

Ruths Hospitality Group, Inc.  
Form 10-K  
March 04, 2016

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-K**

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**(Mark One)**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 27, 2015**

**OR**

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

**For the transition period from                      to**

**Commission File Number 000-51485**

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**RUTH'S HOSPITALITY GROUP, INC.**

**(Exact Name of Registrant as Specified in its Charter)**

<b>Delaware</b>	<b>72-1060618</b>
<b>(State or Other Jurisdiction of Incorporation or Organization)</b>	<b>(I.R.S. Employer Identification No.)</b>
<b>1030 W. Canton Avenue, Suite 100 Winter Park, Florida</b>	<b>32789</b>
<b>(Address of Principal Executive Offices) (Zip Code)</b>	
<b>Registrant's Telephone Number, Including Area Code: (407) 333-7440</b>	

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

**Common stock, par value \$0.01 per share The NASDAQ Stock Market LLC**

(Title of class) (Name of exchange on which registered)  
Securities Registered Pursuant to Section 12(g) of the Act:

None

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

Indicate by check mark 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

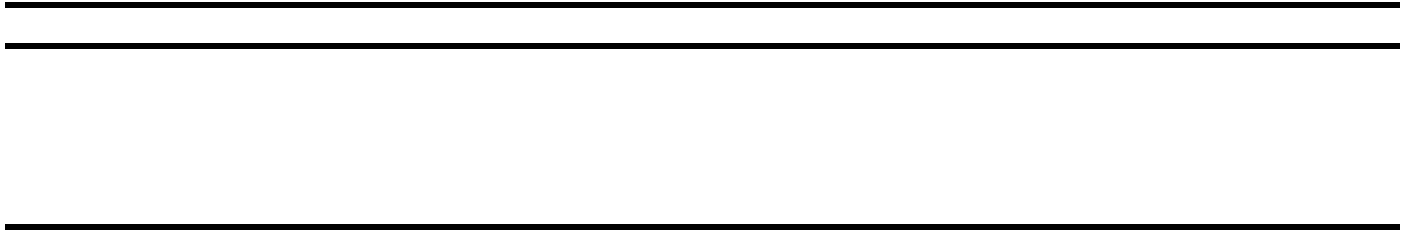
As of June 28, 2015, the last day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock, par value \$0.01 per share, held by non-affiliates was approximately \$546,701,336.

The number of shares outstanding of the registrant's common stock as of February 26, 2016 was 33,638,024 which includes 1,150,082 shares of unvested restricted stock.

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**DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III of Annual Report on Form 10-K, to the extent not set forth herein, is incorporated herein by reference to the registrant's Proxy Statement for the 2016 Annual Meeting of Stockholders, 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 “anticipate,” “believe,” “estimate,” “expect,” “intend,” “project,” “targeting,” “will be,” “will continue,” “will likely result,” or other similar words and phrases. Statements herein that describe the Company’s objectives, plans or goals, including with respect to new restaurant openings, 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: reductions in the availability of, or increases in the cost of, USDA Prime grade beef, fish and other food items; changes in economic conditions and general trends; the loss of key management personnel; the effect of market volatility on the Company’s stock price; health concerns about beef or other food products; the effect of competition in the restaurant industry; changes in consumer preferences or discretionary spending; labor shortages or increases in labor costs; the impact of federal, state or local government regulations relating to income taxes, unclaimed property, 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; changes in, or the discontinuation of, the Company’s share repurchase program or dividend payments; and the Company’s indemnification obligations in connection with its recent sale of the Mitchell’s Fish Market and Mitchell’s/Cameron’s Steakhouse restaurants. 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](http://www.sec.gov). All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update this Annual Report on Form 10-K to reflect events or circumstances after the date hereof. You should not assume that material events subsequent to the date of this Annual Report on Form 10-K have not occurred.

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Unless the context otherwise indicates, all references in this Annual Report on Form 10-K to the “Company,” “we,” “us” or “our” or similar words are to Ruth’s Hospitality Group, Inc., and its wholly owned subsidiaries.

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## **PART I**

### **Item 1. BUSINESS**

#### **Introduction**

Ruth's Hospitality Group, Inc. develops and operates fine dining restaurants under the trade name Ruth's Chris Steak House. As of December 27, 2015, there were 148 Ruth's Chris Steak House restaurants, including 67 Company-owned restaurants, one restaurant operating under a management agreement and 80 franchisee-owned restaurants, including 20 international franchisee-owned restaurants in Aruba, Canada, China, Hong Kong, El Salvador, Japan, Mexico, Panama, Singapore, Taiwan and the United Arab Emirates.

The Company previously operated eighteen Mitchell's Fish Markets and three Mitchell's/Cameron's Steakhouse restaurants (the Mitchell's Restaurants), located primarily in the Midwest and Florida. On January 21, 2015, the Company sold the Mitchell's Restaurants to a third party. For financial reporting purposes, the Mitchell's Restaurants are classified as discontinued operations for all periods presented and, as of December 28, 2014, the assets are classified as held for sale.

The Company has a 52/53-week fiscal year ending the last Sunday in December. The 2015 fiscal year ended December 27, 2015, the 2014 fiscal year ended December 28, 2014, and the 2013 fiscal year ended December 29, 2013. Fiscal years 2015, 2014 and 2013 all had 52 weeks.

The following description of the Company's business should be read in conjunction with the information in Management's Discussion and Analysis of Results of Operations of Financial Condition in Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition of this Annual Report on Form 10-K and the consolidated financial statements included in this Annual Report on Form 10-K.

#### **Background**

The year 2015 marked the 50th anniversary of the founding of Ruth's Chris Steak House. The Company was founded in 1965 when Ruth Fertel mortgaged her home for \$22 thousand 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 restaurant, 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 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 under the ticker symbol “RUTH”.

## Recent Developments

In 2015, Ruth’s Chris Steak House was honored to be recognized by surveys and publications as a premier steakhouse restaurant brand, including recognition as the #1 Consumer Pick in the Nation’s Restaurant News annual survey for the fine dining category and being honored as an Open Table’s 2015 Top 100 Restaurant in America. Additionally, many of our restaurants continue to be ranked best steakhouse by local publications in the areas in which they operate.

In the fourth quarter of fiscal year 2015, Ruth’s Chris Steak House achieved its 23<sup>rd</sup> consecutive quarter of same-store sales growth.

Two new Company-owned Ruth’s Chris Steak House restaurants opened during 2015, including locations in St. Petersburg, FL and Dallas, TX.

Franchisees opened three new restaurants during 2015, including locations in Ann Arbor, MI, Charleston, SC, and San Antonio, TX.

The Company currently expects to open four new Ruth’s Chris Steak House restaurants during 2016. The Company expects that franchisees will open three new Ruth’s Chris Steak House restaurants during 2016.

## Ruth’s Chris Steak House

With 148 restaurants as of December 27, 2015, Ruth’s Chris Steak House is one of the largest upscale steakhouse companies in the world. The 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”—complemented by other traditional menu items inspired by its New Orleans heritage. Ruth’s Chris complements its distinctive food offerings with an award-winning wine list.

The Ruth's Chris brand reflects its 50-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 Restaurants**

The Company acquired the Mitchell's Restaurants in 2008. Mitchell's Fish Market is an eighteen-restaurant upscale seafood concept and Mitchell's/Cameron's Steakhouse is a modern American steakhouse concept.

In November 2014, the Company and Landry's, Inc. and Mitchell's Entertainment, Inc., an affiliate of Landry's Inc. (together with Landry's Inc., Landry's), entered into an asset purchase agreement (the Agreement). Pursuant to the Agreement, the Company agreed to sell the Mitchell's Restaurants and related assets to Landry's for \$10 million. The sale of the Mitchell's Restaurants closed on January 21, 2015. The assets sold consisted primarily of leasehold interests, leasehold improvements, restaurant equipment and furnishings, inventory, and related intangible assets, including brand names and trademarks associated with the 21 Mitchell's Restaurants. Under the terms of the Agreement, Landry's assumed the Mitchell's Restaurants' facility lease obligations and the Company will reimburse Landry's for gift cards sold prior to the closing date and used at the Mitchell's Restaurants during the eighteen months following the closing date. Landry's offered employment to substantially all of the employees of the Mitchell's Restaurants.

### **Strengths**

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

#### ***Premier Upscale Steakhouse Brand***

The Ruth's Chris Steak House brand is one of the strongest in the upscale steakhouse segment of the restaurant industry, with high levels of brand awareness. In 2015, Ruth's Chris Steak House was again the #1 Consumer Pick in the Nation's Restaurant News annual survey for the fine dining category. Additionally, many of our restaurants 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.



### ***Appealing Dining Experience***

At the Ruth's Chris restaurants, the Company seeks to exceed guests' expectations by offering high-quality food with warm, friendly service. 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.

### **Strategy**

The Company's strategy is to deliver a total return to shareholders by maintaining a healthy core business, growing with a disciplined investment approach and returning excess capital to shareholders. The Company strives to maintain a healthy core business by growing sales through traffic, managing operating margins and leveraging infrastructure. The Company is committed to disciplined growth in markets with attractive sales attributes and solid financial returns. The Company believes that its franchisee program is a point of competitive differentiation and looks to grow its franchisee-owned restaurant locations as well. The Company also will consider acquiring franchisee-owned restaurants at terms that it believes are beneficial to both the Company and the franchisee.

### ***Improve Sales/Profitability***

The Company strives to improve sales and profitability by focusing on:

- Ensuring consistency of food quality through more streamlined preparation and presentation;
- Expanding our brand appeal through continued menu evolution and facility remodels;
- Increasing brand awareness through enhanced media advertising at the national and local levels;
- Enhancing and/or developing innovative marketing programs through its website (e.g., [www.ruthschris.com](http://www.ruthschris.com)), social media, digital media and email communication; and
- Creating and/or growing revenue opportunities via Ruth's Catering, Private Dining, HD Satellite Programs and Gift Cards.

### ***Expand Relationships with New and Existing Franchisees and Others***

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 grow and strengthen the Ruth's Chris brand and generate additional revenues. 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.



Franchisees opened 57 Ruth's Chris restaurants from 1999 through the end of 2015. In fiscal year 2015, franchisees opened three new restaurants in Ann Arbor, MI, Charleston, SC, and San Antonio, TX. In fiscal year 2014, franchisees opened three new restaurants in Boise, ID, Panama City, Panama, and Taipei, Taiwan. In fiscal year 2013, franchisees opened three new restaurants in San Juan, Puerto Rico, Chattanooga, TN and Shanghai, China. In addition, a franchise restaurant opened in 2013 in Las Vegas, NV under a licensing agreement with Harrah's Casino under which we receive a fee based on a percentage of sales. Franchisees are expected to open six new restaurants by the end of fiscal year 2017.

The Company and its franchise and licensing partners will have opened or relocated nineteen new Ruth's Chris Steak Houses worldwide during the three year period ended December 2015.

## **Menu**

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" on a 500 degree plate and topped with butter—complemented by other Classic American steakhouse menu items. USDA Prime is the highest meat grade level, which refers to the superior quality and evenly distributed marbling that enhances the flavor of the steak. The Ruth's Chris menu also includes premium quality lamb chops, fish, shrimp, crab, chicken and lobster. Dinner entrées are generally priced from \$28 to \$85. Ruth's Chris is predominantly open dinner hours only with a limited number of restaurants open for lunch. The lunch menu offers entrées generally ranging in price from \$13 to \$27. The blended guest check average at Ruth's Chris was approximately \$79 during fiscal year 2015. While the Ruth's Chris core menu is similar at all of its restaurants, the Company seasonally 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 ten to thirteen standard appetizer items, including New Orleans-style barbecued shrimp, mushrooms stuffed with crabmeat, shrimp remoulade, lobster bisque and osso bucco ravioli, as well as six to eight different salads. They also offer a variety of potatoes and vegetables as side dishes. For dessert, crème brûlée, bread pudding, cheesecake, fresh seasonal berries with sweet cream sauce and other selections are available.

The Company's wine list features bottles typically ranging in price from \$40 to over \$1,000. Individual restaurants supplement their 250-bottle core wine list with approximately 20 additional selections that reflect local market tastes. Most of the Company's Ruth's Chris restaurants also offer approximately 39 wines-by-the-glass and numerous beers, liquors and alcoholic dessert drinks. Wine sales account for approximately 58% of the total beverage sales.

## **Restaurant Operations and Management**

The Ruth's Chris President and Chief Operating Officer has primary responsibility for managing Company-owned restaurants and participates in analyzing restaurant-level performance and strategic planning. The Company has nine regional vice presidents that oversee restaurant operations at Company-owned restaurants and one vice president that has oversight responsibility for franchisee-owned restaurants. In addition, restaurant education and training is overseen by a regional staff dedicated to the ongoing training and development of customer service employees and kitchen staff.

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-owned restaurants also typically have approximately 70 hourly employees.

### **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 regional and corporate managers to ensure consistent sourcing of meat, fish, produce and other supplies.

During fiscal year 2015, the Company purchased substantially all of the beef it used in Company-owned Ruth's Chris restaurants from two vendors, Sysco Food Services and Stock Yards Packing (a subsidiary of US Foods). Each vendor supplied about half of the Company's beef requirements. In addition, the Company has a 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 all of the Company-owned Ruth's Chris Steak House restaurants receive a significant portion of their food supplies.

### **Quality Control**

The Company strives to maintain quality and consistency in its Company-owned 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 ensure that its employees display the characteristics of its brand and values that distinguish it from its competitors. Restaurant managers in Company-owned restaurants must complete a training program that is typically seven to eight 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. Restaurant managers are certified by the National Restaurant Association Educational Foundation for food

safety.

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The Ruth's Chris Steak House restaurants also employ an independent third-party food safety firm to ensure proper training, food safety and the achievement of the highest standards for cleanliness throughout the restaurant through routine quarterly unannounced inspections. 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.

Throughout each day at the 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.

### **Marketing and Promotions**

The goals of the Company's marketing efforts are to increase restaurant sales by attracting new guests, increasing the frequency of visits by current guests, improving 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, digital media, radio and outdoor billboards.

### ***Advertising***

In fiscal year 2015, the Company spent \$10.9 million, or 2.9% of its revenues, in total marketing and advertising expenditures, which included spending on national media, consisting primarily of national cable television advertisements, online initiatives and consumer research. During fiscal year 2015, the Company continued to optimize its online marketing efforts, using a variety of tactics. The Company's online strategy also included an emphasis on targeted emails with special offers and announcements, as well as emails regarding seasonal specials, holiday offers and personalized birthday and anniversary invitations. In the fourth quarter of fiscal year 2015, the Company ran national television advertising across a targeted selection of cable channels and invested in online advertising. In fiscal year 2015, Ruth's Chris Steak House continued its participation in co-branded campaign with American Express Membership Rewards program. Many of the Company's restaurants 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.

### **Gift Cards**

The Company sells Ruth's Chris gift cards at most of its Ruth's Chris Steak House restaurants, including franchises, on its website and through its toll-free number. 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. In December 2013, Ruth's Chris began offering e-gift cards to purchasers on its e-commerce gift card website. The e-gift card is emailed directly to the recipient and is redeemable in the same manner as a plastic gift card. E-gift cards give Ruth's Chris the opportunity to maximize last-minute gift-giving and address its patrons' requests for convenient, immediate purchases. In fiscal year 2015, system-wide gift card Company and franchise sales of Ruth's gift cards aggregated approximately \$59 million. Ruth's Chris gift cards are redeemable at both Company and franchisee owned Ruth's Chris restaurants.

## **Franchise Program and Relationship**

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, 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.

As of December 27, 2015, the Company's 80 franchisee-owned Ruth's Chris restaurants are owned by 30 franchisees with the three largest franchisees owning 29 restaurants in total. Currently, franchisees have agreed to open six additional Ruth's Chris restaurants, which are expected to open by the end of fiscal year 2017.

Under the Company's current franchise program, each franchise arrangement consists of a development agreement, if multiple restaurants are to be developed, with a separate franchise agreement executed for each restaurant. The Company's current form of development agreement grants exclusive rights to a franchisee to develop a minimum number of restaurants in a defined area, typically during a three-to-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 ten-year terms if certain conditions are met. The Company's current 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 current form of development agreement, and unless agreed otherwise, the Company collects a \$50 thousand development fee, which is credited toward the \$150 thousand franchise fee, for each restaurant the franchisee has rights to develop. Under the Company's current form of the franchise agreement, it collects up to \$150 thousand of the full franchise fee at the time of executing the franchise agreement for each restaurant. If one restaurant is to be developed, a single unit franchise agreement is executed and the \$150 thousand franchise fee is collected at signing.

### **Information Systems and Restaurant Reporting**

All of the Company's restaurants use computerized point-of-sale systems, which are designed to promote 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.

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 in 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.

### **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 large part, to increased restaurant sales during the



year-end holiday season and the popularity of dining out in the fall and winter months.

## Employees

As of December 27, 2015, the Company employed 4,350 persons, of whom 434 were salaried and 3,916 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.

<b>Functional Area</b>	<b>Number of Employees</b>
Senior Officers / Corporate VPs / Operations VPs	27
General Managers	71
Managers	177
Regional Corporate Chefs / Executive Chefs	69
Sous Chefs	50
Non-Salaried Restaurant Staff	3,898
Corporate Salaried	40
Corporate Non-salaried	18
Total number of employees	4,350

## Financial Information about Segments

The Company-owned Ruth's Chris Steak House restaurants in North America are managed as an operating segment. The Ruth's Chris restaurants operate within the full-service dining industry, providing similar products to similar customers. The franchise operations are also considered to be an operating segment. Financial information concerning the Company's segments for financial reporting purposes appears in Note 17 of the consolidated financial statements.

## 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. During 2015, governmental entities acted to increase minimum wage rates in several jurisdictions wherein Company-owned restaurants are located. Additionally, the federal government may act to increase the U.S. federal minimum wage rate.

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 disclosure document 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 disclosure document 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.

The Company is subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. The Company is, or will become, subject to laws and regulations requiring disclosure of calorie, fat, trans fat, salt and allergen content. The Patient Protection and Affordable Care Act of 2010 (ACA) requires restaurant companies, such as the Company, to disclose calorie information on their menus beginning in December 2016. The Food and Drug Administration has rules to implement this provision that would require restaurants to post the number of calories for most items on menus or menu boards and to make available more detailed nutrition information upon request. A number of states, counties and cities have also enacted menu labeling laws requiring restaurant companies, such as the Company, to disclose certain nutrition information on their menus, or have enacted legislation restricting the use of certain types of ingredients in restaurants. Although the ACA is intended to preempt conflicting state and local laws regarding nutrition labeling, the Company will be subject to a patchwork of state and local laws and regulations regarding nutritional content disclosure requirements until the Company is required to comply with the federal law. Many of the current requirements are inconsistent or are interpreted differently from one jurisdiction to another. The effect of such labeling requirements on consumer choices, if any, is unclear at this time.

The Company maintains an employee benefits program that provides self-insured and insured coverage to employees that meet the applicable requirements under the program. Employees can elect to enroll dependents that meet eligibility criteria. Coverage includes health, dental, vision, short- and long-term disability, life insurance and other voluntary ancillary benefits. Employees share in the cost of other coverage at varying levels. The Company has historically funded a majority of the cost of employee health benefits. The ACA requires that employers offer health care coverage that is qualified and affordable. Coverage must be offered to all "full-time" employees, as defined by the ACA. The Company routinely reviews its health benefit plans to assure conformity with the ACA. The hours of service eligibility criteria the Company requires for health benefits are lower than required under the ACA. Approximately 65% of eligible employees elect to participate in the Company's health benefit plans.

## **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, atmosphere, 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 Double Eagle Steakhouse, Fogo de Chão and Morton's The Steakhouse. The Company's competitors may be better established in certain of the Company's existing markets and/or markets into which the Company 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 Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such information is available as soon as reasonably practicable after it files such reports with the SEC. Additionally, the Company's Code of Ethics may be accessed within the Investor Relations section of its website. Information found on the Company's 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. 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 the following:*

***We may not be able to compete successfully with other restaurants, which could reduce revenues.***

The restaurant industry is intensely competitive with respect to price, service, location, food quality, atmosphere and overall dining experience. Our 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 our competitors have substantially greater financial, marketing and other resources, and may be better established in the markets where our restaurants are or may be located. If we cannot compete effectively in one or more of our markets, we may be unable to maintain recent levels of comparable restaurant sales growth and/or may be required to close existing restaurants.

***Economic downturns may adversely impact consumer spending patterns.***

Economic downturns could negatively impact consumer spending patterns. Any decrease in consumer spending patterns may result in a decline in our operating performance. Economic downturns may reduce guest traffic and require us to lower our prices, which reduces our revenues and operating income, which may adversely affect the market price for our common stock.

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

We purchase large quantities of beef, particularly USDA Prime grade beef, which is subject to significant price fluctuations due to seasonal shifts, climate conditions, industry demand and other factors. Our beef costs represented approximately 47% of our food and beverage costs during fiscal year 2015. During fiscal year 2015, we entered into contracts with beef suppliers to establish set pricing on a portion of anticipated beef purchases. As of December 27, 2015, we have not negotiated set pricing for beef requirements in 2016. The market for USDA Prime grade beef is

particularly volatile. If prices increase, or the supply of beef is reduced, our operating margins could be materially adversely affected.