth’s Hospitality Group, Inc., Attention: Corporate Secretary, 500 International Parkway, Suite 100, Heathrow, Florida 32746.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections entitled “Executive Compensation,” “Director Compensation” and “Compensation Committee Interlocks and Insider Participation” in the Company’s Proxy Statement for the 2009 Annual Meeting of Stockholders. See also the information under the caption “Compensation Committee Report” in the Proxy Statement for the 2009 Annual Meeting of Stockholders, which is incorporated herein by reference; however, such information is only “furnished” hereunder and not deemed “soliciting material” or “filed” with the SEC or subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the sections entitled “Principal Stockholders” and “Equity Compensation Plan Information” in the Company’s Proxy Statement for the 2009 Annual Meeting of Stockholders.

Options to purchase shares of our common stock have been granted to certain of our directors, executives and key employees under our 2005 Long-Term Equity Incentive Plan and our 2000 Stock Option Plan. The following table summarizes the number of stock options issued and shares of restricted stock granted, net of forfeitures and sales, the weighted-average exercise price of such stock options and the number of securities remaining to be issued under all outstanding equity compensation plans as of December 28, 2008:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan (Excluding Securities Reflected in Column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by stockholders:			
2000 Stock Option Plan	193,027	\$0.48	642,902
2004 Restricted Stock Plan(1)	1,167,487	—	—
2005 Long-Term Equity Incentive Plan	<u>2,751,467</u>	<u>\$9.55</u>	<u>1,103,538</u>
Total	<u>4,111,981</u>	<u>\$8.72</u>	<u>1,746,440</u>

(1) 1,167,487 shares of restricted stock were issued under our 2004 Restricted Stock Plan and vest pro rata on a daily basis over a five year period which began on November 8, 2004.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the sections entitled “Certain Relationships and Related Transactions” and “Director Independence” in the Company’s Proxy Statement for the 2009 Annual Meeting of Stockholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the sections entitled “Principal Accountant Fees and Services” in its Proxy Statement for the 2009 Annual Meeting of Stockholders.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules.

See Index to Consolidated Financial Statements appearing on page F-1. All schedules have been omitted because they are not required or applicable or the information is included in the consolidated financial statements or notes thereto.

(b) Exhibits.

See Exhibit Index appearing on page F-25 for a list of exhibits filed with or incorporated by reference as part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

March 13, 2009

RUTH'S HOSPITALITY GROUP, INC.

By: /s/ MICHAEL P. O'DONNELL
Michael P. O'Donnell
Director, President, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Ruth's Hospitality Group, Inc. and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Dates</u>
<u>/s/ MICHAEL P. O'DONNELL</u> Michael P. O'Donnell	Director, President, Chief Executive Officer, Ruth's Hospitality Group, Inc. (Principal Executive Officer)	March 13, 2009
<u>/s/ ROBERT M. VINCENT</u> Robert M. Vincent	Executive Vice President and Chief Financial Officer, Ruth's Hospitality Group, Inc. (Principal Financial and Accounting Officer)	March 13, 2009
<u>/s/ ROBIN P. SELATI</u> Robin P. Selati	Chairman of the Board, Director	March 13, 2009
<u>/s/ CARLA R. COOPER</u> Carla R. Cooper	Director	March 13, 2009
<u>/s/ BANNUS B. HUDSON</u> Bannus B. Hudson	Director	March 13, 2009
<u>/s/ ALAN VITULI</u> Alan Vituli	Director	March 13, 2009

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Ruth's Hospitality Group, Inc.:

We have audited the accompanying consolidated balance sheets of Ruth's Hospitality Group, Inc. and subsidiaries as of December 30, 2007 and December 28, 2008, and the related consolidated statements of income (loss), shareholders' equity (deficit) and cash flows for the fifty-three weeks ended December 31, 2006, fifty-two weeks ended December 30, 2007, and fifty-two weeks ended December 28, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ruth's Hospitality Group, Inc. and subsidiaries as of December 30, 2007 and December 28, 2008, and the results of their operations and their cash flows for the fifty-three weeks ended December 31, 2006, fifty-two weeks ended December 30, 2007, and fifty-two weeks ended December 28, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in the Notes to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standard No. 123(R), *Share-Based Payment*, in fiscal year 2006. The Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, in fiscal year 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ruth's Hospitality Group, Inc.'s internal control over financial reporting as of December 28, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Orlando, Florida
March 13, 2009
Certified Public Accountants

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(dollar amounts in thousands, except share and per share data)

	December 30, 2007	December 28, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,311	\$ 3,876
Accounts receivable, less allowance for doubtful accounts 2007—\$229; 2008—\$597	11,825	13,367
Inventory	8,626	8,630
Prepaid expenses and other	2,803	3,426
Deferred income taxes	874	1,809
Total current assets	36,439	31,108
Property and equipment, net of accumulated depreciation 2007—\$58,462; 2008—\$66,204	135,615	140,880
Goodwill	35,754	24,320
Franchise rights	40,123	37,323
Trademarks	—	13,918
Other intangibles, net of accumulated amortization 2007—\$271; 2008—\$753	4,081	8,472
Deferred income taxes	6,110	34,700
Other assets	2,156	2,798
Total assets	\$260,278	\$ 293,519
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 28,868	\$ 30,389
Deferred revenue	27,686	29,421
Other current liabilities	1,445	7,397
Total current liabilities	57,999	67,207
Long-term debt	96,750	160,250
Deferred rent	16,245	21,047
Other liabilities	1,217	7,873
Total liabilities	172,211	256,377
Commitments and contingencies (Note 13)		
Shareholders' equity (deficit):		
Common stock, par value \$.01 per share; 100,000,000 shares authorized, 23,215,356 shares issued and outstanding at December 30, 2007, 23,337,986 shares issued and outstanding at December 28, 2008	233	233
Additional paid-in capital	168,431	171,389
Accumulated deficit	(80,597)	(134,480)
Treasury stock, at cost; 71,950 shares at December 30, 2007 and December 28, 2008	—	—
Total shareholders' equity	88,067	37,142
Total liabilities and shareholders' equity	\$260,278	\$ 293,519

See accompanying notes to consolidated financial statements.

RUTH'S HOSPITALITY GROUP, INC AND SUBSIDIARIES

Consolidated Statements of Income (Loss)
(dollar amounts in thousands, except share and per share data)

	Fiscal Year Ended		
	December 31, 2006	December 30, 2007	December 28, 2008
Revenues:			
Restaurant sales	\$ 254,718	\$ 303,658	\$ 390,441
Franchise income	12,399	12,896	12,703
Other operating income	4,362	2,617	2,641
Total revenues	<u>271,479</u>	<u>319,171</u>	<u>405,785</u>
Costs and expenses:			
Food and beverage costs	82,016	97,432	122,974
Restaurant operating expenses	113,746	141,477	200,078
Marketing and advertising	8,328	8,447	13,819
General and administrative costs	22,974	25,111	29,429
Depreciation and amortization expenses	8,690	12,010	17,031
Pre-opening costs	2,046	5,020	2,869
Hurricane and relocation costs, net of insurance proceeds	(3,949)	(3,478)	—
Loss on impairment	970	—	81,273
Restructuring expenses	—	—	8,926
Loss on the disposal of property and equipment, net	13	1,229	508
Operating income (loss)	<u>36,645</u>	<u>31,923</u>	<u>(71,122)</u>
Other income (expense):			
Interest expense	(2,856)	(5,956)	(10,334)
Other	33	724	868
Income (loss) from continuing operations before income tax expense (benefit)	<u>33,822</u>	<u>26,691</u>	<u>(80,588)</u>
Income tax expense (benefit)	<u>10,098</u>	<u>8,541</u>	<u>(27,395)</u>
Income (loss) from continuing operations	<u>23,724</u>	<u>18,150</u>	<u>(53,193)</u>
Discontinued operations, net of income tax expense (benefit)	<u>(66)</u>	<u>4</u>	<u>690</u>
Net income (loss)	<u>\$ 23,790</u>	<u>\$ 18,146</u>	<u>\$ (53,883)</u>
Basic earnings (loss) per share:			
Continuing operations	\$ 1.02	\$ 0.78	\$ (2.28)
Discontinued operations	0.01	—	(0.03)
Basic earnings (loss) per share	<u>\$ 1.03</u>	<u>\$ 0.78</u>	<u>\$ (2.31)</u>
Diluted earnings (loss) per share:			
Continuing operations	\$ 1.01	\$ 0.78	\$ (2.28)
Discontinued operations	0.01	—	(0.03)
Diluted earnings (loss) per share	<u>\$ 1.02</u>	<u>\$ 0.78</u>	<u>\$ (2.31)</u>
Shares used in computing net income (loss) per common share:			
Basic	<u>23,175,323</u>	<u>23,206,864</u>	<u>23,308,906</u>
Diluted	<u>23,429,185</u>	<u>23,399,446</u>	<u>23,308,906</u>

See accompanying notes to consolidated financial statements

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity (Deficit)

(dollar and share amounts in thousands)

	Common Stock		Additional paid-in capital	Accumulated Deficit	Treasury Stock		Shareholders' Equity (Deficit)
	Shares	Value			Shares	Value	
Balance at December 25, 2005	23,074	\$231	\$162,567	\$(122,533)	—	\$—	\$ 40,265
Net income	—	—	—	23,790	—	—	23,790
Shares issued under stock option plan including tax effects	163	1	2,873	—	—	—	2,874
Compensation expense and other	—	—	1,049	—	—	—	1,049
Balance at December 31, 2006	23,237	\$232	\$166,489	\$ (98,743)	—	\$—	\$ 67,978
Net income	—	—	—	18,146	—	—	18,146
Shares issued under stock option plan including tax effects	49	1	367	—	—	—	368
Compensation Expense and other	—	—	1,575	—	—	—	1,575
Repurchase of Restricted Stock	—	—	—	—	72	—	—
Balance at December 30, 2007	23,286	\$233	\$168,431	\$ (80,597)	72	\$—	\$ 88,067
Net loss	—	—	—	(53,883)	—	—	(53,883)
Shares issued under stock option plan including tax effects	123	1	137	—	—	—	138
Compensation Expense and other	—	—	2,820	—	—	—	2,820
Repurchase of Restricted Stock	—	—	—	—	—	—	—
Balance at December 28, 2008	23,409	\$233	\$171,389	\$(134,480)	72	\$—	\$ 37,142

See accompanying notes to consolidated financial statements.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(dollar amounts in thousands)

	Fiscal Year Ended		
	December 31, 2006	December 30, 2007	December 28, 2008
Cash flows from operating activities:			
Net income	\$ 23,790	\$ 18,146	\$ (53,883)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,690	12,010	17,031
Deferred income taxes	(438)	2,909	(29,525)
Non-cash interest expense	88	99	295
Loss on sale or disposition of assets	81	1,229	508
Loss on impairment	970	—	81,273
Amortization of below market lease	—	—	200
Restructuring	—	—	8,926
Non-cash compensation expense	733	1,575	2,553
Changes in operating assets and liabilities:			
Accounts receivables	(1,720)	(705)	(1,541)
Inventories	(1,862)	(1,941)	1,069
Prepaid expenses and other	(1,028)	381	(622)
Other assets	(254)	(1,480)	259
Accounts payable and accrued expenses	9,672	(3,491)	3,252
Deferred revenue	6,036	3,010	1,735
Deferred rent	2,277	2,244	4,809
Other liabilities	633	786	734
Net cash provided by operating activities	47,668	34,772	37,073
Cash flows from investing activities:			
Acquisition of property and equipment	(48,771)	(42,429)	(31,951)
Acquisition of Mitchells	—	—	(93,037)
Acquisition of franchises and lease right	(38,868)	(13,473)	—
Acquisition of RCSH Millwork	—	(260)	—
Proceeds on sale or disposition of fixed assets	—	80	—
Proceeds from sale-leaseback transactions	—	—	17,039
Insurance proceeds related to hurricane damage	3,421	—	—
Net cash used in investing activities	(84,218)	(56,082)	(107,949)
Cash flows from financing activities:			
Principal repayments on long-term debt	(22,500)	(5,000)	(50,500)
Proceeds from long-term financing	52,000	33,750	114,000
Income tax benefits credited to equity upon exercise of stock options	2,738	279	108
Proceeds from exercise of stock options and warrants	144	90	30
Deferred financing costs	(127)	(188)	(1,197)
Net cash provided by financing activities	32,255	28,931	62,441
Net increase (decrease) in cash and cash equivalents	(4,295)	7,621	(8,435)
Cash and cash equivalents at beginning of period	8,985	4,690	12,311
Cash and cash equivalents at end of period	\$ 4,690	\$ 12,311	\$ 3,876
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 2,851	\$ 5,170	\$ 9,431
Income taxes	6,301	8,279	1,850

See accompanying notes to consolidated financial statements.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (dollar amounts in thousands)

(1) Organization and Description of Business

Ruth's Hospitality Group, Inc. and its subsidiaries (the "Company") operate 130 Ruth's Chris Steak House, 19 Mitchell's Fish Market, and three Mitchell's Steakhouse restaurants and sell franchise rights to Ruth's Chris Steak House franchisees giving them the exclusive right to operate similar restaurants in a particular location designated in the franchise agreement. At December 30, 2007 and December 28, 2008, there were 118 and 152 restaurants operating, respectively. Of the 152 restaurants operating at December 28, 2008, 66 were company-owned Ruth's Chris Steak House Company restaurants, 64 were Ruth's Chris Steak House franchise restaurants, 19 were company-owned Mitchell's Fish Markets and three were company-owned Mitchell's Steakhouse restaurants. Of the 118 restaurants operating at December 30, 2007, 61 were company-owned Ruth's Chris Steak House Company restaurants and 57 were Ruth's Chris Steak House franchise restaurants. During 2008, five company-owned Ruth's Chris Steak House restaurants were opened and seven franchise-owned Ruth's Chris Steak House restaurants were opened. During 2007, eight company-owned restaurants were opened, three previously franchised restaurants were acquired, and ten franchise-owned restaurants were opened.

The Company manages its operations by restaurant.

(2) Summary of Significant Accounting Policies

(a) Reporting Period

The Company utilizes a 52- or 53-week reporting period ending on the last Sunday of December. The periods ended December 28, 2008 (fiscal 2008) and December 30, 2007 (fiscal 2007) each had a 52-week reporting period. The period ended December 31, 2006 (fiscal 2006) had a 53-week reporting period.

(b) Principles of Consolidation

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.

(c) Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(d) Accounts Receivable

Accounts receivable consists primarily of bank credit card receivable, landlord contributions, franchise royalty payments receivable, banquet billings receivable, and other miscellaneous receivables.

(e) Allowance for Doubtful Accounts

The Company performs a specific review of account balances and applies historical collection experience to the various aging categories of receivable balances in establishing an allowance.

(f) Inventories

Inventories consisting of food, beverages, and supplies are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued) (dollar amounts in thousands)

(g) Property and Equipment

Property and equipment are stated at cost. Expenditures for improvements and major renewals are capitalized, and minor replacement, maintenance, and repairs are charged to expense. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on the straight-line basis over the shorter of the lease term or the estimated useful lives of the assets. The estimated useful lives for assets are as follows: Building and Building Improvements, 20 to 40 years; Equipment, 5 years; Furniture and Fixtures, 5 to 7 years; Computer Equipment, 3 to 5 years; and Leasehold Improvements, 5 to 20 years.

(h) Goodwill, Franchise Rights and Trademarks

Goodwill, franchise rights and trademarks acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Goodwill and franchise rights are tested annually on a reporting unit (which is defined as an individual restaurant) basis for impairment, and more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Based upon the Company's review, goodwill, franchise rights and trademark impairment charges were required in fiscal 2008.

(i) Deferred Financing Costs

Deferred financing costs represent fees paid in connection with obtaining bank and other long-term financing. These fees are amortized using a method that approximates the interest method over the term of the related financing. Amortization expense of deferred financing cost was \$88, \$99, and \$295 in fiscal 2006, 2007, and 2008 respectively.

(j) Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment on a restaurant-by-restaurant basis whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or the fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(k) Rent

Certain of the Company's operating leases contain predetermined fixed escalations of the minimum rent during the term of the lease. For these leases, the Company recognizes the related rent expense on a straight-line basis over the life of the lease and records the difference between amounts charged to operations and amounts paid as deferred rent.

Additionally, certain of the Company's operating leases contain clauses that provide additional contingent rent based on a percentage of sales greater than certain specified target amounts. The Company recognizes

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued) (dollar amounts in thousands)

contingent rent expense prior to the achievement of the specified target that triggers the contingent rent, provided achievement of that target is considered probable.

(l) Marketing and Advertising

Marketing and advertising expenses in the accompanying consolidated statements of operations included advertising expenses of approximately \$5.6 million, \$5.6 million, and \$9.3 million for fiscal 2006, fiscal 2007 and fiscal 2008, respectively. Advertising costs are expensed as incurred.

(m) Insurance Liability

The Company maintains various policies for workers' compensation, employee health, general liability and property damage. Pursuant to those policies, the Company is responsible for losses up to certain limits. The Company records a liability for the estimated exposure for aggregate losses below those limits. This liability is based on estimates of the ultimate costs to be incurred to settle known claims and claims not reported as of the balance sheet date. The estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions.

(n) Pre-Opening Costs

Pre-opening costs incurred with the opening of new restaurants are expensed as incurred. These costs include straight-line rent during the rent holiday period, wages, benefits, travel and lodging for the training and opening management teams, and food, beverage and other restaurant operating expenses incurred prior to a restaurant opening for business.

(o) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(p) Derivative Instruments

The Company utilized derivative instruments in 2007 and 2008 to manage interest rate risk. The Company does not apply hedge accounting as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and any changes in fair value of the derivative instruments are marked to market through earnings in the period of change. Cash flows related to derivatives are included in operating activities.

(q) Revenue Recognition

Revenue from restaurant sales is recognized when food and beverage products are sold. Revenues are presented net of sales taxes. Deferred revenue primarily represents the Company's liability for gift cards that have been sold but not yet redeemed, and is recorded at the expected redemption value. When the gift cards are redeemed, the Company recognizes restaurant sales and reduces the deferred revenue. Company gift cards redeemed at franchise-owned locations reduce the deferred revenue but do not result in restaurant sales. The

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued) (dollar amounts in thousands)

expected redemption value of the gift cards represents the full value of all gift cards issued less the amount the Company has recognized as other operating income for gift cards that are not expected to be redeemed. The Company recognizes as other operating income the remaining value of gift cards that have not been redeemed 18 months following the last date of card activity, subject to limitations in some jurisdictions in which we operate.

The Company franchises Ruth's Chris Steak House restaurants. The Company executes franchise agreements for each franchise restaurant, which sets out the terms of its arrangement with the franchisee. The franchise agreements typically require the franchisee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. The Company collects ongoing royalties of 5% of sales from franchise restaurants plus a 1% advertising fee applied to national advertising expenditures. The Company is not required to perform any services for the ongoing royalties and thus these royalties are recognized when the royalties are due from the franchisee on a monthly basis. These ongoing royalties are reflected in the accompanying consolidated statements of income as franchise income. The 1% advertising fee is recorded as a liability against which specified advertising and marketing costs are charged.

The Company executes an area development agreement with franchisees that gives the franchisee rights to develop a specific number of restaurants within a specified area. The Company charges an initial development fee at the time the area agreements are executed. This fee is related to feasibility studies of the area, certification of the franchisee and for the development opportunities lost or deferred as a result of the rights granted. These services are performed prior to the execution of the agreement. The Company recognizes the initial area development fee upon the signing of the area development agreement by the franchisee.

The Company executes separate, site specific, franchise agreements for each restaurant developed by a franchisee under an area development agreement. The Company charges an initial fee at the time the franchise agreement is executed. This fee is related to assistance in site selection and lease negotiation, construction consulting assistance and consulting regarding purchasing and supplies. These services are performed prior to the restaurant opening. The Company recognizes the initial franchise fee when the related restaurant opens.

(r) Foreign Revenues

The Company currently has 13 international franchise locations in Aruba, Canada, Mexico, China (Hong Kong), Japan and Taiwan. In accordance with its franchise agreements relating to these international locations, the Company receives royalty revenue from these franchisees in U.S. dollars. Franchise fee royalties from international locations made up less than 1% of total revenues in all periods presented.

(s) Stock-Based Compensation

On December 26, 2005, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123(R), *Share-Based Payment*, ("FAS 123R"). Prior to December 26, 2005, the Company accounted for share-based payments under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation* ("FAS 123"). In accordance with APB 25, no compensation was required to be recognized for options granted that had an exercise price equal to or greater than the market value of the underlying common stock on the date of the grant.

The Company adopted FAS 123R using the modified prospective transition method. Under that transition method, compensation cost recognized during fiscal 2008 includes: a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 26, 2005, based on the grant date fair value

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

estimated in accordance with the original provisions of FAS 123, and b) compensation cost for all share-based payments granted subsequent to December 26, 2005, based on the grant date fair value estimated in accordance with the provisions of FAS 123R. Compensation cost is recognized on a straight-line basis, net of estimated forfeitures, over the requisite service period of each award. The results for the prior periods have not been restated.

As a result of the adoption of FAS 123R on December 26, 2005, the fiscal 2007 and fiscal 2008 consolidated statement of income was impacted as follows:

	2007	2008
Reduction in operating income from continuing operations	\$1,575	\$2,820
Reduction in income before taxes	1,575	2,820
Reduction in operating net income	1,030	1,861
Reduction in earnings per share:		
Basic	\$ 0.04	\$ 0.08
Diluted	\$ 0.04	\$ 0.08

(t) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(u) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value:

- The carrying amount of cash and cash equivalents, receivables, prepaid expenses, accounts payable and accrued expenses and other current and long-term liabilities are a reasonable estimate of their fair values.
- Borrowings under the senior credit facility as of December 28, 2008 and the term loan and revolving credit facility as of December 30, 2007 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.

(v) Contingencies

The Company recognizes liabilities for contingencies when there is an exposure that indicates it is both probable that an asset has been impaired or that a liability has been incurred and that the amount of impairment or loss can be reasonably estimated.

(w) Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, (“SFAS 141(R)”), a replacement of SFAS No. 141, *Business Combinations*. The provisions of SFAS No. 141(R) establish principles

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued) (dollar amounts in thousands)

and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest acquired and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of a business combination, and applies to business combinations for which the acquisition date is on or after December 15, 2008, and may not be early adopted. The Company is currently evaluating the impact that SFAS No. 141(R) will have on the consolidated financial statements and expects the adoption of this standard will not have a material impact on its consolidated balance sheet, statements of income or cash flows.

Other accounting standards that have been issued by the 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.

(x) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on previously reported net income.

(3) Goodwill, Franchise Rights and Trademarks

During the fourth quarter of fiscal 2008, there was continued deterioration in the financial and credit markets, which directly impacted consumer confidence and resulted in further declines in discretionary retail spending. The impact on the Company's fourth quarter business was significant and caused the Company to revise its forward-looking business projections downward. Based on these projections, the Company completed an analysis to determine if goodwill and certain intangible assets were impaired as of the balance sheet date.

Franchise Rights

In accordance with SFAS No. 142, owned franchise rights have been determined to have indefinite lives and must be reviewed annually for potential impairment. During the fourth quarter of fiscal 2008, the Company recorded non-cash impairment charges of \$5.9 million as the result of franchise rights previously recorded as part of the acquisition of three formerly franchised restaurants in the Pacific Northwest, reducing the carrying value from \$8.6 million to \$2.7 million. This reduction was primarily due to weakening fourth quarter sales impacting future sales and profitability assumptions.

To determine the fair value of its acquired franchise rights, the Company used a multi-period excess earnings approach. This approach involves projecting future earnings, discounting those earnings using an appropriate discount rate and subtracting a contributory charge for net working capital; property, plant and equipment; assembled workforce and customer relationships to arrive at excess earnings attributable to franchise rights. The Company calculated the present value of cash flows generated from future franchise royalties and determined that the fair value did not exceed the carrying value as of December 28, 2008.

Trademarks

In accordance with SFAS No. 142, owned trademarks have been determined to have indefinite lives and must be reviewed annually for potential impairment. During the fourth quarter of fiscal 2008, the Company recorded non-cash trademark impairment charges of \$12.1 million previously recorded as part of the Mitchell's acquisition in 2008, reducing the carrying value from \$25.9 million to \$13.8 million. This reduction was

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

primarily due to weakening fourth quarter 2008 sales and a reduction in planned Mitchell's Fish Market restaurant expansion when compared to the initial SFAS No. 141 valuation calculation completed in the first quarter of 2008.

To determine the fair value of the Mitchell's trademarks, including Mitchell's Fish Market, Columbus Fish Market, Mitchell's Steakhouse and Cameron's Steakhouse, the Company used a relief-from-royalty calculation. The method used assumes that in lieu of ownership, a third party would be willing to pay a royalty in order to exploit the related benefits of these types of assets. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates in the category of intellectual property, discount rates and other variables. The Company bases its fair value estimates on assumptions it believes to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. Based on the evaluation, the fair value of the Company's trademarks did not exceed the carrying value as of December 28, 2008.

Goodwill

In fiscal 2008, the Company recorded non-cash goodwill impairment charges of \$31.1 million as a result of an impairment evaluation performed as of December 28, 2008. Of this amount, \$22.8 million was related to goodwill previously recorded as part of the Mitchell's acquisition on February 19, 2008. The remaining \$8.3 million was related to goodwill recorded as part of the acquisition of three previously franchised restaurants in the Pacific Northwest in 2007, the acquisition of Design Custom Millwork, Inc., in 2007 and the 1996 acquisition of the Scottsdale and Phoenix previously franchised Ruth's Chris Steak House restaurants.

In performing the 2008 evaluation of goodwill impairment under SFAS No. 142 Step 1, the Company compared the carrying value of the long-lived assets to the fair value of the reporting unit. Consistent with the valuation of restaurant operations, the Company utilized a multiple of EBITDA to approximate the fair value of the reporting units for purposes of completing Step 1 of the evaluation. The Company considered EBITDA multiplies of publicly held companies, including its own, as well as other private restaurant acquisitions. For reporting units whose estimated fair value exceeded its carrying value, no impairment was recorded. For reporting units whose fair value did not exceed the carrying value as the balance sheet date, the Company completed Step 2 of the evaluation by comparing the implied fair value of goodwill with the carrying amount at the reporting unit level. The Company calculated the implied fair value by allocating the fair value of a reporting unit to all of its assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the unit. For reporting units whose implied fair value did not exceed the carrying amount of goodwill as of the balance sheet date, the Company recorded an impairment charge for the difference, not to exceed the goodwill carrying value.

	<u>Goodwill</u>	<u>Franchise Rights</u>	<u>Trademarks</u>
Balance as of December 30, 2007	\$32,654	\$43,223	\$ 118
Acquisitions	22,815	—	25,900
Loss on impairment	<u>31,149</u>	<u>5,900</u>	<u>12,100</u>
Balance as of December 28, 2008	<u>\$24,320</u>	<u>\$37,323</u>	<u>\$13,918</u>

These charges are included in the caption "Loss on Impairment" in the Consolidated Income Statements.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

(4) Property and Equipment

Property and equipment consists of the following:

	December 30, 2007	December 28, 2008
Land	\$ 7,582	\$ 3,251
Building and building improvements	44,899	35,994
Equipment	25,885	29,639
Computer equipment	5,930	7,851
Furniture and fixtures	11,790	16,209
Automobiles	—	27
Leasehold improvements	88,432	110,719
Construction-in-progress	9,559	3,394
	194,077	207,084
Less accumulated depreciation	(58,462)	(66,204)
	\$135,615	\$140,880

The Company capitalizes interest as a component of the cost of construction in progress. In connection with assets under construction in 2006, 2007 and 2008, the Company has capitalized \$203, \$375 and \$239 of interest costs, respectively, in accordance with SFAS No. 34, *Capitalization of Interest Cost*.

(5) Long-term Debt

Long-term debt consists of the following:

	December 30, 2007	December 28, 2008
Senior Credit Facility:		
Revolving credit facility	\$96,750	\$160,250
Less current maturities	—	—
	\$96,750	\$160,250

On September 27, 2005, the Company entered into a senior credit facility with Wells Fargo Bank, National Association, as administrative agent, Bank of America, N.A., as documentation agent, and JPMorgan Chase Bank, National Association, and Wells Fargo Bank, National Association as co-lead arrangers and Wachovia Bank, N.A. The Company used the \$38.5 million funded at closing under the Credit Agreement to prepay and retire borrowings under its previous credit facility and to pay related fees and expenses.

On May 17, 2006, the Company completed an amendment to its existing senior revolving credit facility to increase its availability under the facility to \$100.0 million. This amendment also provides that the revolving credit facility may be further increased by \$25.0 million upon the Company's request (for a total commitment of \$125.0 million). The financial covenants, restrictive covenants and terms of the increased revolving credit facility were not amended.

On August 7, 2007, the Company completed a second amendment to its senior credit facility to increase its availability under the facility to \$150.0 million. The Company's ability to request additional funding through the revolving credit facility also increased with this amendment to \$50.0 million, for a total potential borrowing of \$200.0 million. The amendment also provided that \$50.0 million in proceeds may be utilized to repurchase the

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued) (dollar amounts in thousands)

Company's common stock, extended the maturity date of the outstanding principal from March 11, 2010 to August 7, 2012, and changed the maximum Consolidated Leverage Ratio in the financial covenants to 3.25:1.00. All other financial covenants, restrictive covenants and terms of the increased revolving credit facility remained unchanged.

On September 13, 2007, the Company entered into a three year interest rate swap to limit the variability of its interest payments. The notional amounts total \$75.0 million through September 17, 2008, \$50.0 million through September 17, 2009 and \$25.0 million through its expiration on September 17, 2010 of the then outstanding debt under its senior credit facility. Previously, the Company had two interest rate swaps in place that were terminated as a result of this new transaction. The Company does not use hedge accounting to account for this swap. The changes in the fair value of the interest rate swap contracts were recorded to interest expense.

On February 19, 2008, the Company amended and restated its existing credit facility to increase the revolving loan commitment to \$250.0 million. The amended and restated credit extended the maturity date of the outstanding principal from March 11, 2010 to February 19, 2013, and changed the maximum Consolidated Leverage Ratio in the financial covenants to 3.50:1.00.

During the fourth quarter of fiscal 2008, the Company, due to declining comparable restaurants sales, anticipated a breach of its maximum Consolidated Leverage Ratio as of December 28, 2008. As a result, the Company began negotiations with its bank group, and on February 26, 2009, the Company entered into a First Amendment to First Amended and Restated Credit Agreement. The amendment reduces the revolving loan commitment from \$250.0 million to \$175 million, with additional reductions scheduled beginning December 31, 2009 through the final maturity date of February 19, 2013. The amendment decreases the Company's Fixed Charge Coverage Ratio and increases its maximum Leverage Ratio, in each case beginning with the fourth quarter of 2008 and continuing through the second quarter of 2010, after which these two covenants reset to their original levels. The amendment also adds two new covenants. The first is a minimum EBITDA test and the second places new restrictions on capital expenditures. The amendment also increases the interest rates applicable to borrowings based on the Company's actual leverage ratio, ranging from 2.50% to 4.25% above the applicable LIBOR rate or, at the Company's option, from 1.25% to 3.00% above the applicable base rate.

As of December 28, 2008, the Company had an aggregate of \$160.3 million of outstanding indebtedness under its senior credit facility at a weighted average interest rate of 4.802%. The Company had approximately \$86.2 million of borrowings available under its revolving credit facility, net of outstanding letters of credit of approximately \$3.5 million. As of the February 26, 2009 amendment date, the outstanding indebtedness under its senior credit facility was unchanged at \$160.3 million, at a weighted average interest rate of 6.461%. Under the amended revolving loan commitment as of this date, the Company had approximately \$11.2 million of borrowings available under its revolving credit facility, net of outstanding letters of credit of approximately \$3.5 million. The Company is required to maintain certain financial covenants and is also subject to several restrictive covenants under its borrowings. The Company's obligations under the senior credit facility 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.

(6) Shareholders' Equity

The holders of the Class A common stock are entitled to one vote per share on all matters to be voted on by the Company's shareholders. Holders of Class A common stock are entitled to convert, at any time and from time

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued) (dollar amounts in thousands)

to time, any or all of the shares of Class A common stock held by such holder into the same number of shares of Class B common stock.

(7) Employee Benefit Plan

In 2000, the Company established a 401(k) plan. Eligible employees may contribute up to 99% of their annual compensation. The Company matches the employees' contributions at year end. Employees vest in the Company's contributions based upon their years of service. The Company's expenses relating to matching contributions were approximately \$173, \$226, and \$272 for fiscal 2006, 2007 and 2008, respectively. During 2005, the Company added a profit sharing component to the 401(k) plan that provided for a payment to all employees if the Company achieved certain predetermined financial targets. The Company's expense related to the profit sharing was approximately \$348, \$0 and \$0 for fiscal 2006, 2007 and 2008, respectively.

(8) Incentive and Stock Option Plans

As of December 28, 2008, the Company had the following share-based compensation plans:

2000 Stock Option Plan

The Company established a stock option plan (the 2000 Stock Option Plan) which allows the Company's Board of Directors to grant stock options to directors, officers, key employees, and other key individuals performing services for the Company. The 2000 Stock Option Plan authorizes grants of options to purchase up to 1,765,981 shares of authorized but unissued Class A common stock. The Plan provides for granting of options to purchase shares of common stock at an exercise price not less than the fair value of the stock on the date of grant. Options are exercisable at various periods ranging from one to ten years from date of grant. Under the Company's 2000 Stock Option Plan there are 193,027 shares of common stock issuable upon exercise of currently outstanding options at December 28, 2008 and 642,902 shares available for future grants. No future grants are expected to be made under the 2000 Stock Option Plan.

2004 Restricted Stock Plan

The Company established a restricted stock plan (the 2004 Restricted Stock Plan), which allows the Company's Board of Directors to grant restricted stock to directors, officers and other key employees. The 2004 Restricted Stock Plan authorizes restricted stock grants of up to 1,167,487 shares of authorized but unissued Class A common stock. Under the Company's 2004 Restricted Stock Plan, there are 1,167,487 shares of Class A common stock reserved for issue at December 28, 2008 and no shares available for future grants.

2005 Long-Term Equity Incentive Plan

In connection with the initial public offering, the Company adopted the Ruth's Chris Steak House, Inc. 2005 Long-Term Equity Incentive Plan (the "2005 Equity Incentive Plan"), which allows the Company's Board of Directors to grant stock options, restricted stock, restricted stock units, deferred stock units and other equity-based awards to directors, officers, key employees and other key individuals performing services for the Company. The 2005 Equity Incentive Plan provides for granting of options to purchase shares of common stock at an exercise price not less than the fair value of the stock on the date of grant. Options are exercisable at various periods ranging from one to five years from date of grant. Effective May 22, 2008, the 2005 Equity Incentive Plan was amended, with stockholder approval, to increase the number of shares authorized for issuance under the plan by 1,500,000 shares.

During the first quarter of fiscal 2008, the Company issued 1,030,000 shares of restricted shares to certain employees, executive officers and directors. Of these grants, 955,000 shares were issued with a fair market value

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

equal to \$7.22, and 75,000 shares were issued with a fair market value equal to \$6.32. During the second quarter of fiscal 2008, the Company issued 225,000 shares of restricted shares to certain employees, executive officers and directors. Of these grants, 25,000 shares were issued with a fair market value equal to \$6.96, and 200,000 shares were issued with a fair market value equal to \$6.50. The restricted share prices were equal to the closing price of the stock on the dates of the grants. One-fifth of the restricted stock grant vests on each of the five anniversary dates following the grant date. Under the 2005 Equity Incentive Plan, as amended, there were 1,751,467 shares of common stock issuable upon exercise of currently outstanding options and restricted stock awards at December 28, 2008 and 1,103,538 shares available for future grants.

The following table summarizes stock option activity for fiscal 2008 under all plans:

	December 28, 2008			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000's)
Outstanding at beginning of year	1,565,929	\$15.01		
Granted	1,332,625	4.70		
Exercised	(62,630)	0.48		
Forfeited	(606,430)	16.76		
Outstanding at end of year	<u>2,229,494</u>	<u>\$ 8.76</u>	<u>8.44</u>	<u>\$237</u>
Options exercisable at year end	<u>472,147</u>	<u>\$11.42</u>	<u>5.60</u>	<u>\$182</u>

As of December 28, 2008, there was \$4.8 million of total unrecognized compensation costs related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately 3.52 years. The total intrinsic value of options exercised in fiscal 2006, 2007 and 2008 was \$3.2, \$0.8 and \$0.3 million, respectively. The Company recorded \$0.7, \$1.7 and \$2.8 million in total stock option and restricted stock compensation cost during fiscal year 2006, 2007, 2008, respectively, that was expensed primarily in general and administrative costs. Of the \$2.8 million, \$0.3 million was expensed in restructuring expenses for accelerated vesting of restricted stock for terminated employees.

During fiscal 2006, 2007 and 2008, the Company received \$144, \$90 and \$22, respectively, in cash related to the exercise of options and tax benefits of \$2.7, \$0.3 and \$0.1 million, respectively. The exercise of shares were fulfilled from shares reserved for issue under the stock option plans and resulted in an increase in issued shares outstanding.

A summary of the status of non-vested shares as of December 28, 2008 and changes during fiscal 2008 is presented below.

	December 28, 2008	
	Shares	Weighted-Average Grant-Date Fair Value
Non-vested shares at beginning of year	1,088,178	\$6.92
Granted	1,332,625	1.87
Vested	(57,026)	8.33
Canceled	(606,430)	6.47
Non-vested shares at end of period	<u>1,757,347</u>	<u>\$3.20</u>

The weighted-average grant-date per share fair value of options granted in fiscal 2008 was \$1.87. The weighted-average grant-date per share fair value of options granted in fiscal 2006 and 2007 was \$7.82 and \$7.44,

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model with the weighted-average assumptions noted in the following table. The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award. The assumptions listed below represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. In addition, the Company is required to estimate the expected forfeiture rate and only recognizes expense for those shares expected to vest. If the actual forfeiture rate is materially different from the Company's estimate, the share-based compensation expense could be materially different.

The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury constant maturities rate in effect at the time of grant. The Company utilized a blended rate for expected volatility during 2008 based on the historical volatility of our stock and a representative peer group with a similar expected term of options granted. The following weighted-average assumptions were used for stock option grants in each year:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Expected life	6.3 yrs	6.3 yrs	5.7 yrs
Risk-free interest rate	4.84%	4.60%	3.06%
Volatility	32.1%	31.13%	37.46%
Expected dividend yield	0.0%	0.0%	0.0%

(9) Earnings per share

Basic earnings (loss) per common share were computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding during the fiscal year. Diluted earnings (loss) per share for fiscal year 2006, 2007, and 2008 excludes 44,500 stock options at a weighted-average price of \$20.25, 1,238,810 stock options at a weighted-average price of \$17.15, and 1,051,852 stock options at a weighted-average price of \$16.15, respectively, which were outstanding during the period but were anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share:

	<u>December 31, 2006</u>	<u>December 30, 2007</u>	<u>December 28, 2008</u>
Net Income (loss) available to common shareholders . . .	\$ 23,790	\$ 18,146	\$ (53,883)
Shares:			
Weighted average number of common shares			
outstanding	23,175,323	23,206,864	23,308,906
Dilutive stock options	253,862	192,582	—
Weighted-average number of common shares			
outstanding	<u>23,429,185</u>	<u>23,399,446</u>	<u>23,308,906</u>
Basic earnings (loss) per common share:			
Continuing operations	\$ 1.02	\$ 0.78	\$ (2.28)
Discontinued operations	0.01	—	(.03)
Basic earnings (loss) per common share	<u>\$ 1.03</u>	<u>\$ 0.78</u>	<u>\$ (2.31)</u>
Diluted earnings (loss) per common share:			
Continuing operations	\$ 1.01	\$ 0.78	\$ (2.28)
Discontinued operations	0.01	—	(.03)
Diluted earnings (loss) per common share	<u>\$ 1.02</u>	<u>\$ 0.78</u>	<u>\$ (2.31)</u>

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

(10) Acquisitions

On September 10, 2007, the Company completed the acquisition of three previously franchised restaurants pursuant to the asset purchase agreements dated as of April 16, 2007. The acquired restaurants are located in Bellevue and Seattle, Washington; and Portland, Oregon. This acquisition is expected to open up the contiguous West Coast to company-owned development. In connection with the acquisition, the Company acquired all of the Seller's interests in the three aforementioned Ruth's Chris Steak House restaurants for approximately \$13.3 million in cash.

The results of the operations of the three purchased franchises have been included in the Company's consolidated statement of income from the date of acquisition. The Company allocated the purchase price to the assets acquired in the acquisition at their estimated fair values with the remainder allocated to goodwill and franchise rights. For income tax purposes, there is \$10,600 that is deductible. The below table summarizes the allocation of proceeds paid to the seller as well as acquisition costs. The weighted-average life of the amortizable intangible assets is approximately 8 years. Approximately \$223 associated with legal and closing costs are included in goodwill and franchise rights. The preliminary allocation of the purchase price is summarized below.

Inventory	\$ 232
Property, Plant and Equipment	1,965
Goodwill and franchise rights	10,600
Non-compete agreement	70
Lease	606
Total assets acquired	<u>\$13,473</u>

On August 6, 2007, the Company completed the acquisition of Design Custom Millwork, Inc., a millwork company, pursuant to the asset purchase agreement dated as of July 24, 2007. All assets were purchased for approximately \$260 in cash. The Company allocated the purchase price to the assets acquired in the acquisition at their estimated fair values with the remainder allocated to goodwill as follows: \$139 to property, plant and equipment and \$121 to goodwill and other intangibles. All of the goodwill is deductible for income tax purposes.

On February 19, 2008, the Company completed the acquisition of all of the operating assets and intellectual property of Mitchell's Fish Market, operating under the names Mitchell's Fish Market and Columbus Fish Market, and Cameron's Steakhouse, operating under the names Cameron's Steakhouse and Mitchell's Steakhouse from Cameron Mitchell Restaurants, LLC (CMR). There are 19 operating Mitchell's Fish Markets and three operating Cameron's Steakhouses.

The aggregate purchase price for the Mitchell's Fish Market and the Cameron's Steakhouse was \$93,037, including capitalized transaction costs. Capitalized transaction costs related to the purchase were \$1,037 and are included in goodwill. The acquisition was funded with cash on hand and borrowings under the Company's credit facility. The total cost of the acquisition has been allocated to the assets acquired in accordance with SFAS No. 141 *Business Combinations*. The below table summarizes the allocation of proceeds paid to the seller as well as acquisition costs.

Inventory	\$ 1,073
Property, Plant and Equipment	40,947
Goodwill (non-amortizable)	22,815
Trademarks (non-amortizable)	25,900
Favorable leases	2,306
Non-compete agreement	1,030
Liquor licenses (non-amortizable)	1,652
Unfavorable leases	(2,686)
	<u>\$93,037</u>

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

The excess of the purchase price over the aggregate fair value of net assets acquired was allocated to goodwill. Of the \$22,815 recorded as goodwill, all is expected to be deductible for tax purposes. The acquisition provides a complement to the “Ruth’s Chris” brand, and further balances the Company’s portfolio by serving as a secondary growth vehicle. These restaurants will be the first the Company owns that focus primarily on serving seafood and will be operated separately from the “Ruth’s Chris” brand. The portion of the purchase price attributable to goodwill represents benefit expected as a result of the acquisition, including sales growth opportunities and cost synergies, driven primarily by supply chain and purchasing integration.

Goodwill and trademarks are not amortized but are reviewed annually for impairment or more frequently if indicators of impairment exist. Due to declining market conditions in the fourth quarter of 2008, the Company revised its forward-looking business projections downward, and as a result, recorded non-cash goodwill impairment charges of \$22.8 million and non-cash trademark impairment charges of \$12.1 million related to the acquisition of Mitchell’s. A portion of the acquired lease portfolio represented favorable operating leases, compared with current market conditions, and a portion represented unfavorable operating leases, compared with current market conditions. The fair value of the favorable leases totaled \$2,306, is recorded in other intangible assets and, after considering renewal periods, has an estimated weighted average life of approximately 17.8 years. The fair value of the unfavorable leases totaled \$2,686, is recorded in other liabilities and has an estimated weighted average life of approximately 17.3 years. Both the favorable and unfavorable leases are amortized to rent expense on the straight-line basis over the lives of the related leases.

Covenants not to compete of \$1,030 related to the acquisition are also included in other intangibles. These amounts are being amortized over a five year period based on the terms of the asset purchase agreement.

(11) Income Taxes

Income tax expense (benefit) from continuing operations consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Year ended December 31, 2006:			
U.S. Federal	\$ 8,907	\$ (296)	\$ 8,611
State	1,259	(128)	1,131
Foreign	356	—	356
	<u>\$10,522</u>	<u>\$ (424)</u>	<u>\$ 10,098</u>
Year ended December 30, 2007:			
U.S. Federal	\$ 3,986	\$ 2,748	\$ 6,734
State	1,378	173	1,551
Foreign	256	—	256
	<u>\$ 5,620</u>	<u>\$ 2,921</u>	<u>\$ 8,541</u>
Year ended December 28, 2008:			
U.S. Federal	\$ 603	\$(28,647)	\$(28,044)
State	860	(458)	402
Foreign	247	—	247
	<u>\$ 1,710</u>	<u>\$(29,105)</u>	<u>\$(27,395)</u>

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

Income tax expense differs from amounts computed by applying the federal statutory income tax rate to income from continuing operations before income taxes as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Income tax expense at statutory rates	\$11,838	\$ 9,342	\$(28,206)
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal benefit	735	896	262
FAS 123(R) expense	199	444	985
FICA tax credit	(2,057)	(2,519)	(3,157)
Cumulative effect of federal expense on state deferred tax assets	—	—	1,668
Other	(617)	378	1,053
	<u>\$10,098</u>	<u>\$ 8,541</u>	<u>\$(27,395)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets are presented below:

	<u>December 31, 2006</u>	<u>December 30, 2007</u>	<u>December 28, 2008</u>
Deferred tax assets:			
Accounts payable and accrued expenses	\$ 895	\$ 927	\$ 4,250
Deferred rent	2,985	2,710	3,761
Net state operating loss carryforwards	5,902	6,064	4,086
Tax credit carryforwards	3,992	—	2,761
Property and equipment	4,226	6,335	17,555
Intangible assets	—	—	9,846
Other	215	492	914
Total gross deferred tax assets	18,215	16,528	43,173
Less valuation allowance	(999)	(1,438)	(4,669)
Net deferred tax assets	17,216	15,090	38,504
Deferred tax liabilities:			
Intangible assets	(7,241)	(7,984)	—
Other	(82)	(122)	(1,995)
Total gross deferred tax liabilities	(7,323)	(8,106)	(1,995)
Net deferred tax assets	<u>\$ 9,893</u>	<u>\$ 6,984</u>	<u>\$36,509</u>

There was a valuation allowance for deferred tax assets at December 30, 2007 and December 28, 2008 of \$1,438 and \$4,669, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued) (dollar amounts in thousands)

As of December 28, 2008, the Company has state net operating loss carry-forwards and tax credit carry-forwards of \$100 million and \$2.8 million, respectively, which are available to offset federal and state taxable income through 2028.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), on January 1, 2007. The implementation of FIN 48 did not result in any changes to the Company's unrecognized tax benefits for uncertain tax positions.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Unrecognized tax benefits balance at December 30, 2007	\$512
Gross increases for tax positions of prior years	<u>184</u>
Unrecognized tax benefits balance at December 28, 2008	<u>\$696</u>

As of December 28, 2008, the Company's gross unrecognized tax benefits totaled approximately \$696, of which \$452, if recognized, would impact the effective tax rate. The Company does not anticipate there will be any material changes in the unrecognized tax benefits within the next 12 months. Our continuing practice is to recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 30, 2007 and December 28, 2008, the Company had accrued approximately \$88 and \$140 respectively for the payment of interest, which is included as a component of the unrecognized tax benefit noted above.

The Company files consolidated and separate income tax returns in the United States Federal jurisdiction, many state jurisdictions and Puerto Rico. With few exceptions, the Company is no longer subject to U.S. Federal income tax examinations for years before 2004 and is no longer subject to state and local or Puerto Rico income tax examinations by tax authorities for years before 2004.

(12) Leases

All of the Company's Ruth's Chris Steak House owned restaurants operate in leased premises, with the exception of the locations in Houston, Columbus and Ft. Lauderdale, which are owned properties and the locations in Anaheim and Lake Mary, which operate on leased land. The Company's Mitchell's Fish Market and Mitchell's Steakhouse locations all operate in leased premises, with the exception of the Mitchell's Fish Market in Grandview, Ohio. Remaining lease terms range from approximately 4 to 30 years, including anticipated renewal options. The leases generally provide for minimum annual rental payments and are subject to escalations based, in some cases, upon increases in the Consumer Price Index, real estate taxes, and other costs. In addition, certain leases contain contingent rental provisions based upon the sales of the underlying restaurants. Certain leases also provide for rent deferral during the initial term of such lease and/or scheduled minimum rent increases during the terms of the leases. For financial reporting purposes, rent expense is recorded on a straight-line basis over the life of the lease. Accordingly, included in liabilities in the accompanying consolidated balance sheets at December 31, 2006, December 30, 2007 and December 28, 2008, are accruals related to such rent deferrals and the pro rata portion of scheduled rent increases of approximately \$14.0 million, \$16.3 million, and \$21.0 million respectively, net of the current portion included in other current liabilities of \$1.4 million, \$1.5 million, and \$1.5 million, respectively.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

Future minimum annual rental commitments under leases as of December 28, 2008 are as follows:

Lessee:	
2009	\$ 23,392
2010	23,614
2011	23,008
2012	22,162
2013	21,109
Thereafter	<u>214,407</u>
	<u>\$327,692</u>

Rental expense consists of the following:

	<u>Fiscal Year</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Minimum rentals	\$ 8,894	\$11,562	\$21,711
Contingent rentals	3,566	3,802	3,121
	<u>\$12,460</u>	<u>\$15,364</u>	<u>\$24,832</u>

In December 2006, the Company purchased the building in Heathrow, Florida, that houses its corporate headquarters. As a result, the Company assumed two tenant leases associated with the building. Rent revenue of \$1.0 million was included in other income in fiscal 2007 and \$1.1 million in fiscal 2008. The minimum rents expected to be received under these leases are as follows:

Lessor:	
2009	\$1,122
2010	1,143
2011	476
Thereafter	<u>—</u>
	<u>\$2,741</u>

(13) Commitments and Contingencies

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

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

(14) Discontinued Operations

On June 25, 2006 the Company closed its Ruth's Chris Steak House company-owned restaurant located in Cleveland, Ohio. The lease term for this restaurant ended in September 2006. The Company determined that the

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

closed restaurant should be accounted for as discontinued operations because the Company does not expect any further direct or indirect cash inflows from the restaurant because it has completely ceased operation. The Company recognized a \$0.2 million loss on impairment related to this location during fiscal year 2005.

During August 2005, the Company entered into an agreement with the Manhattan (UN), New York landlord whereby: (1) the Company made a one-time payment of \$0.3 million to the landlord for rent, commission on replacement lease, and attorneys fees; (2) the existing lease was terminated; (3) the Company allowed the landlord to contract with a third party replacement tenant; and (4) adjusted the remaining contingent lease term from eleven years to six years. Under the agreement, after the third anniversary, if the replacement tenant defaults on the new lease anytime during the remaining six years, the Company will be required to enter into a new agreement with landlord for the remaining term. This agreement resulted in a reduction of previously recorded rental liability. At December 28, 2008, the Company maintained a contingent lease liability of \$1.1 million related to this property. The Company accounted for its exit costs in accordance with the provisions of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which required that such costs be expensed in the periods such costs are incurred. All of the losses incurred are included in discontinued operations in the accompanying consolidated income statements.

As discussed in Note 2 to the consolidated financial statements, the Company accounts for its closed restaurants in accordance with the provisions of SFAS No. 144. 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:

	<u>Fiscal Year</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues	\$1,569	—	—
Income (loss) before income tax	\$ (84)	\$ (25)	\$(1,130)
Income (loss) from operations of discontinued restaurants, net of income tax benefit	\$ 66	\$ (4)	\$ (690)

(15) Supplemental Consolidated Financial Statement Information

(a) Accounts Receivable, net

Accounts receivable, net consist of the following:

	<u>December 30, 2007</u>	<u>December 28, 2008</u>
Bank credit card receivables	\$ 4,445	\$ 4,590
Landlord contributions	2,198	1,426
Franchise fees	1,553	1,407
Trade	513	869
Net income tax refundable	3,056	3,563
Other	289	2,109
Allowance for doubtful accounts	(229)	(597)
	<u>\$11,825</u>	<u>\$13,367</u>

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

(b) Other Assets

Other assets consist of the following:

	December 30, 2007	December 28, 2008
Deposits	\$1,030	\$1,314
Deferred financing costs	460	1,362
Other	666	122
	\$2,156	\$2,798

(c) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	December 30, 2007	December 28, 2008
Accounts payable & other accrued expenses	\$18,115	\$17,863
Accrued payroll & related benefits	7,654	9,524
Sales & use tax payable	2,551	2,579
Accrued interest payable	548	423
	\$28,868	\$30,389

(16) Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data (amounts in thousands, except per share information):

	Quarter Ended				Total
	April 1, 2007	July 1, 2007	September 30, 2007	December 30, 2007	
Revenues	\$81,499	\$78,434	\$70,224	\$89,014	\$319,171
Operating income (loss)	10,881	9,026	3,926	8,090	31,923
Net income (loss)	6,782	5,444	1,780	4,140	18,146
Net Income (loss) available to common shareholders	\$ 6,782	\$ 5,444	\$ 1,780	\$ 4,140	\$ 18,146
Basic earnings (loss) per share:					
Continuing operations	\$ 0.29	\$ 0.23	\$ 0.08	\$ 0.18	\$ 0.78
Discontinued operations	—	—	—	—	—
Basic earnings (loss) per share	\$ 0.29	\$ 0.23	\$ 0.08	\$ 0.18	\$ 0.78
Diluted earnings (loss) per share:					
Continuing operations	\$ 0.29	\$ 0.23	\$ 0.08	\$ 0.18	\$ 0.78
Discontinued operations	—	—	—	—	—
Diluted earnings (loss) per share	\$ 0.29	\$ 0.23	\$ 0.08	\$ 0.18	\$ 0.78

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

	Quarter Ended				Total
	March 30, 2008	June 29, 2008	September 28, 2008	December 28, 2008	
Revenues	\$98,583	\$108,117	\$99,277	\$ 99,808	\$405,785
Operating income	9,259	4,738	1,430	(86,549)	(71,122)
Net income	4,532	2,755	(520)	(60,652)	(53,883)
Net Income available to common shareholders	\$ 4,532	\$ 2,755	\$ (520)	\$(60,652)	\$ (53,883)
Basic earnings per share:					
Continuing operations	\$ 0.19	\$ 0.11	\$ (0.02)	\$ (2.57)	\$ (2.28)
Discontinued operations ...	—	—	—	(0.03)	(0.03)
Basic earnings per share ...	<u>\$ 0.19</u>	<u>\$ 0.11</u>	<u>\$ (0.02)</u>	<u>\$ (2.60)</u>	<u>\$ (2.31)</u>
Diluted earnings per share:					
Continuing operations	\$ 0.19	\$ 0.11	\$ (0.02)	\$ (2.57)	\$ (2.28)
Discontinued operations ...	—	—	—	(0.03)	(0.03)
Diluted earnings per share	<u>\$ 0.19</u>	<u>\$ 0.11</u>	<u>\$ (0.02)</u>	<u>\$ (2.60)</u>	<u>\$ (2.31)</u>

During the fiscal quarter ended April 1, 2007, the Company received \$3.7 million in net insurance proceeds associated with property damage recoveries and business interruption claims from Hurricane Katrina.

During the fiscal quarter ended December 28, 2008 the Company recorded a loss on impairment of long-lived assets and certain intangible assets of \$81.3 million. Of this amount, \$32.1 million was related to the impairment of long-lived assets, including the full impairment of fixtures and equipment and leasehold improvements at one Mitchell's Steakhouse restaurant, two Mitchell's Fish Market restaurants, three company-owned Ruth's Chris Steak House restaurants and the Millwork shop located in Sanford, Florida. In addition, the Company recorded a partial loss on impairment of fixtures and equipment and leasehold improvements at one Mitchell's Fish Market restaurant, two company-owned Ruth's Chris Steak House restaurants and our corporate office building located in Heathrow, Florida. The remaining loss of \$49.2 million was the result of trademark impairment charges of \$12.1 million previously recorded as part of the Mitchell's acquisition in 2008, franchise impairment charges of \$5.9 million related to the Pacific Northwest acquisition in 2007 and goodwill impairment charges of \$31.1 million. Of the \$31.1 million of goodwill impairment charges, \$22.8 million were related to goodwill previously recorded as part of the Mitchell's acquisition on February 19, 2008. The remaining \$8.3 million was related to goodwill recorded as part of the acquisition of three previously franchised restaurants in the Pacific Northwest in 2007, the acquisition of Design Custom Millwork, Inc., in 2007 and the 1994 acquisition of the Scottsdale and Phoenix previously franchised Ruth's Chris Steak House restaurants.

The Company also recorded restructuring charges of \$8,926 in the fourth fiscal quarter of 2008.

(17) Restructuring

As financial markets experienced great volatility in late September through October 2008, management undertook a corporate restructuring to better support the new strategy of little to moderate company-owned restaurant growth. As a result, restructuring charges of \$8,926 were recorded to restructuring expenses in the Consolidated Income Statement.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)
(dollar amounts in thousands)

The Company recognized \$2,248 of expenses due to headcount reductions at our corporate support center. Approximately \$1,981 was incurred for salary and benefits expense of terminated employees, of which \$526 was paid in the 2008, while the remaining \$1,455 will be paid in fiscal year 2009 and early 2010. A non-cash charge of \$267 in stock compensation expense was also incurred due to accelerated vesting of restricted stock awards to four terminated employees.

The Company also incurred \$6,778 of charges related to the decision to forego six new restaurant openings for which it has signed leases, and to accrue for future lease payments on vacated corporate office space. Lease obligations of \$4,978 represent the amount of rent costs expected to be paid by us in 2009 and 2010, while vacant properties are not successfully subleased. Non-cash write-offs of \$1,700 of capitalized development costs related to the six restaurants were also included in 2008 restructuring costs.

The details of the restructuring charges are as follows:

	<u>One-time termination benefits</u>	<u>Lease obligations</u>	<u>Write-off of capitalized development costs</u>	<u>Total restructuring</u>
Accrued restructuring at 12/30/07	\$ —	\$ —	\$ —	\$ —
Restructuring expenses	1,981	4,978	—	6,959
Payments	<u>(526)</u>	<u>—</u>	<u>—</u>	<u>(526)</u>
Accrued restructuring at 12/30/08	<u>\$1,455</u>	<u>\$4,978</u>	<u>\$ —</u>	<u>\$6,433</u>
Non-cash restructuring expenses	<u>267</u>	<u>—</u>	<u>1,700</u>	<u>1,967</u>
Total 2008 restructuring expenses	<u>\$2,248</u>	<u>\$4,978</u>	<u>\$1,700</u>	<u>\$8,926</u>

(18) Subsequent Event

On February 26, 2009, Ruth's Hospitality Group, Inc. (the "Company") entered into a First Amendment to First Amended and Restated Credit Agreement. The amendment reduces the revolving loan commitment from \$250.0 million to \$175.0 million, with additional reductions scheduled beginning December 31, 2009 through the final maturity date of February 19, 2013. The amendment decreases the Company's fixed charge coverage ratio and increases its maximum leverage ratio, in each case beginning with the fourth quarter of 2008 and continuing through the second quarter of 2010, after which these two covenants reset to their original levels. The amendment also adds two new covenants. The first is a minimum EBITDA test and the second places new restrictions on capital expenditures. The amendment also increases the interest rates applicable to borrowings based on the Company's actual leverage ratio, ranging from 2.50% to 4.25% above the applicable LIBOR rate or, at the Company's option, from 1.25% to 3.00% above the applicable base rate.

RUTH'S

HOSPITALITY GROUP

Board of Directors

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Alan Vituli
Chairman and Chief Executive Officer
Carrols Restaurant Group, Inc.

Michael P. O'Donnell
President and Chief Executive Officer
Ruth's Hospitality Group, Inc.

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President, Chief Executive Officer and Director

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Kevin W. Toomy
Senior Vice President and Chief Operating Officer of Ruth's Chris Steak House

Samuel A. Tancredi
Senior Vice President and Chief Operating Officer of Mitchell's Fish Market

Sarah C. Jackson
Senior Vice President of Human Resources

STOCK LISTING

Ruth's Hospitality Group, Inc. Common Stock is listed on the NASDAQ Global Select Market under the symbol "RUTH".

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