

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 29, 2019

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
or
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)
1030 W. Canton Avenue, Suite 100,
Winter Park, FL
(Address of principal executive offices)

72-1060618
(I.R.S. Employer
Identification No.)

32789
(Zip code)

Registrant's telephone number, including area code: (407) 333-7440

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

Title of each class (Title of Class)	Trading Symbol	Name of each exchange on which registered (Name of exchange on which registered)
Common stock, par value \$0.01 per share	RUTH	The NASDAQ Stock Market LLC

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2019, the last day of the registrant's most recently completed fiscal second quarter, the aggregate market value of the registrant's outstanding common stock, par value \$0.01 per share, held by non-affiliates was \$663,759,591.

The number of shares outstanding of the registrant's common stock as of February 20, 2020, was 29,315,052 which includes 891,585 shares of unvested restricted stock.

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 2020 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.

EXPLANATORY NOTE

Ruth's Hospitality Group, Inc. (the "Company"), filed its Annual Report on Form 10-K for the fiscal year ended December 29, 2019 (the "Original Filing") with the United States Securities and Exchange Commission (the "SEC") on February 27, 2020. The Company is filing this Amendment No. 1 to the Original Filing solely to correct inadvertent errors in footing the totals for 2018 total gross deferred tax liabilities and net deferred tax assets in a table of deferred tax assets and deferred tax liabilities set forth in Note 15 to the Company's consolidated financial statements.

In addition, the exhibit list included in Item 15 of Part IV has been amended to contain a currently-dated consent of KPMG LLP and, pursuant to the rules of the SEC, currently-dated certifications from the Company's Principal Executive Officer and Principal Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Such consent and the certifications of the Company's Principal Executive Officer and Principal Financial Officer are attached as exhibits to this Amendment No. 1.

Except as described above, this Amendment No. 1 speaks as of the original filing date of the Original Filing and does not amend or update any other information contained in the Original Filing to reflect events that may have occurred subsequent to the original filing date. The Company has included a complete copy of the Original Filing, as amended per above, in this filing.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” that reflect, when made, the Company’s expectations or beliefs concerning future events that involve risks and uncertainties. Forward-looking statements frequently are identified by the words “believe,” “anticipate,” “expect,” “estimate,” “intend,” “project,” “targeting,” “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, including with respect to new restaurant openings, capital expenditures, strategy, financial outlook, our effective tax rate and the impact of healthcare inflation and recent accounting pronouncements, 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: 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 inability to successfully integrate franchisee acquisitions into the Company’s business operations; economic, regulatory and other limitations on the Company’s ability to pursue new restaurant openings and other organic growth opportunities; a material failure, interruption or security breach of the Company’s information technology network; the Company’s indemnification obligations in connection with its sale of the Mitchell’s Restaurants; the Company’s ability to protect its name and logo and other proprietary information; an impairment in the financial statement carrying value of our goodwill, other intangible assets or property; the impact of litigation; the restrictions imposed by the Company’s credit agreement; and changes in, or the discontinuation of, the Company’s quarterly cash dividend payments or share repurchase program. 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, see “Risk Factors” in this Annual Report on Form 10-K. 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.

Unless the context otherwise indicates, all references in this report to the “Company,” “Ruth’s,” “we,” “us,” “our” or similar words are to Ruth’s Hospitality Group, Inc. and its subsidiaries.

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 29, 2019, there were 159 Ruth's Chris Steak House restaurants, including 83 Company-owned restaurants, three restaurants operating under contractual agreements and 73 franchisee-owned restaurants, including 21 international franchisee-owned restaurants in Aruba, Canada, China, Hong Kong, Indonesia, Japan, Mexico, Singapore and Taiwan.

On July 29, 2019, we completed the acquisition of substantially all of the assets of three franchisee-owned Ruth's Chris Steak House restaurants located in Philadelphia, PA, King of Prussia, PA and Garden City, NY (the "MBR Franchise Acquisition") for a cash purchase price of \$18.6 million. The acquisition was funded with debt through the Company's senior credit facility. The results of operations, financial position and cash flows of the MBR Franchise Acquisition are included in our consolidated financial statements as of the date of the acquisition. For additional information, see Note 3 of the consolidated financial statements.

On December 12, 2017, we completed the acquisition of substantially all of the assets of six franchisee-owned Ruth's Chris Steak House restaurants located in Hawaii (the "Hawaiian Restaurants") for a cash purchase price of \$35.4 million. The results of operations, financial position and cash flows of the Hawaiian Restaurants are included in our consolidated financial statements as of the date of the acquisition.

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 the fiscal years 2015, 2016 and 2017.

The Company has a 52/53-week fiscal year ending the last Sunday in December. The 2019 fiscal year ended December 29, 2019, the 2018 fiscal year ended December 30, 2018, and the 2017 fiscal year ended December 31, 2017. Fiscal year 2017 had 53 weeks, while fiscal years 2019 and 2018 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 Financial Condition and Results of Operations in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K and the consolidated financial statements included in this Annual Report on Form 10-K.

Background

Ruth's Hospitality Group, Inc. is a Delaware corporation formerly known as Ruth's Chris Steak House, Inc. The Company was founded in 1965 when Ruth Fertel mortgaged her home for \$22 thousand to purchase "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 2019, the Company opened two new Ruth's Chris Steak House restaurants in Columbus, OH and Somerville, MA.
- In 2019, franchisees opened one new restaurant in Chongqing, China.
- In 2019, the Company integrated the MBR Franchise Acquisition into the organization.
- The Company currently expects to open four additional Ruth's Chris Steak House restaurants during 2020. The Company expects that franchisees will open one new Ruth's Chris Steak House restaurants during 2020.

Ruth's Chris Steak House

With 159 restaurants as of December 29, 2019, 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 54-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.

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. 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 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 its 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 may also 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 its brand appeal through continued menu innovation 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), social media, digital media and email communication;
- Creating and/or growing revenue opportunities via Ruth's Catering, Private Dining, the sale of Gift Cards and opening for lunch in selected markets; and
- Opening new restaurants.

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.

In addition to the franchisee-owned restaurant that was opened in fiscal year 2019, in fiscal year 2018 franchisees opened two new restaurants in Ft. Wayne, IN and Markham, Canada. In fiscal year 2017, franchisees opened two new restaurants in Chengdu, China and Kauai, HI. Franchisees are expected to open one new restaurant by the end of fiscal year 2020.

The Company and its franchise and licensing partners will have opened or relocated 15 new Ruth's Chris Steak Houses worldwide during the three year period ended December 2019.

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 and fresh parsley—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.

The Ruth's Chris restaurants offer ten to thirteen standard appetizer items, including New Orleans-style barbequed shrimp, mushrooms stuffed with crabmeat, spicy shrimp, chilled seafood tower 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, white chocolate bread pudding, chocolate duo, cheesecake, fresh seasonal berries with sweet cream and other selections are available.

The Company's wine list features bottles typically ranging in price from \$46 to over \$1,000. Individual restaurants may 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 over 25 wines-by-the-glass, 13-16 handcrafted cocktails and numerous beers, premium liquors and alcoholic dessert drinks.

Dinner entrees are generally priced from \$32 to \$99. Ruth's Chris is predominately open dinner hours only with a limited number of restaurants open for lunch. The lunch menu offers entrees generally ranging in price from \$13 to \$29. The blended guest check average at Ruth's Chris was approximately \$86 during fiscal year 2019 with food sales representing 77% of the guest check and the remainder represented by beverage sales. While the Ruth's Chris core menu is similar at all of its restaurants, the Company seasonally introduces new items such as limited time and prix fixe offerings that allow it to give its guests additional choices while taking advantage of fresh sourcing and advantageous cost opportunities.

Restaurant Operations and Management

The Ruth's Chris Chief Executive Officer and Vice President of Operations have primary responsibility for managing Company-owned restaurants and participate in analyzing restaurant-level performance and strategic planning. The Company has ten regional vice presidents who oversee restaurant operations at Company-owned restaurants, one vice president to whom the regional vice presidents report and one vice president who 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.

A 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 62 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 fish, produce and other supplies.

During fiscal year 2019, the Company purchased substantially all the beef it used in Company-owned Ruth's Chris restaurants from two vendors, Sysco Specialty Meat Group (a subsidiary of Sysco) 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 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.

In addition to our internal quality control measures, 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. 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, enhancing the guest experience, driving innovation, 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, search engine marketing, radio and outdoor billboards.

Advertising

In fiscal year 2019, the Company spent \$15.4 million, or 3.3% of its revenues, in total marketing and advertising expenditures, which included spending on national media, consisting primarily of paid search, online advertising, online initiatives, traditional public relations and consumer research. During fiscal year 2019, the Company continued to optimize its online marketing efforts, using a variety of tactics including paid search, digital advertising and paid social media advertising. The Company's online strategy also included an emphasis on continued website improvement and targeted emails with special offers and announcements, as well as emails regarding seasonal specials, holiday offers and personalized birthday and anniversary invitations. In fiscal year 2019, 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. E-gift cards, which may be purchased on the Company's e-commerce gift card website, are emailed directly to the recipient and are redeemable in the same manner as a plastic gift cards. In the fourth quarter of fiscal year 2016, Ruth's Chris entered into a distribution agreement where Ruth's Chris gift cards are sold in third-party retail outlets. Offering gift cards at third-party retailers and e-gift cards gives Ruth's Chris the opportunity to maximize last-minute gift-giving and address its patrons' requests for convenient, immediate purchases. 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 fiscal year 2019, Company and franchise sales of Ruth's gift cards aggregated approximately \$68.5 million system-wide, compared to \$67.2 million in fiscal year 2018. 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 29, 2019, the Company's 73 franchisee-owned Ruth's Chris restaurants are owned by 25 franchisees with the three largest franchisees owning 33 restaurants in total.

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 29, 2019, the Company employed 5,740 persons, of whom 524 were salaried and 5,216 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.

Functional Area	Number of Employees
Senior Officers / Corporate VPs / Operations VPs	25
General Managers	81
Managers	219
Regional Corporate Chefs / Executive Chefs	82
Sous Chefs	62
Non-Salaried Restaurant Staff	5,195
Corporate Salaried	55
Corporate Non-salaried	21
Total number of employees	5,740

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 2019, 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 subject to laws and regulations requiring disclosure of calorie, fat, trans fat, salt and allergen content. Beginning in May 2018, the Patient Protection and Affordable Care Act of 2010 (ACA) has required restaurant companies, such as the Company, to disclose calorie information on their menus. The Food and Drug Administration has rules to implement this provision that 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 some of which are preempted by the federal law. Many of the current requirements are inconsistent or are interpreted differently from one jurisdiction to another. The long-term 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 59% 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, Morton's The Steakhouse, Eddie V's and other local fine dining restaurants. 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 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 or changes in consumer confidence 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. In addition, some of our restaurants are located in areas that we consider tourist or vacation destinations. In those locations, we depend in large part on vacation travelers to frequent our Ruth's Chris Steak House restaurants, and such destinations typically experience a reduction in visitors during economic downturns, thereby reducing the potential guests that could visit our restaurants. A significant portion of our gross revenue comes from business guests and private dining which could also be negatively affected during an economic downturn or decrease in consumer confidence. This could have a material adverse impact on our results of operations and growth strategy. Disasters occurring at one of our franchisee's locations could impact our reputation and our consumers' perception of our brand. Moreover, these types of events could negatively impact consumer spending in the impacted regions or depending on the severity, globally, which could adversely impact our operating results. For example, in 2019 there was political unrest in Hong Kong and a strain of coronavirus surfaced in Wuhan, China resulting in temporary store closures and reduced consumer traffic. At this point, the extent to which either situation may impact our results is uncertain.

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

Our success depends, in large part, upon the reputation of our brand. Negative publicity resulting from poor food quality, illness, injury or other health concerns, or operating problems including disappointing customer experiences related to one or more restaurants, have occurred in the past, could occur in the future and could make our restaurants less appealing to consumers. Further, the influence of social media could make it more difficult for us to respond to negative publicity in a timely or effective manner. Consumers value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us the opportunity for redress or correction. In addition, any shifts in consumer preferences away from the kinds of food we offer, particularly beef, whether because of dietary or other health concerns or otherwise, would make our restaurants less appealing and adversely affect revenues. Our restaurants are required to disclose calorie information on menus, which could have an adverse effect on our revenues and results of operations.

Food safety and food-borne illness concerns throughout the supply chain may have an adverse effect on our business.

Food safety is a top priority, and we dedicate substantial resources to ensuring that our customers enjoy safe, quality food products. However, food safety risks are common throughout the restaurant industry and cannot be eliminated. Food safety issues could be caused by food suppliers, distributors or franchisees and, as a result, be out of our control. In addition, regardless of the source or cause, any report of food-borne illness such as E. coli, norovirus, hepatitis A, trichinosis, shigella, typhoid fever or salmonella, and other food safety issues including food tampering or contamination, at one of our restaurants could adversely affect the reputation of our brand and have a negative impact on our sales. Even instances of food-borne illness, food tampering or other food contamination occurring solely at restaurants of our competitors could result in negative publicity about the food service industry generally and adversely impact our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

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 44% of our food and beverage costs during fiscal year 2019. We typically buy our beef on the “spot” market and from time to time we will enter into longer term pricing and supply agreements. During fiscal year 2019, we entered into contracts with beef suppliers to establish set pricing on a portion of anticipated beef purchases. During the third quarter of 2019, we entered into negotiated set pricing for approximately 75% of our tenderloin requirements from mid-August 2019 through mid-February 2020 at a price approximately 1.0% below prior year. The market for USDA Prime grade beef is particularly volatile. If prices increase, or we are unsuccessful in our longer term pricing and supply agreements, or the supply of beef is reduced, our operating margins could be materially adversely affected.

In addition, under the Federal Meat Inspection Act and the Poultry Products Inspection Act, the production, processing or interstate distribution of meat and poultry products is prohibited absent federal inspection. If there is a disruption to the meat inspection process, we could experience a reduction in supply and a corresponding increase in meat prices, which could be significant, either of which could materially impact our operating margin and results of operations.

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.

If our vendors or distributors do not deliver food and beverages in a timely fashion we may experience supply shortages and/or increased food and beverage costs.

Our ability to maintain consistent quality throughout Company-owned restaurants depends in part upon our ability to purchase USDA Prime and Choice grade beef, seafood and other food products in accordance with our rigid specifications. During fiscal year 2019, the Company purchased substantially all of the beef 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, we currently have a long-term distribution arrangement with a national food and restaurant supply distributor, DMA, which purchases products for us from various suppliers, and through which all of our Company-owned Ruth’s Chris Steak House restaurants receive a significant portion of their food supplies. Consolidation in our supply chain due to mergers and acquisitions may change the relationships we have with our existing vendors and distributors and/or result in fewer alternative supply sources for purchasing our food supplies, which could result in an increase in prices. If for any reason our vendors or distributors cease doing business with us, we could experience supply shortages in certain Company-owned restaurants and could be required to purchase

supplies at higher prices until we are able to secure an alternative supply source. Any delay we experience in replacing vendors or distributors on acceptable terms could increase food costs or, in extreme cases, require us to temporarily remove items from the menu of one or more restaurants.

Labor shortages or increases in labor costs could slow our growth or harm our business.

Our success depends in part upon our ability to continue to attract, motivate and retain employees with the qualifications to succeed in our industry and the motivation to apply our core service philosophy, including regional operational managers, restaurant general managers and chefs. If we are unable to continue to recruit and retain sufficiently qualified individuals, our business and growth could be adversely affected. Competition for these employees could require us to pay higher wages, which could result in higher labor costs.

In addition, we have 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. Governmental entities have acted to increase minimum wage rates in several jurisdictions wherein Company-owned restaurants are located. The federal minimum wage may be increased and there likely will be additional minimum wage increases implemented in other states in which we operate or seek to operate. Likewise, changes to existing tip credit laws (which dictate the amounts an employer is permitted to assume an employee receives in tips when calculating the employee's hourly wage for minimum wage compliance purposes) continue to be proposed and implemented at both the federal and state government levels. As federal and/or state minimum wage rates increase and allowable tip credits decrease, we may need to increase not only the wage rates of our minimum wage employees but also the wages paid to our employees who are paid above the minimum wage, which will increase our labor costs. None of our employees are represented by a collective bargaining unit. Should some of our employees elect to be represented by a collective bargaining unit, our labor costs may increase due to higher wage rates and / or the implementation of work rules. We may be unable to increase our prices in order to pass these increased labor costs on to our guests, in which case our margins would be negatively affected.

A lack of availability of suitable locations for new restaurants, the inability to renew leases at existing restaurants on similar terms and conditions, or a decline in the quality of the locations of our current restaurants may adversely affect our sales and results of operations.

The success of our restaurants depends in large part on their locations. All, but one, of our Company-owned restaurant premises are leased. If we do not renew leases when the lease terms expire, or if we are unable to renew leases on favorable terms and conditions, our operating results could be negatively impacted. Possible declines in neighborhoods where our restaurants are located or adverse economic conditions in areas surrounding those neighborhoods could also result in reduced sales in those restaurants. Desirable locations for new restaurant openings or for the relocation of existing restaurants may not be available at an acceptable cost when we identify a particular opportunity for a new restaurant or relocation. In addition, construction costs for new locations may fluctuate. The occurrence of one or more of these events could have a significant adverse effect on our sales and results of operations.

Regulations affecting the operation of our restaurants could increase operating costs and restrict growth.

Each of our restaurants must obtain licenses from regulatory authorities allowing us 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. One of our locations was cited for a violation in fiscal year 2018 and was penalized by a two week closure in fiscal year 2019. In certain states, including states where we have a large number of restaurants or where we may open restaurants in the future, the number of liquor licenses available is limited and licenses are traded at market prices. If we are unable to maintain existing licenses, or if we choose 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 our 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 our growth strategy.

We are also subject to a variety of federal and state labor laws, pertaining to matters 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 our labor costs and reduce our operating margins. In addition, the Federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. Although our restaurants are designed to be accessible to the disabled, we could be required to make modifications to our restaurants to provide service to, or make reasonable accommodations for, disabled persons.

Local conditions, adverse weather conditions, natural disasters and acts of violence or terrorism, could adversely affect our business.

Certain of the regions in which we operate (including Florida and California where we have a significant number of restaurants) have been, and may in the future be, subject to adverse local conditions, events, terrorist attacks, adverse weather conditions, or natural disasters, such as earthquakes, floods, hurricanes and wildfires. Any of the foregoing events may result in physical damage, temporary or permanent closure, lack of an adequate work force, or temporary or long-term disruption in the supply of food, beverages, electric, water, sewer and waste disposal services necessary for our restaurants to operate. Depending upon its magnitude, any of the foregoing could severely damage our restaurants and/or adversely affect our business, results of operations or financial condition.

We currently maintain property and business interruption insurance through the aggregate property policy for each of our company-owned locations. However, if there is a major disaster, such coverage may not be adequate. In addition, upon the expiration of our current insurance policies, adequate insurance coverage may not be available at reasonable rates, or at all.

We have disaster recovery procedures and business continuity plans in place to address most events of a crisis nature, including hurricanes and other natural disasters, including back up and off-site locations for recovery of electronic and other forms of data and information. However, if we are unable to fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital functions, tardiness in required reporting and compliance, failures to adequately support restaurant operations and other breakdowns in normal communication and operating procedures that may have a material adverse effect on our business, results of operations, financial condition and exposure to administrative and other legal claims.

The cost of our employee health care benefit program may increase in the future.

We maintain 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 health benefits.

The Company routinely reviews its health benefit plans to assure conformity with government regulations. Approximately 59% of eligible employees elect to participate in our health benefit plans. The hours of service eligibility criteria for the Company's health benefits plan are lower than those required by law. In the future, proportionately more employees may elect to participate in our health benefit plans. We are unable to reliably predict to what extent, if any, the percentage of eligible employees who elect health care coverage will increase in the future. Because we fund a majority of the cost of health benefits, our financial accounting expense will increase to the extent that additional employees elect to participate in the Company's health benefit plans.

Certain other restaurant companies may curtail the ability of their employees to participate in their health benefit plans by increasing the hours worked eligibility requirement to the minimum required under the ACA. Such restaurant companies may gain a cost advantage compared to us by reducing the cost of their employee health benefit programs.

Also, medical inflation has historically tended to outpace general inflation. We are unable to reliably predict the extent to which future medical inflation will outpace general inflation. Additionally, because our medical benefit program is self-insured, an unusual incidence of large claims may cause our costs to unexpectedly increase.

Our strategy to open franchisee-owned restaurants subjects us to extensive government regulation, compliance with which might increase our investment costs and restrict our growth.

We are subject to the rules and regulations of the FTC and various international and state laws regulating the offer and sale of franchises. The FTC requires that we furnish to prospective franchisees a franchise disclosure document containing prescribed information and can restrict our 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 disclosure document with state authorities and the delivery of the franchise disclosure document 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 our 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 our business.

Our franchisees could take actions that harm our reputation and reduce our royalty and restaurant revenues.

We do not exercise control over the day-to-day operations of our franchisee-owned restaurants. While we strive to ensure that franchisee-owned restaurants maintain the same high operating standards that we demand of Company-owned restaurants, one or more of these restaurants may fail to maintain these standards or provide a customer experience consistent with our brand standards. Any operational or financial shortcomings of the franchisee-owned restaurants are likely to be attributed to our system-wide

operations and could adversely affect our reputation and damage our brand as well as have a direct negative impact on the royalty income we receive from those restaurants. Franchisee noncompliance with the operational standards and the terms and conditions of our franchise agreements may reduce the overall goodwill of our brand, whether through the failure to meet health and safety standards, engage in quality control or maintain product consistency, adequate succession planning or through the participation in improper or objectionable business practices. Moreover, unauthorized third parties may use our intellectual property to trade on the goodwill of the Company's brand, resulting in consumer confusion or dilution. Any harm to our brand or goodwill, customer confusion or brand dilution could materially and adversely impact our business and results of operations.

The expansion into international markets by our franchisees also creates additional risks to our brands and reputation.

Our international operations are subject to all the same risks associated with our domestic operations, as well as a number of additional risks. These include, among other things, international economic and political conditions, foreign currency fluctuations and differing cultures and consumer preferences. We are also subject to governmental regulation in such international markets, including antitrust and tax requirements, anti-boycott regulations, import/export/customs regulations and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Any new regulatory or trade initiatives could impact our operations in certain countries. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business, results of operations and financial condition. Most of our international locations are in Asia. China and southeast Asia have recently experienced slower economic growth, which reduced our franchise royalty revenue in 2019.

We rely on information technology in our operations and a failure to maintain a continuous and secure network, free from material failure, interruption or security breach, could harm our ability to effectively operate our business, damage our reputation and negatively affect our operations and profits.

We rely on information systems across our operations, including for marketing programs, point-of-sale processing systems in our restaurants, online purchases of gift cards and various other processes and transactions. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, a material network breach in the security of these systems because of a cyber-attack, or any other failure to maintain a continuous and secure network could adversely affect our reputation, negatively affect our results of operations, subject us to litigation or action by regulatory authorities and result in substantial harm to us or an individual. As privacy and information security laws and regulations change and cyber risks evolve, we may incur additional costs to ensure we remain in compliance and protect guest, employee and Company information. We currently carry insurance coverage to protect ourselves against some of these risks. However, our inability to continue to obtain such insurance coverage at reasonable costs also could have a material adverse effect on our financial condition and results of operations.

We accept electronic payment cards, including credit, debit and gift cards, from our guests for payment in our restaurants and on our websites. We also receive and maintain certain personal information about our customers and employees. Most of our sensitive data, including information related to employees, guests, credit cards, gift cards and financial statements, is stored or processed by third-party vendors. We, and some of our vendors, have experienced breaches but they have not had a material impact on operations or our financial position. If we, or one of our vendors, experienced a material security breach, we could become subject to claims, lawsuits or other proceedings for purportedly fraudulent transactions arising out of the theft of credit or debit card information, theft of gift card information, compromised security and information systems, failure of our employees to comply with applicable laws, the unauthorized acquisition or use of such information by third parties, or other similar claims.

We frequently defend against unauthorized attempts to breach our network, but we are not aware of a major security breach. We employ both internal and external consultants to conduct auditing and testing for weaknesses in our systems, controls, firewalls and encryption and intend to maintain and upgrade our security technology and operational procedures to prevent such damage, breaches or other disruptive problems. We continuously evaluate our network for known security breaches. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage computer systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or successfully implement adequate preventive security measures. Any such incidents or proceedings could negatively affect our reputation and our results of operations, cause delays in guest service, require significant capital investments to remediate the problem, and could result in the imposition of penalties or cause us to incur significant unplanned losses and expenditures, including those necessary to remediate any damage to persons whose personal information may have been compromised. Furthermore, because of legislative and regulatory rules, we may be required to notify employees or the owners of the credit and debit card information of any data breaches, which could harm our reputation and financial results, as well as subject us to litigation or other proceedings by regulatory authorities.

Our failure to enforce our service marks or other proprietary rights could adversely affect our competitive position or the value of our brands.

We own certain common law service mark rights and a number of federal and international service mark registrations, most importantly the Ruth's Chris Steak House names and logos, copyrights relating to text and print uses, and other proprietary intellectual

property rights. We believe that our service marks, copyrights and other proprietary rights are important to our success and competitive position. Protective actions we take with respect to these rights may fail to prevent unauthorized usage or imitation by others, which could harm our reputation, brand or competitive position and, if we commence litigation to enforce our rights, cause us to incur significant legal expenses.

Litigation concerning food quality, health, employment practices and other issues could require us to incur additional liabilities and/or cause guests to avoid our restaurants.

Occasionally, our guests file complaints or lawsuits against us alleging that we are responsible for some illness or injury they suffered at or after a visit to our restaurants. We are also subject to a variety of other claims arising in the ordinary course of our business, including personal injury claims, contract claims, claims from franchisees, claims from landlords, claims from suppliers, claims alleging violations of federal and state law regarding workplace and employment matters, harassment and discrimination and similar matters. In addition, we could become subject to class action lawsuits related to these matters in the future. These actions and proceedings may involve allegations of illegal, unfair or inconsistent employment practices, including wage and hour violations and employment discrimination; guest discrimination; food safety issues including poor food quality, food-borne illness, food tampering, food contamination, and adverse health effects from consumption of various food productions or high-calorie foods. We, and other companies in the restaurant industry, have 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, we are subject to “dram shop” statutes. These statutes generally permit a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. The restaurant industry has also faced recent claims related to sexual harassment. Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our performance. A judgment significantly in excess of our insurance coverage for any claims or for matters not covered by insurance could materially adversely affect our financial condition and results of operations. Our inability to continue to obtain such insurance coverage at reasonable costs also could have a material adverse effect on our financial condition and results of operations. Adverse publicity or a failure to respond effectively resulting from these claims may also negatively impact our reputation and revenues at one or more of our restaurants.

The terms of our senior credit agreement may restrict our ability to operate our business and to pursue our business strategies.

Our 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 us. Our senior credit agreement, which was entered into on February 2, 2017 and amended on September 18, 2019, limits our ability, among other things, to:

- pay dividends or purchase stock in excess of the limits permitted under the credit facility;
- 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; and
- create or permit restrictions on our subsidiaries’ ability to make payments to us.

Our ability to engage in these types of transactions is limited even if we believe that a specific transaction would contribute to our future growth or improve our operating results. Our senior credit agreement also requires us to maintain compliance with certain financial ratios. Our ability to comply with these ratios may be affected by events outside of our control. Any non-compliance would result in a default under our senior credit agreement and could result in our lenders declaring our senior debt immediately due and payable, which would have a material adverse effect on our financial position, consolidated results of operations and liquidity.

We pay interest under our senior credit agreement based on the London Interbank Offered Rate (“LIBOR”). The U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021, and it appears likely that LIBOR will be discontinued or modified by 2021. While our senior credit agreement includes a mechanism for an alternate rate to LIBOR, there is no guarantee that the discontinuance of LIBOR will not result in financial market disruptions or significant increases in benchmark interest rates or borrowing costs, any of which may have an adverse affect on us.

We cannot assure our stockholders that we will continue to pay quarterly cash dividends on our common stock or repurchase shares of our common stock under our share repurchase program. Failure to continue to pay quarterly cash dividends to our

stockholders or repurchase shares of our common stock under our share repurchase program could cause the market price for our common stock to decline.

During fiscal year 2019, we continued paying quarterly cash dividends to holders of our common stock and repurchased shares of our common stock under our share repurchase program. Our ability to pay future quarterly cash dividends or repurchase shares of our common stock will be subject to, among other things, our results of operations, financial condition, business prospects, capital requirements, contractual restrictions, any indebtedness we may incur, restrictions imposed by applicable law, tax considerations and other factors that our Board of Directors deems relevant. There can be no assurance that we will continue to pay a quarterly cash dividend or repurchase shares of our common stock in the future. Any reduction or discontinuance by us of the payment of quarterly cash dividends or the repurchase of shares of our common stock under our share repurchase program could cause the market price of our common stock to decline. Moreover, in the event our payment of quarterly cash dividends is reduced or discontinued, our failure or inability to resume paying quarterly cash dividends at historical levels could result in a lower market valuation of our common stock.

In the future we could incur unexpected expenses as a result of the sale of the Mitchell's Restaurants.

Effective January 21, 2015, we sold the Mitchell's Restaurants and related assets to Landry's. Pursuant to the terms of the purchase agreement, upon closing of the sale of the Mitchell's Restaurants, Landry's assumed the lease obligations of the Mitchell's Restaurants. However, we have guaranteed Landry's lease obligations aggregating \$24.2 million under five of the leases which extend until the leases terminate which may continue into 2040. Separate from the purchase agreement, Landry's has agreed to indemnify the Company in the event of a default under any of the leases. There is a risk that adverse events may occur that require us to defend against or fulfill an indemnity claim, which could result in unexpected expense.

We depend on external sources of capital, which may not be available in the future.

Historically, we have relied upon external sources of capital to fund our working capital and other requirements. Currently, we utilize our senior credit agreement to fund a portion of our working capital and other financing requirements. Any non-compliance with any restrictive or financial covenants in our senior credit agreement could result in a default and could result in our lenders declaring our senior debt immediately due and payable, which would have a material adverse effect on our financial position, consolidated results of operations and liquidity.

If we are required to seek other sources of capital, additional capital may or may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of things, including the market's perception of our current and potential future earnings. Furthermore, additional equity offerings may result in substantial dilution of stockholders' interests. If we are unable to access sufficient capital or enter into financing arrangements on favorable terms in the future, our financial condition and results of operations may be materially adversely affected.

Tax assessments or unclaimed property audits by governmental authorities could adversely impact our operating results.

We remit a variety of taxes and fees to various governmental authorities, including federal and state income taxes, excise taxes, franchise taxes, property taxes, sales and use taxes, and payroll taxes. The taxes and fees remitted by us are subject to review and audit by the applicable governmental authorities, which could result in liability for additional assessments. In addition, we are subject to unclaimed or abandoned property (escheat) laws which require us to turn over to certain government authorities the property of others held by us that has been unclaimed for a specified period of time. We are subject to audit by individual U.S. states with regard to our escheatment practices. The legislation and regulations related to tax and unclaimed property matters tend to be complex and subject to varying interpretations by both government authorities and taxpayers. Although management believes that the positions are reasonable, various taxing authorities may challenge certain of the positions we have taken, which may also potentially result in additional liabilities for taxes, unclaimed property and interest in excess of accrued liabilities. Our positions are reviewed as events occur such as the availability of new information, the lapsing of applicable statutes of limitations, the conclusion of tax audits, the measurement of additional estimated liability based on current calculations, the identification of new tax contingencies, or the rendering of relevant court decisions. An unfavorable resolution of assessments by a governmental authority could negatively impact our results of operations and cash flows in future periods. The Company has a pending voluntary disclosure agreement with the State of Delaware to resolve potential liability surrounding gift cards.

An impairment in the financial statement carrying value of our goodwill, other intangible assets or property could adversely affect our financial condition and consolidated results of operations.

Goodwill and owned franchise rights must be reviewed for potential impairment annually and when triggering events are detected. We performed our annual impairment test of goodwill and franchise rights as of December 1, 2019 using a qualitative assessment. Using the qualitative approach, we evaluated factors, including but not limited to, recent financial performance; forecasts for future

cash flows; the Company's stock price and market capitalization; recent impairment tests; legal factors; the business climate; and the competitive environment.

We review property and equipment (which includes leasehold improvements) and operating lease right-of-use (ROU) assets 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 quarterly at the restaurant level for indicators of impairment. In determining future cash flows, we make significant estimates with respect to future operating results of each restaurant over the expected remaining life of the primary asset in the restaurant.

We cannot accurately predict the amount and timing of any impairment of assets. Should the financial statement carrying value of goodwill, other intangible assets or property and equipment become impaired, there could be an adverse effect on our financial condition and consolidated results of operations.

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. Any failure to meet market expectations, whether for sales growth rates, earnings per share or other metrics, could adversely affect our share price.

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. Eighty-two of the Company-owned Ruth's Chris restaurants operate in leased space, of which the majority currently provide for an option to renew for terms ranging from approximately five years to twenty years. 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.

The corporate headquarters reside in leased space (21,211 square feet) in Winter Park, Florida, with a term set to expire on August 31, 2026.

The Company owns the real estate for one Ruth's Chris operating restaurant in Ft. Lauderdale, FL (7,800 square feet).

The following table sets forth information about the Company's existing Company-owned and franchisee-owned restaurants as of December 29, 2019. As of December 29, 2019, the Company operated 83 Ruth's Chris restaurants. In addition, franchisees operated 73 restaurants and three restaurants operated under contractual agreements. Company-owned Ruth's Chris restaurants range in size from approximately 4,000 to approximately 13,000 square feet with approximately 180 to 375 seats. The Company expects that future restaurants will range in size from 7,000 to 10,000 square feet with approximately 230 to 250 seats.

Company-Owned Ruth's Chris Restaurants			Franchisee-Owned Ruth's Chris Restaurants	
Year Opened	Locations	Property Leased or Owned	Year Opened	Locations
1972	Metairie, LA	Leased	1976	Baton Rouge, LA
1977	Lafayette, LA	Leased	1985	Mobile, AL
1983	Washington, D.C.	Leased	1986	Atlanta, GA
1984	Beverly Hills, CA	Leased	1987	Pittsburgh, PA
1985	Ft. Lauderdale, FL	Owned	1987	Hartford, CT
1985	Austin, TX	Leased	1991	Richmond, VA
1986	Nashville, TN	Leased	1993	Birmingham, AL
1987	San Francisco, CA	Leased	1993	San Antonio, TX
1987	N. Palm Beach, FL	Leased	1993	Taipei, Taiwan
1988	Philadelphia, PA	Leased	1993	Cancun, Mexico
1988	Seattle, WA	Leased	1994	Indianapolis, IN
1989	Honolulu, HI	Leased	1995	Toronto, Canada
1989	Memphis, TN	Leased	1996	Taichung, Taiwan
1990	Weehawken, NJ	Leased	1996	Indianapolis, IN
1990	Scottsdale, AZ	Leased	1997	Kowloon, Hong Kong
1992	Palm Desert, CA	Leased	1997	Raleigh (Cary), NC
1992	Minneapolis, MN	Leased	1998	Annapolis, MD
1992	Chicago, IL	Leased	1999	Atlanta, GA
1993	Arlington, VA	Leased	2000	Pikesville, MD
1993	Manhattan, NY	Leased	2000	San Antonio, TX
1994	San Diego, CA	Leased	2001	Kaohsiung, Taiwan
1995	Long Island, NY	Leased	2001	Queensway, Hong Kong
1995	Westchester, NY	Leased	2001	Cabo San Lucas, Mexico
1996	Dallas, TX	Leased	2005	Virginia Beach, VA
1996	Troy, MI	Leased	2005	Baltimore, MD
1996	Tampa, FL	Leased	2005	Atlantic City, NJ
1996	Bethesda, MD	Leased	2005	Charlotte, NC
1997	Irvine, CA	Leased	2006	St. Louis, MO
1997	Jacksonville, FL	Leased	2006	Ocean City, MD
1998	Louisville, KY	Leased	2006	Destin, FL
1998	Maui, HI	Leased	2006	Huntsville, AL
1998	Parsippany, NJ	Leased	2006	Edmonton, Canada
1998	Northbrook, IL	Leased	2007	Charlotte, NC
1999	Coral Gables, FL	Leased	2007	Columbia, SC
1999	Ponte Vedra, FL	Leased	2007	Mishawaka, IN
1999	Winter Park, FL	Leased	2007	Tokyo, Japan
2000	Sarasota, FL	Leased	2007	Madison, WI
2000	Del Mar, CA	Leased	2007	Calgary, Canada
2000	Boca Raton, FL	Leased	2007	Rogers, AR
2000	Wailea, HI	Leased	2007	Park City, UT
2001	King of Prussia, PA	Leased	2008	Aruba
2001	Orlando, FL	Leased	2008	Myrtle Beach, SC
2001	Greensboro, NC	Leased	2008	Wilmington, NC
2002	Woodland Hills, CA	Leased	2008	Wilkes-Barre, PA
2002	Fairfax, VA	Leased	2008	Raleigh, NC
2002	Bellevue, WA	Leased	2008	Savannah, GA

Company-Owned Ruth's Chris Restaurants			Franchisee-Owned Ruth's Chris Restaurants	
Year Opened	Locations	Property Leased or Owned	Year Opened	Locations
2003	Walnut Creek, CA	Leased	2009	Greenville, SC
2005	Roseville, CA	Leased	2009	St. Louis, MO
2005	Boston, MA	Leased	2009	Durham, NC
2005	Sacramento, CA	Leased	2009	Kennesaw, GA
2006	Bonita Springs, FL	Leased	2010	Salt Lake City, UT
2006	Mauna Lani, HI	Leased	2011	Grand Rapids, MI
2006	Pasadena, CA	Leased	2011	Asheville, NC
2007	Lake Mary, FL*	Land Leased	2012	Singapore
2007	Anaheim, CA*	Land Leased	2012	Niagara Falls, Canada
2007	Biloxi, MS	Leased	2013	Las Vegas, NV
2007	Knoxville, TN	Leased	2013	San Juan, Puerto Rico
2007	Tyson's Corner, VA	Leased	2013	Chattanooga, TN
2007	Waikiki, HI	Leased	2013	Shanghai, China
2007	West Palm Beach, FL	Leased	2014	Alpharetta, GA
2008	Ft. Worth, TX	Leased	2014	Boise, ID
2008	New Orleans, LA	Leased	2014	Taipei, Taiwan
2008	Princeton, NJ*	Land Leased	2015	Ann Arbor, MI
2008	Fresno, CA	Leased	2015	Charleston, SC
2008	South Barrington, IL*	Land Leased	2015	San Antonio, TX
2011	Portland, OR	Leased	2016	Jakarta, Indonesia
2012	Cincinnati, OH	Leased	2016	Odenton, MD
2013	Houston, TX	Leased	2016	Greenville, SC
2014	Denver, CO	Leased	2017	Chengdu, China
2014	Gaithersburg, MD	Leased	2017	Toronto, Canada
2014	Marina del Rey, CA	Leased	2018	Ft. Wayne, IN
2015	St. Petersburg, FL	Leased	2018	Markham, Canada
2015	Dallas, TX	Leased	2019	Chongqing, China
2016	Albuquerque, NM	Leased		
2016	El Paso, TX	Leased		
2017	Waltham, MA	Leased		
2017	Cleveland, OH	Leased		
2017	Kauai, HI	Leased		
2017	Denver, CO	Leased		
2018	Jersey City, NJ	Leased		
2018	Paramus, NJ	Leased		
2019	Columbus, OH	Leased		
2019	Somerville, MA	Leased		

Ruth's Chris Restaurants Under Management Agreement

Year Opened	Locations
2012	Cherokee, NC
2017	Tulsa, OK
2018	Reno, NV

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

Item 3. LEGAL PROCEEDINGS

See Note 11 of the Notes to the Consolidated Financial Statements for a summary of legal proceedings.

Item 4. MINE SAFETY DISCLOSURES

None.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, 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 February 20, 2020, there were 101 holders of record of its common stock.

Common Stock Repurchase Program

On November 1, 2019, the Company announced that its Board of Directors approved a share repurchase program under which the Company is authorized to repurchase up to \$60 million of outstanding common stock from time to time in the open market, through negotiated transactions or otherwise (including, without limitation, the use of Rule 10b5-1 plans), depending on share price, market conditions and other factors. The new share repurchase program replaced the Company's previous share repurchase program announced in November 2017, which has been terminated. The previous share repurchase program had permitted the repurchase of up to \$60 million of outstanding common stock, of which approximately \$11.5 million remained unused upon its termination. The Company conducts any open market share repurchase activities in compliance with the safe harbor provisions of Rule 10b-18 of the Exchange Act. The share repurchase program does not obligate the Company to repurchase any dollar amount or number of its shares. The program has no termination date. As of December 29, 2019, \$54.8 million remained available for further purchases under the new program.

Stock repurchase activity during the fiscal quarter ended December 29, 2019 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar Value that May Yet be Purchased under the Program – Amounts in thousands
September 30, 2019 to November 3, 2019	—	—	—	\$ 60,000
November 4, 2019 to December 1, 2019	208,000	\$ 25.11	208,000	\$ 54,777
December 2, 2019 to December 29, 2019	—	—	—	\$ 54,777
Totals for the fiscal quarter	208,000	\$ 25.11	208,000	\$ 54,777

Unregistered Recent Sales of Securities

None.

Securities Authorized for Issuance Under Equity Compensation Plans

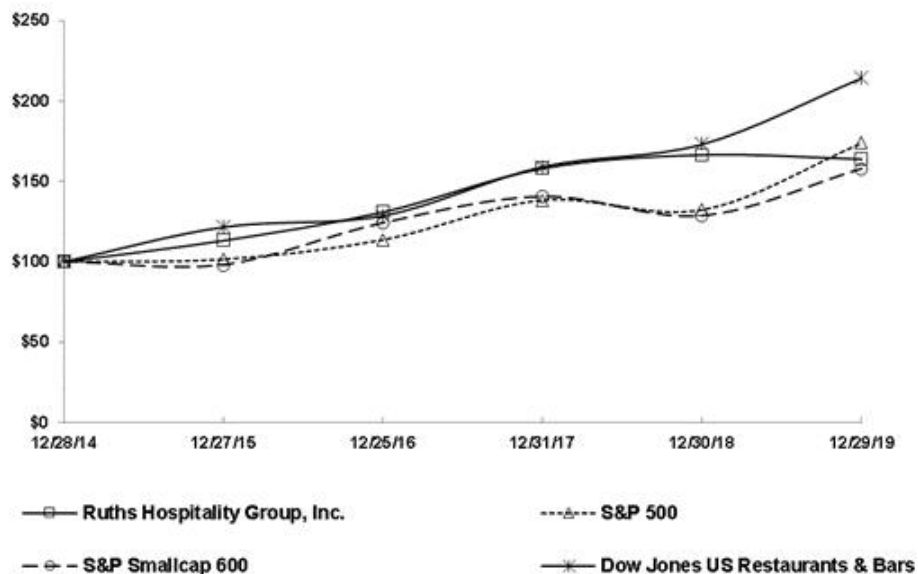
See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this Annual Report on Form 10-K for information regarding securities authorized for issuance under the Company's equity compensation plans.

Performance Graph

The following table and graph show the cumulative total stockholder return on the Company's Common Stock with the S&P 500 Stock Index, the S&P Small Cap 600 Index and the Dow Jones U.S. Restaurants & Bars Index, in each case assuming an initial investment of \$100 on December 28, 2014 and full dividend reinvestment.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Ruths Hospitality Group, Inc., the S&P 500 Index, the S&P Smallcap 600 Index and the Dow Jones US Restaurants & Bars Index



*\$100 invested on 12/28/14 in stock or 12/31/14 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

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CUMULATIVE TOTAL RETURN

Assuming an investment of \$100 and reinvestment of dividends

	12/26/2014	12/24/2015	12/23/2016	12/29/2017	12/28/2018	12/27/2019
Ruth's Hospitality Group, Inc.	\$ 100	\$ 113	\$ 131	158	\$ 167	\$ 164
S&P 500	\$ 100	\$ 101	\$ 114	138	\$ 132	\$ 174
S&P Smallcap 600	\$ 100	\$ 98	\$ 124	140	\$ 129	\$ 158
Dow Jones US Restaurants & Bars	\$ 100	\$ 122	\$ 129	159	\$ 173	\$ 214

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, as amended, or the Exchange Act, 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 Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Certain amounts have been revised to reclassify certain operating revenues and expenses to income from discontinued operations.

	Fiscal Year Ended				
	2019	2018	2017	2016	2015
	(\$ in thousands)				
Income Statement Data:					
Revenues:					
Restaurant sales	\$ 441,361	\$ 427,433	\$ 390,434	\$ 363,147	\$ 351,875
Franchise income	17,879	17,919	17,545	17,301	16,661
Other operating income	8,786	6,982	6,844	5,499	4,897
Total revenues	468,026	452,334	414,823	385,947	373,433
Costs and expenses:					
Food and beverage costs	127,597	120,112	116,361	107,075	108,101
Restaurant operating expenses	214,715	206,258	185,444	172,999	165,847
Marketing and advertising	15,432	16,639	12,724	11,406	10,925
General and administrative costs	34,643	37,253	32,700	31,488	30,242
Depreciation and amortization expenses	21,354	18,538	14,995	13,434	12,520
Pre-opening costs	1,824	1,875	2,013	1,986	1,032
Loss on impairments	—	—	3,904	—	—
Total costs and expenses	415,565	400,675	368,141	338,388	328,667
Operating income	52,461	51,659	46,682	47,559	44,766
Other income (expense):					
Interest expense	(2,197)	(1,739)	(821)	(1,154)	(790)
Other	115	(73)	53	10	358
Income from continuing operations before income tax expense	50,379	49,847	45,914	46,415	44,334
Income tax expense	8,173	8,247	15,669	15,660	14,168
Income from continuing operations	42,206	41,600	30,245	30,755	30,166
Income (loss) from discontinued operations, net of income taxes	-	80	(108)	(290)	(162)
Net income	\$ 42,206	\$ 41,680	\$ 30,137	\$ 30,465	\$ 30,004

	2019	2018	2017	2016	2015
	(\$ in thousands, except per share data)				
Basic earnings (loss) per share:					
Continuing operations	\$ 1.46	\$ 1.40	\$ 1.00	\$ 0.97	\$ 0.88
Discontinued operations	-	0.01	(0.01)	(0.01)	—
Basic earnings (loss) per share	<u>\$ 1.46</u>	<u>\$ 1.41</u>	<u>\$ 0.99</u>	<u>\$ 0.96</u>	<u>\$ 0.88</u>
Diluted earnings (loss) per share:					
Continuing operations	\$ 1.44	\$ 1.37	\$ 0.98	\$ 0.96	\$ 0.87
Discontinued operations	-	0.01	(0.01)	(0.01)	—
Diluted earnings (loss) per share	<u>\$ 1.44</u>	<u>\$ 1.38</u>	<u>\$ 0.97</u>	<u>\$ 0.95</u>	<u>\$ 0.87</u>
Shares used in computing earnings (loss) per common share:					
Basic	28,998,382	29,659,461	30,346,999	31,670,189	34,018,582
Diluted	29,376,980	30,273,841	30,916,364	32,108,965	34,434,407
Dividends declared per common share	\$ 0.52	\$ 0.44	\$ 0.36	\$ 0.28	\$ 0.24
Balance Sheet Data (at end of fiscal year):					
Cash and cash equivalents	\$ 5,567	\$ 5,062	\$ 4,051	\$ 3,788	\$ 3,095
Total assets	496,876	254,613	242,096	207,472	198,597
Total long-term debt including current portion	64,000	41,000	50,000	25,000	—
Total shareholders' equity	94,145	90,132	79,504	79,009	97,902

This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes to the consolidated financial statements. We report our financial results on a 52/53-week fiscal year, which ends on the last Sunday in December. Fiscal year 2017 had 53 weeks while fiscal years 2019 and 2018 included 52 weeks of operations.

Overview

Ruth’s Hospitality Group, Inc. develops and operates fine dining restaurants under the trade name Ruth’s Chris Steak House. As of December 29, 2019, there were 159 Ruth’s Chris Steak House restaurants, including 83 Company-owned restaurants, three restaurants operating under contractual agreements and 73 franchisee-owned restaurants, including 21 international franchisee-owned restaurants.

On July 29, 2019, we completed the acquisition of substantially all the assets of three franchisee-owned Ruth’s Chris Steak House restaurants (MBR Franchise Acquisition) for a cash purchase price of \$18.6 million. The results of operations, financial position and cash flows of the MBR Franchise Acquisition are included in our consolidated financial statements as of the date of the acquisition. For additional information, see Note 3 of the consolidated financial statements.

On December 12, 2017, we completed the acquisition of substantially all the assets of the Hawaiian Restaurants for a cash purchase price of \$35.4 million. The results of operations, financial position and cash flows of the Hawaiian Restaurants are included in our consolidated financial statements as of the date of the acquisition.

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 butter—complemented by other traditional menu items inspired by our New Orleans heritage. The Ruth’s Chris restaurants reflect the 54-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.

Our Ruth’s Chris restaurants cater to special occasion diners and frequent customers, 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 other high-quality 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. We complement our distinctive food offerings with an award-winning wine list. During the fiscal year 2019, the average check was \$86 per person at Company-owned Ruth’s Chris Restaurants.

All Company-owned Ruth’s Chris Steak House restaurants are located in the United States. The franchisee-owned Ruth’s Chris Steak House restaurants include 21 international franchisee-owned restaurants in Aruba, Canada, China, Hong Kong, Indonesia, Japan, Mexico, Singapore and Taiwan. In 2017, the Company opened three new Ruth’s Chris Steak House restaurants – one in Waltham, MA in January, one in Cleveland, OH in March and one in Denver, CO in December. One new Ruth’s Chris Steak House restaurant operating under a contractual agreement opened in Tulsa, OK in January 2017. Franchisees opened two new restaurants in 2017, in Chengdu, China and Kauai, HI. The Kauai, HI restaurant was acquired by the Company in December 2017. During the Company’s fiscal year 2017, a franchisee-owned Ruth’s Chris Steak House restaurant in San Juan, Puerto Rico was closed. In 2018, the Company opened two new Ruth’s Chris Steak House restaurants – one in Jersey City, NJ in August and one in Paramus, NJ in November. Franchisees opened two new restaurants during 2018, in Ft. Wayne, IN and Markham, Ontario. The franchisee-owned Ruth’s Chris Steak House restaurants in Ridgeland, MS and Dubai, United Arab Emirates were closed in March 2018 and April 2018, respectively. Due to the scheduled expiration of our lease we closed one of our Ruth’s Chris Steak House restaurants in Washington D.C. in December 2018. In 2019, the Company opened two new Ruth’s Chris Steak House restaurants – one in Columbus, OH in October and one in Somerville, MA in November. A franchisee opened a new restaurant in 2019 in Chongqing, China. Subsequent to the end of the year, the Company relocated one of its Ruth’s Chris Steak House restaurants in Washington, D.C. due to the expiration of a lease.

The Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, Leases (Topic 842) with an initial date of application of December 31, 2018. As a result, the Company has changed its accounting policy for lease accounting. The Company applied Topic 842 using the modified retrospective method for all leases in effect at the date of adoption. This new lease standard requires a lessee to recognize on the balance sheet a liability for future lease obligations and a corresponding right-of-use (ROU) asset. The guidance also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. The Company chose the effective date as its initial date of adoption. Consequently, the comparative information has not been restated and continues to be reported under the Company’s lease accounting policy in effect prior to the adoption of Topic 842.

The Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to carry forward prior conclusions regarding lease identification, lease classification and initial direct costs for existing leases. The Company did not elect the hindsight practical expedient. The details of the significant changes as a result of adopting Topic 842 are provided below:

In addition to the recognition of a liability for future lease obligations and a corresponding ROU asset, upon adoption, the Company:

- Derecognized existing deferred rent and tenant allowance balances totaling \$25.4 million.
- Derecognized existing assets related to below market leases of \$758 thousand.
- Derecognized existing deferred gains on previous sale-leaseback transactions of \$1.8 million. The deferred gain associated with this change in accounting was recognized through opening retained earnings as of December 31, 2018.
- Recognized a retained earnings adjustment of \$3.5 million related to the write-off of the ROU asset from a previously impaired Ruth's Chris Steak House restaurant.
- Recognized \$413 thousand of additional deferred income taxes from the previously mentioned adoption related equity adjustments.

The Company did not experience material changes to either the consolidated statements of income or the consolidated statements of cash flows due to the adoption of Topic 842. See Note 4 of the Notes to Consolidated Financial Statements for a summary of the impact of the adoptions of Topic 842.

Recap of Fiscal Year 2019 and Fiscal Year 2018 Operating Results

Operating income for fiscal year 2019 increased from fiscal year 2018 by \$802 thousand to \$52.5 million. Operating income for fiscal year 2019 was favorably impacted by a \$13.9 million increase in restaurant sales and decreases in marketing and advertising and general and administrative expenses, which were partially offset by increased food and beverage costs, restaurant operating expenses and depreciation and amortization expenses. Higher restaurant sales were attributable to an increase in both new Company-owned restaurant sales and comparable Company-owned restaurants. After-tax income from continuing operations during fiscal year 2019 increased from fiscal year 2018 by \$606 thousand to \$42.2 million. Fiscal year 2019 net income increased from fiscal year 2018 by \$526 thousand to \$42.2million.

Operating income for fiscal year 2018 increased from fiscal year 2017 by \$5.0 million to \$51.7 million. Operating income for fiscal year 2018 was favorably impacted by a \$37.0 million increase in restaurant sales, which was partially offset by increased food and beverage costs, restaurant operating expenses, marketing and advertising, general and administrative costs and depreciation and amortization expenses. The Company had a \$3.9 million loss on impairment during fiscal year 2017 that did not reoccur in fiscal year 2018. Higher restaurant sales were attributable to an increase in new Company-owned restaurant sales partially offset by sales at comparable Company-owned restaurants. After-tax income from continuing operations during fiscal year 2018 increased from fiscal year 2017 by \$11.4 million to \$41.6 million. Income tax expense decreased \$7.4 million primarily due to the passage of the 2017 Tax Act which reduced the statutory rate from 35% to 21%. Fiscal year 2018 net income increased from fiscal year 2017 by \$11.5 million to \$41.7 million.

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 are 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 eighteen months prior to the beginning of the fiscal year including the period being measured. Comparable restaurant sales growth is primarily influenced by customer traffic, which is measured by the number of entrées sold, and the average guest check. Customer traffic 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 fees charged to franchisees, (2) sales-based royalty income and (3) sales-based advertising fees. Franchise royalties consist of 5.0% of adjusted gross sales from each franchisee-owned restaurant. In addition, our more recent franchise agreements require an advertising fee of up to 1.0% of gross sales to be paid by the franchisee. Under our prior franchise agreements, the Company would pay 1.0% out of the 5.0% royalty toward national advertising. 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 royalty income.

Other Operating Income. Other operating income consists primarily of breakage income associated with gift cards, and includes fees earned from management agreements, banquet-related guarantee and services revenue and other incidental guest fees.

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.

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, performance-based compensation, stock compensation, 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.

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.

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.

Results of Operations

The table below sets forth certain operating data expressed as a percentage of restaurant sales and 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 to the current year presentation of discontinued operations.

	Fiscal Year		
	2019	2018	2017
Revenues:			
Restaurant sales	94.3%	94.5%	94.1%
Franchise income	3.8%	4.0%	4.2%
Other operating income	1.9%	1.5%	1.7%
Total revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Food and beverage costs (percentage of restaurant sales)	28.9%	28.1%	29.8%
Restaurant operating expenses (percentage of restaurant sales)	48.6%	48.3%	47.5%
Marketing and advertising	3.3%	3.7%	3.1%
General and administrative costs	7.4%	8.2%	7.9%
Depreciation and amortization expenses	4.6%	4.1%	3.6%
Pre-opening costs	0.4%	0.4%	0.5%
Loss on impairment	—	—	0.9%
Total costs and expenses	88.8%	88.6%	88.7%
Operating income	11.2%	11.4%	11.3%
Other income (expense):			
Interest expense, net	(0.5%)	(0.4%)	(0.2%)
Other	0.0%	(0.0%)	0.0%
Income from continuing operations before income tax expense	10.7%	11.0%	11.1%
Income tax expense	1.7%	1.8%	3.8%
Income from continuing operations	9.0%	9.2%	7.3%
Income (loss) from discontinued operations, net of income taxes	—	0.0%	(0.0%)
Net income	9.0%	9.2%	7.3%

Fiscal Year 2019 Compared to Fiscal Year 2018

Restaurant Sales. Restaurant sales increased \$13.9 million, or 3.3%, to \$441.4 million during fiscal year 2019 from fiscal year 2018. The increase was attributable to a \$10.7 million increase in new restaurants and a \$3.2 million increase from comparable Company-owned restaurants. Total operating weeks during fiscal year 2019 increased to 4,139 from 4,027 during fiscal year 2018. Comparable Company-owned restaurant sales increased 0.9%, which consisted of an average check increase of 1.7%, and 0.8% decrease in traffic counts. New restaurant sales primarily increased in fiscal year 2019 due to an increase in 66 operating weeks from the MBR Franchise Acquisition in July 2019 and new restaurants in Jersey City, Paramus and Columbus.

Franchise Income. Franchise income decreased \$40 thousand, or 0.2%, to \$17.9 million during fiscal year 2019 from fiscal year 2018. The decrease is primarily attributable to a decrease in sales-based royalty income from the MBR Franchise Acquisition.

Other Operating Income. Other operating income increased \$1.8 million, or 25.8%, to \$8.8 million during fiscal year 2019 from fiscal year 2018. Other operating income includes our share of income from managed restaurants, gift card breakage revenue and miscellaneous restaurant income. The increase in other operating income was primarily due to an increase of \$1.1 million in breakage revenue and \$716 thousand in income from restaurants operating under contractual agreements, including a full year of operations of the new location in Reno, NV.

Food and Beverage Costs. Food and beverage costs increased \$7.5 million, or 6.2%, to \$127.6 million during fiscal year 2019 from fiscal year 2018. Food and beverage costs, as a percentage of restaurant sales, increased 80 basis points to 28.9% compared to fiscal year 2018 largely due to an increase of 8.4% in total beef costs.

Restaurant Operating Expenses. Restaurant operating expenses increased \$8.5 million, or 4.1%, to \$214.7 million during fiscal year 2019 from fiscal year 2018. Restaurant operating expenses, as a percentage of restaurant sales, increased 40 basis points to 48.6% compared to fiscal year 2018 primarily due to occupancy related increases.

Marketing and Advertising. Marketing and advertising expenses decreased \$1.2 million, or 7.3% to \$15.4 million during fiscal year 2019 from fiscal year 2018. Marketing and advertising, as a percent of total revenue, decreased 40 basis points to 3.3% compared to fiscal year 2018. The decrease in marketing and advertising expenses during fiscal year 2019 was attributable to a planned decrease in marketing research investments.

General and Administrative. General and administrative expenses decreased \$2.6 million or 7.0% to \$34.6 million during fiscal year 2019 from fiscal year 2018. The decrease in general and administrative costs was attributable to a reduction of \$1.5 million in compensation costs and a \$989 thousand reduction in franchisee acquisition and integration costs.

Depreciation and Amortization Expenses. Depreciation and amortization expense increased \$2.8 million to \$21.4 million during fiscal year 2019, primarily due to property additions related to new restaurants and remodel projects placed in service within the last twelve months including \$581 thousand of depreciation and amortization related to the MBR Franchise Acquisition.

Pre-opening Costs. Pre-opening costs remained relatively unchanged at \$1.8 million in fiscal year 2019 compared to \$1.9 million in fiscal year 2018.

Interest Expense. Interest expense increased \$458 thousand to \$2.2 million during fiscal year 2019 from fiscal year 2018. The increase in expense was primarily due to higher average debt balances during fiscal year 2019 compared to fiscal year 2018.

Other Income. During fiscal year 2019 we recognized \$115 thousand of other income. During fiscal year 2018 we recognized \$73 thousand of other expense.

Income Tax Expense. During fiscal year 2019 we recognized \$8.2 million in income tax expense. The effective tax rate, including the impact of discrete items, decreased to 16.2% during fiscal year 2019 compared to 16.5% during fiscal year 2018. The effective tax rate decreased during fiscal year 2019 primarily due to an increased impact from the FICA tip credit and a reduction in disallowed executive compensation which was partially offset by a higher state income tax rate.

Income from Continuing Operations. Income from continuing operations of \$42.2 million during fiscal year 2019 increased by \$606 thousand compared to fiscal year 2018 due to the factors noted above.

Income (Loss) from Discontinued Operations, net of income taxes. There was no income (loss) from discontinued operations, net of income taxes during fiscal year 2019 compared to income of \$80 thousand during fiscal year 2018. Discontinued operations includes the recurring revenues and expenses of closed restaurants and related income taxes.

Net Income. Net income was \$42.2 million during fiscal year 2019 compared to \$41.7 million net income during fiscal year 2018 due to the factors noted above.

Fiscal Year 2018 Compared to Fiscal Year 2017

Restaurant Sales. Restaurant sales increased \$37.0 million, or 9.5%, to \$427.4 million during fiscal year 2018 from fiscal year 2017. The increase was attributable to a \$41.1 million increase in new or relocated restaurants offset by a \$4.1 million decrease from comparable Company-owned restaurants. Excluding discontinued operations, total operating weeks during fiscal year 2018 increased to 4,027 from 3,715 during fiscal year 2017. The 53rd week contributed \$12.4 million in sales in fiscal year 2017. Comparable Company-owned restaurant sales increased 1.4% on a comparable 52-week basis, which consisted of an average check increase of 1.7%, and 0.3% decrease in traffic counts. Comparable restaurant sales and traffic were negatively affected by approximately 50 basis points due to the shift of the New Year's Eve holiday into fiscal year 2019. New restaurant sales primarily increased in fiscal year 2018 due to an increase in 294 operating weeks from the acquisition of the Hawaiian Restaurants in December 2017.

Franchise Income. Franchise income increased \$374 thousand, or 2.1%, to \$17.9 million during fiscal year 2018 from fiscal year 2017. The increase is primarily attributable to the reclassification of \$1.5 million in franchisee advertising fees due to the adoption of Topic 606 and an increase in comparable franchisee-owned restaurant sales of 1.0%. This was offset by the acquisition of the Hawaii Restaurants which decreased sales-based royalty income by \$1.6 million during fiscal year 2018.

Other Operating Income. Other operating income increased \$138 thousand, or 2.0%, to \$7.0 million during fiscal year 2018 from fiscal year 2017. Other operating income includes our share of income from managed restaurants, gift card breakage revenue and miscellaneous restaurant income. The increase in other operating income was primarily due to an increase of \$106 thousand in income from restaurants operating under contractual agreements, including the new location in Reno, NV.

Food and Beverage Costs. Food and beverage costs increased \$3.8 million, or 3.2%, to \$120.1 million during fiscal year 2018 from fiscal year 2017. Food and beverage costs, as a percentage of restaurant sales, decreased 170 basis points to 28.1% compared to fiscal year 2017 largely due to a decrease of 8.4% in total beef costs and an increase in average check of 1.7%.

Restaurant Operating Expenses. Restaurant operating expenses increased \$20.8 million, or 11.2%, to \$206.3 million during fiscal year 2018 from fiscal year 2017. Restaurant operating expenses, as a percentage of restaurant sales, increased 75 basis points to 48.3% compared to fiscal year 2017 primarily due to an increase in occupancy expenses.

Marketing and Advertising. Marketing and advertising expenses increased \$3.9 million, or 30.8% to \$16.6 million during fiscal year 2018 from fiscal year 2017. Marketing and advertising, as a percent of total revenue, increased 60 basis points to 3.7% compared to fiscal year 2017. The increase in marketing and advertising expenses during fiscal year 2018 was attributable to a planned increase in advertising in addition to the reclassification of \$1.7 million in certain administrative support costs that have been historically charged to general and administrative costs.

General and Administrative. General and administrative expenses increased \$4.6 million or 13.9% to \$37.3 million during fiscal year 2018 from fiscal year 2017. The increase in general and administrative costs was primarily attributable to \$3.5 million in incentive-based compensation costs and \$906 thousand in Hawaii Restaurants acquisition and integration costs.

Depreciation and Amortization Expenses. Depreciation and amortization expense increased \$3.5 million to \$18.5 million during fiscal year 2018, primarily due to property additions related to new restaurants and remodel projects placed in service within the last twelve months including \$2.5 million of depreciation and amortization related to the Hawaii Restaurants.

Pre-opening Costs. Pre-opening costs remained relatively unchanged at \$1.9 million in fiscal year 2018 compared to \$2.0 million in fiscal year 2017.

Loss on Impairment. During fiscal year 2018 we incurred no loss on impairment charges, compared to fiscal year 2017, during which we recognized a \$3.9 million loss on impairment of long-lived assets at a Ruth's Chris Steak House restaurant.

Interest Expense. Interest expense increased \$918 thousand to \$1.7 million during fiscal year 2018 from fiscal year 2017. The increase in expense was primarily due to higher average debt balances during fiscal year 2018 compared to fiscal year 2017.

Other Income. During fiscal year 2018 we recognized \$73 thousand of other expense. During fiscal year 2017 we recognized \$53 thousand of other income.

Income Tax Expense. During fiscal year 2018 we recognized \$8.2 million in income tax expense. The effective tax rate, including the impact of discrete items, decreased to 16.5% during fiscal year 2018 compared to 34.1% during fiscal year 2017. The effective tax rate decreased during fiscal year 2018 primarily due to the passage of the 2017 Tax Act, which was signed into law on December 22, 2017. The 2017 Tax Act significantly revised U.S. tax law, and included many changes that impacted the Company, most notably a reduction of the statutory corporate tax rate from 35% to 21%.

Income from Continuing Operations. Income from continuing operations of \$41.6 million during fiscal year 2018 increased by \$11.4 million compared to fiscal year 2017 due to the factors noted above.

Income (Loss) from Discontinued Operations, net of income taxes. Income (loss) from discontinued operations, net of income taxes during fiscal year 2018 was income of \$80 thousand compared to a loss of \$108 thousand during fiscal year 2017. Discontinued operations includes the recurring revenues and expenses of closed restaurants and related income taxes.

Net Income. Net income was \$41.7 million during fiscal year 2018 compared to \$30.1 million net income during fiscal year 2017 due to the factors noted above.

Segment Profitability

Segment profitability information for the Company's two operating segments is presented in Note 17 of the consolidated financial statements.

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" and "Quantitative and Qualitative Disclosures About Market Risk" for a discussion of certain material risks that could affect our 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 and the popularity of dining out in the fall and winter months. 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.

Liquidity and Capital Resources

Overview

Our principal sources of cash during fiscal year 2019 were net cash provided by operating activities and borrowings under our senior credit facility. Our principal uses of cash during fiscal year 2019 were for principal repayments under our senior credit facility, capital expenditures, common stock repurchases, the MBR Franchise Acquisition and dividend payments. Cash flows from discontinued operations are combined with the cash flows from continuing operations within each of the categories on our statement of cash flows.

In October 2019, our Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to \$60 million of outstanding common stock from time to time. The new share repurchase program replaces the previous share repurchase program announced in October 2017, which has been terminated. During fiscal year 2019, 1,148,515 shares were repurchased at an aggregate cost of \$25.8 million or an average cost of \$22.48 per share. All repurchased shares were retired and cancelled. As of December 29, 2019, \$54.8 million remained available for future purchases under the share repurchase program.

During the second quarter of fiscal year 2013, we commenced paying quarterly cash dividends to holders of common and restricted stock. We paid a quarterly cash dividend of \$0.13 per share, or \$3.8 million to \$4.0 million in the aggregate, during each of the quarters of fiscal year 2019. On February 21, 2020, we announced that our Board of Directors declared a quarterly cash dividend of \$0.15 per share, or \$4.4 million in the aggregate, to be paid on March 20, 2020 to common and restricted stockholders of record as of the close of business on March 6, 2020. Future dividends will be subject to the approval of our Board of Directors.

We believe that our borrowing ability under our senior credit facility coupled with our anticipated cash flow from operations should provide us with adequate liquidity in fiscal year 2020.

Senior Credit Facility

As of December 29, 2019, we had \$64.0 million of outstanding indebtedness under our senior credit facility with approximately \$51.2 million of borrowings available, net of outstanding letters of credit of approximately \$4.8 million. As of December 29, 2019, the weighted average interest rate on our outstanding debt was 3.5% and the weighted average interest rate on our outstanding letters of credit was 1.9%. In addition, the fee on the unused portion of our senior credit facility was 0.3%.

On February 2, 2017, we entered into a credit agreement with Wells Fargo Bank, National Association as administrative agent, and certain other lenders (the Credit Agreement) governing a senior credit facility that replaced the prior credit facility. The Credit Agreement provides for a revolving credit facility of \$90.0 million with a \$5.0 million sub facility for letters of credit and a \$5.0 million sub facility for swingline loans. Subject to the satisfaction of certain conditions and lender consent, the revolving credit facility may be increased up to a maximum of \$150.0 million. The Credit Agreement has a maturity date of February 2, 2022. At our option, revolving loans may bear interest at (i) LIBOR, plus an applicable margin or (ii) the highest of (a) the rate publicly announced by Wells Fargo as its prime rate, (b) the average published federal funds rate in effect on such day plus 0.50% and (c) one month LIBOR plus 1.00%, plus an applicable margin. The applicable margin is based on our actual leverage ratio, ranging (a) from 1.50% to 2.25% above the applicable LIBOR rate or (b) at our option, from 0.50% to 1.25% above the applicable base rate.

On September 18, 2019, the Company entered into the First Amendment to the Credit Agreement (the "First Amendment") which amends its existing Credit Agreement, dated as of February 2, 2017 (the "Existing Credit Agreement" and the Existing Credit Agreement as amended by the First Amendment, the "Amended Credit Agreement"). The First Amendment, among other changes, increases the amount of the revolving credit facility to \$120.0 million. Subject to the satisfaction of certain conditions and lender consent, the revolving credit facility under the Amended Credit Agreement may be increased up to a maximum of \$150.0 million. The amounts of the letters of credit subfacility and swingline subfacility under the Amended Credit Agreement remain unchanged from the Existing Credit Agreement at \$5.0 million each.

The Amended Credit Agreement contains customary representations and affirmative and negative covenants (including limitations on indebtedness and liens) as well as financial covenants requiring a minimum fixed coverage charge ratio and limiting our consolidated leverage ratio. As of December 29, 2019, we were in compliance with all of the covenants in the Amended Credit Agreement. The Amended Credit Agreement also contains events of default customary for credit facilities of this type (with customary grace periods, as applicable), including nonpayment of principal or interest when due; material incorrectness of representations and warranties when made; breach of covenants; bankruptcy and insolvency; unsatisfied ERISA obligations; unstayed material judgment beyond specified periods; default under other material indebtedness; and certain changes of control of the Company. If any event of default occurs and

is not cured within the applicable grace period, or waived, the outstanding loans may be accelerated by lenders holding a majority of the commitments under the Amended Credit Agreement and the lenders' commitments may be terminated. The obligations under the Amended Credit Agreement are guaranteed by certain of our subsidiaries (the Guarantors), and are secured by a lien on substantially all of our personal property assets other than any equity interest in current and future subsidiaries of the Company.

Under the Amended Credit Agreement, restricted junior payments, which include cash dividend payments, repurchases of our equity securities and payments and prepayments of subordinated indebtedness, made subsequent to February 2, 2017 are limited to \$100.0 million if our consolidated leverage ratio is greater than or equal to 2.00:1.00, and are not limited in amount if our consolidated leverage ratio is less than or equal to 2.00:1.00. As of the date of this Annual Report on Form 10-K, we are below the leverage ratio and have made \$108.7 million in junior restricted payments since February 2, 2017. We pay interest under our senior credit agreement based on LIBOR. The FCA, which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021, and it appears likely that LIBOR will be discontinued or modified by 2021. While our senior credit agreement includes a mechanism for an alternate rate to LIBOR, there is no guarantee that the discontinuance of LIBOR will not result in financial market disruptions or significant increases in benchmark interest rates or borrowing costs, any of which may have an adverse affect on us.

Capital Expenditures and Acquisition of Restaurants

Capital expenditures in fiscal year 2019, which aggregated \$50.3 million, pertained primarily to \$14.4 million for restaurant remodel and capital replacement projects; \$11.0 million for new restaurants and \$18.6 million related to the acquisition of the MBR Franchise Acquisition from the owner franchisee. Capital expenditures in fiscal year 2018, which aggregated \$31.9 million, pertained primarily to \$13.1 million for new restaurants and \$14.7 million for restaurant remodel projects. Capital expenditures in fiscal year 2017, which aggregated \$56.6 million, pertained primarily to \$9.8 million for new restaurants; \$9.7 million for restaurant remodel projects; and \$35.4 million related to the acquisition of the Hawaiian Restaurants from the owner franchisee. We anticipate capital expenditures in fiscal year 2020 will be approximately \$43.0 to \$45.0 million. We relocated one location in Washington, D.C. at a leased location in January 2020 and currently expect to open three more Company-owned restaurants at leased locations in fiscal year 2020.

Cash Flows

The following table summarizes our primary sources and uses of cash (in thousands):

	Fiscal Year		
	2019	2018	2017
Net cash provided by (used in):			
Operating activities	\$ 72,910	\$ 78,294	\$ 68,693
Investing activities	(50,281)	(31,907)	(56,612)
Financing activities	(22,124)	(45,376)	(11,818)
Net increase in cash and cash equivalents	\$ 505	\$ 1,011	\$ 263

Operating Activities. Operating cash inflows pertain primarily to restaurant sales and franchise income. Operating cash outflows pertain primarily to expenditures for food and beverages, restaurant operating expenses, marketing and advertising and general and administrative costs. Operating activities provided cash flow all three fiscal years primarily because operating revenues have exceeded cash-based expenses.

Investing Activities. Fiscal years 2019 and 2017 pertained primarily to both the acquisition of franchisee owned restaurants and capital expenditure projects. Fiscal year 2018 investing activities were primarily related to capital expenditure projects.

Financing Activities. Financing activities used cash in all three years. During fiscal year 2019 we: repurchased common stock of \$25.8 million; increased the debt outstanding under our senior credit facility by \$23.0 million; paid dividends of \$15.6 million; and paid \$3.7 million in employee taxes in connection with the vesting of restricted stock and the exercise of stock options. We paid \$3.7 million in taxes in connection with the vesting of restricted stock and the exercise of stock options because some recipients elected to satisfy their individual tax withholding obligations by having us withhold a number of vested shares of restricted stock and/or a number of shares otherwise issuable pursuant to stock options. During fiscal year 2018 we: repurchased common stock of \$18.5 million; paid dividends of \$13.5 million; decreased the debt outstanding under our senior credit facility by \$9.0 million; and paid \$4.3 million in employee taxes in connection with the vesting of restricted stock and the exercise of stock options. During fiscal year 2017 we: increased the debt outstanding under our senior credit facility by \$25.0 million; repurchased common stock of \$23.9 million; paid dividends of \$11.4 million; and paid \$2.1 million in employee taxes in connection with the vesting of restricted stock and the exercise of stock options.

Contractual Obligations

The following table summarizes our contractual obligations as of December 29, 2019:

	Payments due by period				
	Total	Less than 1 year	1-2 years	3-5 years	More than 5 years
Long-term debt obligations	\$ 66.4	\$ 2.4	\$ —	\$ 64.0	\$ —
Operating lease obligations	334.8	28.6	28.1	75.0	203.1
Total	<u>\$ 401.2</u>	<u>\$ 31.0</u>	<u>\$ 28.1</u>	<u>\$ 139.0</u>	<u>\$ 203.1</u>

Long-term debt obligations include principal maturities and expected interest payments. Expected interest payments were estimated using the interest and fee rates under our senior credit facility as of December 29, 2019. Operating lease obligations do not include contingent rent, common area maintenance, property taxes and other pass through charges from our landlords. The above table does not include recorded liabilities to vendors or employees nor does it include routine purchase commitments shorter than twelve months in duration for food and supplies.

Pursuant to the terms of the purchase agreement, upon closing of the sale of the Mitchell's Restaurants in January 2015, Landry's assumed the lease obligations of the Mitchell's Restaurants. However, the Company has guaranteed Landry's lease obligations aggregating \$24.2 million under five of the leases. Separate from the purchase agreement Landry's has agreed to indemnify the Company in the event of a default under any of the leases. The above table does not include potential lease obligations for the Mitchell's Restaurants.

Off-Balance Sheet Arrangements

As of December 29, 2019, we do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of results of operations and financial condition is based upon our audited consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated 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 consolidated financial statements. Our significant accounting policies, which may be affected by our estimates and assumptions, are more fully described in Note 2 of the consolidated financial statements. 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 consolidated financial statements.

Deferred Gift Card Revenue and Gift Card Breakage Revenue

Revenue from restaurant sales is recognized when food and beverage products are sold. 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 liability. Company issued gift cards redeemed at franchisee-owned restaurants reduce the deferred revenue liability but do not impact our restaurant sales. Gift card transactions involving franchisees are settled on a monthly basis through the Company's third party gift card provider. The expected redemption value of 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 portion of gift cards sold to customers which are never redeemed is commonly referred to as gift card breakage. Gift card breakage produces a revenue stream which is a key element of the profitability of the Company's gift card program and is classified as a component of other operating revenue.

The Company's accounting method for recognizing breakage revenue is the redemption method. Under the redemption method, breakage revenue is recognized and the gift card liability is derecognized for unredeemed gift cards in proportion to actual gift card redemptions based on historical breakage rates. The Company will continue to review historical gift card redemption information to assess the reasonableness of projected gift card breakage rates and patterns of redemption. Future gift card usage may be different than our historical experience and as result our estimate of cards not expected to be redeemed is subject to inherent uncertainty. If actual

redemption activity differs significantly from our historical experience our deferred revenue liability and results of operations could be materially impacted.

Impairment of Long-Lived Assets

We review property and equipment (which includes leasehold improvements) and operating lease right-of-use (ROU) assets for impairment when events or circumstances indicate these assets might be impaired. We test impairment using historical cash flows 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 the expected remaining life of the primary asset in the restaurant. If assets are determined to be impaired, the loss on impairment 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 losses on impairment on these assets. During the fourth quarter of fiscal year 2017, the Company recognized a \$3.9 million impairment loss due to the decline in the estimated fair value of the long-lived assets (primarily leasehold improvements) of one Ruth's Chris Steak House restaurant. The decline in the estimated fair value was attributable to decreases in the restaurant's projected profitability.

The judgments we make related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of these assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions, changes in usage or operating performance and desirability of the restaurant sites. As we assess the ongoing expected cash flows and carrying amounts of our long-lived assets, significant adverse changes in these factors could cause us to recognize a material loss on impairment.

Generally, costs for exit or disposal activities, including restaurant closures, are expensed as incurred. The costs include the cost of disposing of the assets as well as other facility-related expenses from previously closed restaurants. For restaurants operated under operating leases, on the date we commit to a plan to either abandon the related ROU asset or sublease the underlying asset, we evaluate the ROU asset for potential impairment and determine the go-forward accounting based on requirements in Topic 842.

Valuation and Recoverability of Goodwill and Franchise Rights

Goodwill and franchise rights arose primarily from our acquisition of franchisee-owned Ruth's Chris restaurants. We recognized \$7.1 million of franchise rights and \$9.0 million of goodwill related to the MBR Franchise Acquisition completed on July 29, 2019.

Prior to the MBR Franchise Acquisition, the most significant acquisitions were completed in 1996, 1999, 2006, 2007 and 2017. Goodwill is not subject to amortization and franchise rights acquired prior to 2008 are also not subject to amortization. Such assets must be tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The annual testing date for determining whether goodwill and other intangible assets are impaired is the last day of the Company's 48th fiscal week, which in fiscal year 2019 is December 1, 2019. A variety of inherently uncertain estimates, judgments and projections are used in both assessing whether there has been an indicator that an impairment of an intangible asset may have occurred. We performed our annual impairment test of our goodwill and franchise rights using a qualitative assessment. In using the qualitative approach, we evaluated factors, including but not limited to, recent financial performance; forecasts for future cash flows; our stock price and market capitalization; recent impairment tests; legal factors; the business climate; and the competitive environment. Any adverse change in these factors could have a significant impact on the recoverability of these assets which could have a material impact on our consolidated financial statements. If we determine that an intangible asset may be impaired, we are required to estimate its fair value. Because similar intangible assets are not bought and sold regularly in public markets, estimates of fair value of our intangible assets are inherently uncertain.

We evaluate the useful lives of our intangible assets to determine if they are definite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required capital expenditures, and the expected lives of other related groups of assets.

Insurance Liability

We maintain various insurance policies for workers' compensation, health and welfare, general liability, professional 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. The recorded liabilities are 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. We use independent actuaries to develop the estimated workers' compensation, general and health and welfare liabilities. 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 FASB Accounting Standards Codification (ASC) Topic 740, Income Taxes (Topic 740). Topic 740 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 the entire 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 utilize 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.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASC Topic 842, Leases (Topic 842), which requires a lessee to recognize a liability for future lease obligations and a corresponding right-of-use (ROU) asset and replaces most existing lease guidance in GAAP. The Company adopted this new lease recognition standard on December 31, 2018. See Note 4 for further information about our transition to this new lease recognition standard.

Recent Accounting Pronouncements for Future Application

In June 2016 the FASB issued ASU 2016-13, Financial Instruments – Credit Losses. This update requires immediate recognition of management's estimates of current expected credit losses. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2016-13 is not expected to have a significant impact on the Company's ongoing financial reporting.

In January 2017 the FASB issued ASU 2017-04, Intangibles – Goodwill and Other: Simplifying the Impairment Test for Goodwill. This update eliminated the calculation of implied goodwill fair value. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2017-04 is not expected to have a significant impact on the Company's ongoing financial reporting.

In August 2018 the FASB issued ASU 2018-13, Fair Value Measurement – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This update eliminated the calculation of implied goodwill fair value. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2018-13 is not expected to have a significant impact on the Company's ongoing financial reporting.

In August 2018 the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40). This update aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2018-15 is not expected to have a significant impact on the Company's ongoing financial reporting.

In August 2018 the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses. This update clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2018-19 is not expected to have a significant impact on the Company's ongoing financial reporting.

In December 2019 the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This update is effective for the Company in the first quarter of fiscal year 2021. This update simplifies the accounting for interim period tax law changes and loss limitations, ownership changes in equity investments, intraperiod tax allocations and the stepup of tax basis in goodwill that is not acquired during a business combination. The adoption of ASU 2019-12 is not expected to have a significant impact on the Company's ongoing financial reporting.

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 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 29, 2019, the Company had \$64.0 million in variable rate debt outstanding. The Company currently does not use financial instruments to hedge its risk to market fluctuations in interest rates. Holding other variables constant (such as debt levels), a hypothetical 100 basis point change in interest rates as of December 29, 2019 would be expected to have an impact on pre-tax earnings and cash flows for fiscal year 2020 of approximately \$640 thousand.

Effects of Healthcare Inflation

The Company is exposed to market price fluctuations related to the cost of providing healthcare to its employees. Claim trends are predicted to outpace inflation throughout the upcoming year. Pharmacy costs are also rising in excess of general and medical cost inflation. If prices increase, or the Company experiences significantly more claims, operating margin could be materially adversely affected. Holding other variables constant, a hypothetical 10% fluctuation in healthcare costs would have an approximate impact on pre-tax earnings of approximately \$800 thousand for the 2020 fiscal year.

Foreign Currency Risk

The Company believes that fluctuations in foreign exchange rates do not present a material risk to its operations. Franchise fee revenue from international locations aggregated \$2.9 million in fiscal year 2019, \$2.7 million in fiscal year 2018 and \$2.9 million in fiscal year 2017.

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 react to 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. As of December 29, 2019, we have negotiated set pricing on approximately 75% of our tenderloin supply into mid-February 2020. This represents approximately 30% of the Company's total beef supply. The market for USDA Prime grade beef is particularly volatile. If prices increase, or the supply of beef is reduced, operating margin could be materially adversely affected. Holding other variables constant, a hypothetical 10% fluctuation in beef prices would have an approximate impact on pre-tax earnings ranging from \$4 million to \$5 million for fiscal year 2020.

From time to time, the Company enters into purchase price agreements for other lower-volume food products, including poultry and seafood. In the past, certain types of poultry and seafood have experienced fluctuations in availability. Poultry and seafood are also subject to fluctuations in price based on availability, which is often seasonal. If certain types of poultry and seafood are unavailable, or if the Company's costs increase, the Company's results of operations could be adversely affected.

Effects of Inflation

Components of the Company's operations subject to inflation include food, beverage, lease and labor costs. The Company's leases require it to pay taxes, maintenance, repairs, insurance and utilities, all of which are subject to inflationary increases. The Company believes that general inflation, excluding increases in food, labor and employee health plan costs, has not had a material impact on its results of operations in recent years. Recently, governmental entities acted to increase minimum wage rates in several jurisdictions wherein Company-owned restaurants are located, which will increase our operating costs. The increased minimum wage rates are expected to increase employee compensation and related taxes by approximately \$1.1 million in fiscal year 2020 compared to fiscal year 2019. Also, the U.S. government may act to increase the federal minimum wage rate.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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 Exchange Act) as of December 29, 2019. 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 29, 2019 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.

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 29, 2019. In making this assessment, management applied the criteria based on the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). 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 29, 2019.

KPMG LLP, the Company's independent registered public accounting firm, has audited the consolidated financial statements included herein and issued an audit report on the Company's internal control over financial reporting as of December 29, 2019, which follows.

Our system of internal control over financial reporting was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance and 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.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ending December 29, 2019, 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.

To the Shareholders and Board of Directors

Ruth's Hospitality Group, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Ruth's Hospitality Group, Inc.'s and subsidiaries' (the Company) internal control over financial reporting as of December 29, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* 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) (PCAOB), the consolidated balance sheets of the Company as of December 29, 2019 and December 30, 2018, the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 29, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 27, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ KPMG LLP

Orlando, Florida
February 27, 2020

Item 9B. OTHER INFORMATION

None.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

We have adopted a Code of Conduct and Business Ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. The text of our Code of Conduct and Business Ethics is posted on our website: www.rhgi.com. We intend to disclose future amendments to, or waivers from, certain provisions of the Code of Conduct and Business Ethics on our website within four business days following the date of such amendment or waiver. Stockholders may request a free copy of the Code of Conduct and Business Ethics from: Ruth's Hospitality Group, Inc., Attention: Corporate Secretary, 1030 W. Canton Avenue, Suite 100, Winter Park, Florida 32789.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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

Information about security ownership is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Information as of December 29, 2019 concerning compensation plans under which our equity securities are authorized for issuance was as follows:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Awards (a)	Weighted-Average Exercise Price of Outstanding Awards (b)	Number of Securities Remaining Available for Future Issuance Under an Equity Compensation Plan (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders:			
Amended and Restated 2005 Long-Term Equity Incentive Plan	501,186	N/A	—
2018 Omnibus Incentive Plan	421,236	N/A	2,325,953

(a) The number of securities to be issued includes outstanding restricted stock awards made to employees and officers of the Company and outstanding restricted stock units awarded to non-employee directors.

(b) The outstanding awards in column (a) do not have an exercise price.

(c) The total reflects all shares available for grant and could include restricted stock as further described in Note 14 of the accompanying consolidated financial statements.

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

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 15. EXHIBITS, 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 39 for a list of exhibits filed with or incorporated by reference as part of this Annual Report on Form 10-K.

Item 16. FORM 10-K SUMMARY

None.

EXHIBITS

In reviewing the agreements included as exhibits to this report, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company, its subsidiaries or other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. We acknowledge that, notwithstanding the inclusion of the foregoing cautionary statement, we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Annual Report on Form 10-K not misleading. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public files, which are available without charge through the SEC's website at <http://www.sec.gov>.

Exhibit	Description
2.1	Asset Purchase Agreement, dated November 2, 2017, by and among RCSH Operations, Inc., Desert Island Restaurants, L.L.C., Honolulu Steak House, LLC, Maui Steak House LLC, Wailea Steak House LLC, Beachwalk Steak House, LLC, Lava Coast Steak House, LLC, Kauai Steak House, LLC and the individual listed on the signature page thereto (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed November 3, 2017) (Pursuant to Item 601(b)(2) of Regulation S-K, the schedules to the Asset Purchase Agreement have been omitted and Ruth's Hospitality Group Inc. agrees to furnish supplementally a copy of any such omitted schedule to the SEC upon request.)
3.1	Certificate of Amended and Restated Certificate of Incorporation of Ruth's Hospitality Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed March 5, 2010)
3.1.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Ruth's Hospitality Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 3, 2015)
3.1.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 27, 2016)
3.2	By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed October 25, 2019)
4.1	Description of Registrant Securities (incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K filed February 27, 2020)
10.1	License Agreement dated July 16, 1999 between Ruth U. Fertel and the Company (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 filed April 25, 2005)
10.2*	Amended and Restated 2005 Long-Term Equity Incentive Plan (incorporated by reference to Appendix A to the Company's Proxy Statement filed April 19, 2013)
10.3*	Amendment No. 1 to Amended and Restated 2005 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K filed March 8, 2017)
10.4*	Form of Stock Option Agreement under the Company's 2005 Long-Term Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.22 of the Company's Registration Statement on Form S-1 filed August 8, 2005)
10.5*	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K filed March 8, 2017)

Exhibit	Description
10.6*	<u>Form of Restricted Stock Award Agreement (Performance Award) (incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K filed March 8, 2017).</u>
10.7*	<u>Omnibus Amendment to Award Agreements (incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K filed March 8, 2017).</u>
10.8*	<u>Ruth's Hospitality Group, Inc. 2018 Omnibus Incentive Plan (incorporated by reference to Annex A of the registrant's Definitive Proxy Statement filed March 30, 2018).</u>
10.9*	<u>Form of Restricted Stock Unit Award Agreement (Director's Award) under the Company's 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 of the Company Current Report on Form 10-Q filed August 10, 2018).</u>
10.10*	<u>Form of Restricted Stock Award Agreement (Performance Award) under the Company's 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4 of the Company Current Report on Form 10-Q filed August 10, 2018).</u>
10.11*	<u>Form of Restricted Stock Award Agreement (Tenure Award) under the Company's 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.5 of the Company Current Report on Form 10-Q filed August 10, 2018).</u>
10.12*	<u>Ruth's Hospitality Group 2018 Nonqualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K filed March 4, 2016).</u>
10.13*	<u>Multi-Site Sale Leaseback Purchase Agreement dated August 1, 2008 among the Company, RCSH Operations, LLC, RCSH Operations, Inc. and RHG Kingfish, LLC and Sovereign Investment Company (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 5, 2008).</u>
10.14*	<u>Asset Purchase Agreement, dated May 1, 2019, by and among RCSH Operations, LLC, Marsha Brown Restaurants, L.P., Marsha Brown Restaurants, Inc., M.R. Brown, Inc., Marsha Brown Development Corporation, and Ophelia May LLC, and the individuals listed on the signature page thereto (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 1, 2019).</u>
10.15*	<u>Credit Agreement, dated as of February 2, 2017, by and among the Company, the Guarantors, the Lenders and Wells Fargo Bank, National Association, as administrative agent and Wells Fargo Securities, LLC, as sole lead arranger and sole bookrunner (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 8, 2017).</u>
10.16*	<u>First Amendment, dated as of September 18, 2019, to Credit Agreement, dated as of February 2, 2017, by and among the Company, the Guarantors, the Lenders and Wells Fargo Bank, National Association, as administrative agent and Wells Fargo Securities, LLC, as sole lead arranger and sole bookrunner (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 19, 2019).</u>
10.17*	<u>Terms of Employment/Letter of Understanding and Salary Continuation Agreement dated June 4, 2018, between the Company and Cheryl Henry (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed June 4, 2018).</u>
10.18*	<u>Terms of Employment/Letter of Understanding and Salary Continuation Agreement dated June 4, 2018 between the Company and Michael P. O'Donnell (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed June 4, 2018).</u>
10.19*	<u>Terms of Employment/Letter of Understanding and Salary Continuation Agreement, effective as of August 8, 2011, by and between Ruth's Hospitality Group, Inc. and Arne G. Haak (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed July 29, 2011).</u>
10.20*	<u>Terms of Employment/Letter of Understanding and Salary Continuation Agreement, effective as of October 24, 2018, by and between Ruth's Hospitality Group, Inc. and Susan L. Mirdamadi (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed October 25, 2018).</u>
21.1	<u>Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed February 27, 2020).</u>
23.1	<u>Consent of KPMG LLP.</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

Exhibit	Description
101.INS	Inline XBRL Instance Document - The instance document does not appear in the interactive data file because it's XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Management contract or compensatory plan or arrangement

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 2, 2020

RUTH'S HOSPITALITY GROUP, INC.

By: /s/ CHERYL J. HENRY
 Cheryl J. Henry
 President and Chief Executive Officer

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES
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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors

Ruth's Hospitality Group, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Ruth's Hospitality Group, Inc. and subsidiaries (the Company) as of December 29, 2019 and December 30, 2018 the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 29, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2019 and December 30, 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 29, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 29, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 4 to the consolidated financial statements, the Company has changed its method of accounting for leases as of December 31, 2018 due to the adoption of Accounting Standards Codification Topic 842, *Leases*. As discussed in Note 5 to the consolidated financial statements, the Company has changed its method of accounting for revenue as of January 1, 2018 due to the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Evaluation of the gift card breakage rate

As discussed in Notes 2(1) and 5 to the consolidated financial statements, the Company's liability for gift cards sold but not yet redeemed as of December 29, 2019 was \$52.9 million. The liability represents the full value of all gift cards sold less the amount the Company has recognized as income for gift cards that are not expected to be redeemed. The portion of gift cards sold to customers which are never redeemed is commonly referred to as gift card breakage, and is based on historical breakage rates.

We identified the evaluation of the gift card breakage rate as a critical audit matter. Testing the gift card breakage rate involved a high degree of subjectivity, because future gift card usage may be different than historical experience and is subject to inherent uncertainty.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's gift card process including the gift card issuance and redemption data used to develop the breakage rate. We assessed the Company's estimated breakage rate, including the underlying gift card issuance and redemption data. We compared an independent acceptable range to the amount recorded by the Company. We compared the

historically estimated breakage against actual breakage to assess the Company's ability to accurately forecast gift card breakage.

Evaluation of the incremental borrowing rate used to calculate operating lease liabilities and related right-of-use (ROU) asset

As discussed in Note 4 to the consolidated financial statements, effective December 31, 2018 the Company adopted Accounting Standards Codification Topic 842, *Leases*. Upon adoption, the Company recorded ROU assets and operating lease liabilities of \$166.0 million and \$195.0 million, respectively. Operating lease liabilities are recognized based on the present value of future minimum lease payments over the future minimum rental payments to present value. The Company estimated its incremental borrowing rates based on the information available at the adoption date.

We identified the evaluation of the incremental borrowing rates (the rates) used to calculate the Company's operating lease liabilities as a critical audit matter. The Company determined its rates by starting with the interest rate on its senior revolving credit facility and making adjustments to that interest rate to reflect the amount that it would pay to borrow the amount of the lease payments on a collateralized basis over similar terms. The Company validated such rates by determining its credit rating, adjusting the rating to capture payment terms on a collateralized basis, and establishing a yield curve based on such credit rating. The evaluation of how and by how much to adjust the interest rate for the senior revolving credit facility to arrive at the appropriate rates required complex auditor judgements.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's process to develop the rates. We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Performing an independent assessment of the methodology used by the Company to estimate the rates;
- Evaluating the Company's assumptions underlying the estimation of the rates; and
- Developing an independent acceptable range for the rates and comparing the results to the Company's rates.

Assessment of fair value of territory rights

As discussed in Note 3 to the consolidated financial statements, on July 29, 2019, the Company completed the acquisition of substantially all of the assets of the MBR Franchise Acquisition restaurants for a cash purchase price of \$18.6 million. The acquisition resulted in the recording of franchise and territory rights of \$7.1 million. The determination of the acquisition date fair value of the franchise and territory rights was based on a multi-period excess earnings approach and involved projected after-tax future earnings discounted using a market-based discount rate, from which a contributory asset charge for net working capital, property and equipment, and assembled workforce was subtracted.

We identified the assessment of fair value of territory rights as a critical audit matter. The estimated fair value of the territory rights resulted in the application of greater auditor judgement. The estimated future cash flows used to calculate the fair value of the assets and liabilities were challenging to test as changes to those cash flows had a significant effect on the Company's assessment of the fair value of the territory rights.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's fair value assessment process, including controls related to the determination of the fair value of the territory rights. We performed sensitivity analyses over the estimated future cash flows to assess their impact on the Company's determination of fair value of the territory rights. We compared the Company's historical estimated future cash flows to actual results to assess the Company's ability to accurately forecast. We involved valuation professionals with specialized skills and knowledge, who assisted in testing the estimate of the territory rights fair value using the cash flow assumptions and comparing the result to the Company's fair value estimate.

/s/ KPMG LLP

We have served as the Company's auditor since 1994.

Orlando, Florida

February 27, 2020

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Amounts in thousands, except share and per share data)

	December 29, 2019	December 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,567	\$ 5,062
Accounts receivable, less allowance for doubtful accounts 2019 - \$241; 2018 - \$322	23,769	19,476
Inventory	9,623	9,296
Prepaid expenses and other	3,052	2,528
Total current assets	42,011	36,362
Property and equipment, net of accumulated depreciation 2019 - \$173,845; 2018 - \$160,153	142,962	125,991
Operating lease right of use assets	206,358	—
Goodwill	45,549	36,522
Franchise rights, net of accumulated amortization 2019 - \$4,401; 2018 - \$2,299	49,916	44,919
Other intangibles, net of accumulated amortization 2019 - \$1,439; 2018 - \$1,395	4,449	4,862
Deferred income taxes	4,929	5,353
Other assets	702	604
Total assets	<u>\$ 496,876</u>	<u>\$ 254,613</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 13,598	\$ 10,273
Accrued payroll	17,303	19,475
Accrued expenses	10,574	10,535
Deferred revenue	52,856	48,370
Current operating lease liabilities	14,313	—
Other current liabilities	4,237	6,619
Total current liabilities	112,881	95,272
Long-term debt	64,000	41,000
Operating lease liabilities	223,292	—
Deferred rent	—	23,692
Unearned franchise fees	2,489	2,680
Other liabilities	69	1,837
Total liabilities	402,731	164,481
Commitments and contingencies (Note 11)	—	—
Shareholders' equity:		
Common stock, par value \$.01 per share; 100,000,000 shares authorized, 28,418,691 shares issued and outstanding at December 29, 2019, 29,268,776 shares issued and outstanding at December 30, 2018	284	293
Additional paid-in capital	40,462	61,819
Retained earnings	53,399	28,020
Treasury stock, at cost; 71,950 shares at December 29, 2019 and December 30, 2018	—	—
Total shareholders' equity	94,145	90,132
Total liabilities and shareholders' equity	<u>\$ 496,876</u>	<u>\$ 254,613</u>

See accompanying notes to consolidated financial statements.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(Dollar amounts in thousands, except share and per share data)

	Fiscal Year Ended		
	December 29, 2019	December 30, 2018	December 31, 2017
Revenues:			
Restaurant sales	\$ 441,361	\$ 427,433	\$ 390,434
Franchise income	17,879	17,919	17,545
Other operating income	8,786	6,982	6,844
Total revenues	468,026	452,334	414,823
Costs and expenses:			
Food and beverage costs	127,597	120,112	116,361
Restaurant operating expenses	214,715	206,258	185,444
Marketing and advertising	15,432	16,639	12,724
General and administrative costs	34,643	37,253	32,700
Depreciation and amortization expenses	21,354	18,538	14,995
Pre-opening costs	1,824	1,875	2,013
Loss on impairment	—	—	3,904
Total costs and expenses	415,565	400,675	368,141
Operating income	52,461	51,659	46,682
Other income (expense):			
Interest expense, net	(2,197)	(1,739)	(821)
Other	115	(73)	53
Income from continuing operations before income tax expense	50,379	49,847	45,914
Income tax expense	8,173	8,247	15,669
Income from continuing operations	42,206	41,600	30,245
Income (loss) from discontinued operations, net of income taxes	—	80	(108)
Net income	\$ 42,206	\$ 41,680	\$ 30,137
Basic earnings (loss) per common share:			
Continuing operations	\$ 1.46	\$ 1.40	\$ 1.00
Discontinued operations	—	0.01	(0.01)
Basic earnings per share	\$ 1.46	\$ 1.41	\$ 0.99
Diluted earnings (loss) per common share:			
Continuing operations	\$ 1.44	\$ 1.37	\$ 0.98
Discontinued operations	—	0.01	(0.01)
Diluted earnings per share	\$ 1.44	\$ 1.38	\$ 0.97
Shares used in computing earnings (loss) per common share:			
Basic	28,998,382	29,659,461	30,346,999
Diluted	29,376,980	30,273,841	30,916,364
Cash dividends declared per common share	\$ 0.52	\$ 0.44	\$ 0.36

See accompanying notes to consolidated financial statements.

RUTH'S HOSPITALITY GROUP, INC AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
(Amounts in thousands)

	Common Stock		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Treasury Stock		Shareholders' Equity
	Shares	Value			Shares	Value	
Balance at December 25, 2016	30,549	\$ 305	\$ 95,266	\$ (16,562)	72	\$ —	\$ 79,009
Net income	—	—	—	30,137	—	—	30,137
Cash dividends	—	—	—	(11,383)	—	—	(11,383)
Repurchase of common stock	(1,169)	(12)	(23,876)	—	—	—	(23,888)
Shares issued under stock compensation plan net of shares withheld for tax effects	266	3	(1,136)	—	—	—	(1,133)
Stock-based compensation	—	—	6,763	—	—	—	6,763
Balance at December 31, 2017	29,646	296	77,017	2,191	72	—	79,504
Net income	—	—	—	41,680	—	—	41,680
Cash dividends	—	—	—	(13,527)	—	—	(13,527)
Repurchase of common stock	(689)	(7)	(18,532)	—	—	—	(18,539)
Shares issued under stock compensation plan net of shares withheld for tax effects	312	3	(4,313)	—	—	—	(4,310)
Stock-based compensation	—	—	7,647	—	—	—	7,647
Cumulative effect of a change in accounting principle (Note 5)	—	—	—	(2,324)	—	—	(2,324)
Balance at December 30, 2018	29,269	293	61,819	28,020	72	—	90,132
Net income	—	—	—	42,206	—	—	42,206
Cash dividends	—	—	—	(15,566)	—	—	(15,566)
Repurchase of common stock	(1,149)	(12)	(25,806)	—	—	—	(25,818)
Shares issued under stock compensation plan net of shares withheld for tax effects	299	3	(3,707)	—	—	—	(3,704)
Stock-based compensation	—	—	8,157	—	—	—	8,157
Cumulative effect of a change in accounting principle (Note 4)	—	—	—	(1,261)	—	—	(1,261)
Balance at December 29, 2019	28,419	\$ 284	\$ 40,462	\$ 53,399	72	\$ —	\$ 94,145

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 29, 2019	December 30, 2018	December 31, 2017
Cash flows from operating activities:			
Net income	\$ 42,206	\$ 41,680	\$ 30,137
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,354	18,538	14,995
Deferred income taxes	837	341	4,977
Non-cash interest expense	86	82	119
Debt issuance costs written-off	—	—	16
Gain on the disposal of property and equipment, net	51	55	—
Loss on impairment	—	—	3,904
Amortization of below market lease	—	79	7
Stock-based compensation expense	8,157	7,647	6,763
Changes in operating assets and liabilities:			
Accounts receivable	343	2,151	(836)
Inventories	(52)	(608)	(710)
Prepaid expenses and other	(417)	151	(231)
Other assets	(150)	(42)	482
Accounts payable and accrued expenses	(2,624)	2,590	5,718
Deferred revenue	3,761	5,383	3,692
Deferred rent	—	1,462	19
Lease liabilities	608	—	—
Other liabilities	(1,250)	(1,215)	(359)
Net cash provided by operating activities	72,910	78,294	68,693
Cash flows from investing activities:			
Acquisition of property and equipment	(31,668)	(31,907)	(21,255)
Acquisition of franchise restaurant, net of cash acquired	(18,613)	—	(35,357)
Net cash used in investing activities	(50,281)	(31,907)	(56,612)
Cash flows from financing activities:			
Principal borrowings on long-term debt	54,000	33,000	70,000
Principal repayments on long-term debt	(31,000)	(42,000)	(45,000)
Repurchase of common stock	(25,818)	(18,539)	(23,888)
Cash dividend payments	(15,566)	(13,527)	(11,383)
Tax payments from the vesting of restricted stock and option exercises	(3,720)	(4,342)	(2,079)
Proceeds from the exercise of stock options	16	32	945
Deferred financing costs	(36)	—	(413)
Net cash used in financing activities	(22,124)	(45,376)	(11,818)
Net increase in cash and cash equivalents	505	1,011	263
Cash and cash equivalents at beginning of year	5,062	4,051	3,788
Cash and cash equivalents at end of year	\$ 5,567	\$ 5,062	\$ 4,051
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest, net of capitalized interest	\$ 1,988	\$ 1,658	\$ 667
Income taxes	\$ 8,265	\$ 8,467	\$ 10,680
Noncash investing and financing activities:			
Accrued acquisition of property and equipment	\$ 4,374	\$ 2,390	\$ 3,012

See accompanying notes to consolidated financial statements.

(1) The Company, Organization and Description of Business

Ruth's Hospitality Group, Inc. and its subsidiaries (the Company) operate Ruth's Chris Steak House restaurants and sell franchise rights to Ruth's Chris Steak House franchisees giving the franchisees the exclusive right to operate similar restaurants in a particular area designated in the franchise agreement.

At December 29, 2019, there were 159 Ruth's Chris Steak House restaurants, of which 83 were Company-owned, 73 were franchisee-owned, and three locations were operating under contractual agreements. All Company-owned restaurants are located in the United States. The franchisee-owned restaurants include 21 international restaurants in Aruba, Canada, China, Hong Kong, Indonesia, Japan, Mexico, Singapore and Taiwan. Two new Company-owned Ruth's Chris Steak House restaurants opened during 2019, in Columbus, OH and Somerville, MA. Franchisees opened one new restaurant during 2019, in Chongqing, China. Subsequent to the end of fiscal year 2019, a Company-owned Ruth's Chris Steak House was relocated in Washington D.C.

On July 29, 2019, the Company completed the acquisition of substantially all of the assets of three franchisee-owned Ruth's Chris Steak House restaurants located in Philadelphia, PA, King of Prussia, PA and Garden City, NY (the "MBR Franchise Acquisition") for a cash purchase price of \$18.6 million. The acquisition was funded with borrowings under the Company's senior credit facility. The results of operations, financial position and cash flows of the MBR Franchise Acquisition are included in the Company's consolidated financial statements as of the date of the acquisition. For additional information, see Note 3.

On December 12, 2017, the Company completed the acquisition of substantially all of the assets of six franchisee-owned Ruth's Chris Steak House restaurants located in Hawaii (the "Hawaiian Restaurants") for a cash purchase price of \$35.4 million. The acquisition was funded with borrowings under the Company's senior credit facility.

The following table summarizes the changes in the number of Company-owned Ruth's Chris Steak House restaurants and franchisee-owned restaurants during the thirteen and fifty-two weeks ended December 29, 2019.

Ruth's Chris Steak House	13 Weeks Ending December 29, 2019				52 Weeks Ending December 29, 2019			
	Company	Franchised	Managed	Total	Company	Franchised	Managed	Total
Beginning of period	81	73	3	157	78	75	3	156
Acquired	0	0	0	0	3	0	0	3
Sold	0	0	0	0	0	3	0	3
New	2	0	0	2	2	1	0	3
Closed	0	0	0	0	0	0	0	0
End of period	83	73	3	159	83	73	3	159
% of total	52%	46%	2%	100%	52%	46%	2%	100%

(2) Summary of Significant Accounting Policies**(a) Basis of Presentation**

The Company utilizes a 52- or 53-week reporting period ending on the last Sunday of December. The period ended December 31, 2017 (fiscal year 2017) had a 53-week reporting period. The periods ended December 29, 2019 (fiscal year 2019) and December 30, 2018 (fiscal year 2018) each had a 52-week reporting period. The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles and 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.

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

(b) Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), which requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The guidance also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty

of cash flows arising from leases. The Company adopted this new lease standard on December 31, 2018. See Note 4 for further information about our transition to this new lease standard.

In June 2016 the FASB issued ASU 2016-13, Financial Instruments – Credit Losses. This update requires immediate recognition of management’s estimates of current expected credit losses. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2016-13 is not expected to have a significant impact on the Company’s ongoing financial reporting.

In January 2017 the FASB issued ASU 2017-04, Intangibles – Goodwill and Other: Simplifying the Impairment Test for Goodwill. This update eliminated the calculation of implied goodwill fair value. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2017-04 is not expected to have a significant impact on the Company’s ongoing financial reporting.

In August 2018 the FASB issued ASU 2018-13, Fair Value Measurement – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This update eliminated the calculation of implied goodwill fair value. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2018-13 is not expected to have a significant impact on the Company’s ongoing financial reporting.

In August 2018 the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40). This update aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2018-15 is not expected to have a significant impact on the Company’s ongoing financial reporting.

In August 2018 the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses. This update clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842. This update is effective for the Company in the first quarter of fiscal year 2020. The adoption of ASU 2018-19 is not expected to have a significant impact on the Company’s ongoing financial reporting.

In December 2019 the FASB issued ASU 2019-12, Income Taxes (Topic 740). This update modifies Topic 740 to simplify the accounting for income taxes. This update is effective for the Company in the first quarter of fiscal year 2021. The adoption of ASU 2019-12 is not expected to have a significant impact on the Company’s ongoing financial reporting.

(c) 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.

(d) Cash Equivalents

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

(e) Accounts Receivable

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

(f) 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.

(g) Inventories

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

(h) Property and Equipment, net

Property and equipment are stated at cost. Expenditures for improvements and replacements are capitalized and 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 (limited by the lease term).

(i) Goodwill and Franchise Rights

Goodwill and intangible assets acquired in a business combination that are determined to have an indefinite useful life are not amortized, but reviewed for impairment at least annually in accordance with the provisions of FASB Accounting Standards Committee (ASC) Topic 350, Intangibles-Goodwill and Other. The annual testing date for determining whether goodwill and other intangible assets are impaired is the last day of the Company's 48th fiscal week, which in fiscal year 2019 is December 1, 2019. Goodwill is reviewed annually for impairment on a reporting unit basis and more frequently if events and circumstances indicate that the asset might be impaired. For purposes of testing goodwill impairment, a reporting unit is defined as a group of restaurants with similar economic characteristics. An impairment loss is recognized to the extent that the financial statement carrying amount exceeds the asset's fair value.

Franchise rights acquired prior to 2008 in a business combination that are determined to have an indefinite useful life are not amortized, but are reviewed for impairment at least annually and more frequently if events and circumstances indicate that the asset might be impaired. The Company allows and expects these franchisees to renew agreements indefinitely ensuring consistent cash flows. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Franchise rights acquired after 2007 are no longer considered to have indefinite useful lives and are amortized in accordance with FASB ASC Topic 350 and reviewed for impairment under ASC Topic 360-10, Property, Plant and Equipment – Impairment and Disposal of Long-Lived Assets (Topic 360-10).

(j) Impairment or Disposal of Long-Lived Assets

In accordance with Topic 360-10, long lived assets, such as property and equipment, operating lease right-of-use (ROU) assets 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 financial statement 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. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Key assumptions in the determination of fair value are the future after-tax cash flows of the restaurant and discount rate. The after-tax cash flows incorporate reasonable sales growth and margin improvement assumptions that would be expected by a franchisee in the determination of a purchase price for the restaurant. Estimates of future cash flows are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions. The discount rate used in the fair value calculations is our estimate of the required rate of return that a market participant would expect to receive when purchasing a similar restaurant or groups of restaurants and the related long-lived assets. The discount rate incorporates rates of returns for historical franchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

We account for exit or disposal activities, including restaurant closures, in accordance with Topic 360-10. Such costs include the cost of disposing of the assets as well as other facility-related expenses from previously closed restaurants. These costs are generally expensed as incurred. For restaurants operated under operating leases, on the date we commit to a plan to either abandon the related ROU asset or sublease the underlying asset, we evaluate the ROU asset for potential impairment and determine the go-forward accounting based on the requirements in ASC Topic 842, Leases.

(k) Deferred Financing Costs

Deferred financing costs represent fees paid in connection with obtaining bank and other long-term financing. The Company paid \$36 thousand in financing costs in fiscal year 2019, \$413 thousand in financing costs in fiscal year 2017 and no financing costs during fiscal year 2018. The Company amortizes deferred financing costs using a method that approximates the effective interest method over the term of the related financing. Amortization of deferred financing costs was \$86 thousand in fiscal year 2019, \$82 thousand in fiscal year 2018 and \$119 thousand in fiscal year 2017 and is included in interest expense on the consolidated statements of income.

(l) Revenues

Revenues are derived principally from food and beverage sales. The Company does not rely on any major customers as a source of revenue.

Restaurant Sales. Restaurant sales consist of food and beverage sales by Company-owned restaurants. Revenue from restaurant sales is recognized when food and beverage products are sold. Restaurant sales are presented net of sales taxes and discounts. Gratuities remitted by customers for the benefit of restaurant staff are not included in either revenues or operating expenses. 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. Comparable restaurant sales growth reflects the change in year-over-year or quarter-over-quarter, as applicable, sales for the comparable restaurants. The Company defines comparable restaurants to be those Company-owned restaurants in operation for not less than eighteen months prior to the beginning of the fiscal year.

Franchise Income. Franchise income includes (1) royalty income and (2) franchise and development fees charged to franchisees. Franchise royalties consist of 5.0% of adjusted gross sales from each franchisee-owned restaurant. In addition, our more recent franchise agreements require up to a 1.0% of adjusted gross sales advertising fee to be paid by the franchisee, which is applied to national advertising expenditures. Effective in fiscal year 2018, both the 5.0% royalty and the sales based advertising fees are included in franchise income on the consolidated statements of income. Prior to the adoption of ASC Topic 606, Revenue from Contracts with Customers (Topic 606), the Company recorded advertising contributions from franchisees as a liability against which specific marketing and advertising costs were charged, which reduced the Company's marketing expense on the consolidated statements of income. Effective with fiscal year 2018, the Company recognizes franchise development and opening fees over the life of the applicable franchise agreements. Prior to the adoption of Topic 606, the Company recognized franchise development and opening fees when a franchisee-owned restaurant opened.

Other Operating Income. Other operating income consists primarily of breakage income associated with gift cards, and also includes fees earned from management agreements, banquet-related guarantee and services revenue and other incidental guest fees. The Company's accounting method for recognizing gift card breakage revenue is the redemption method. Under the redemption method, gift card breakage revenue is recognized and the gift card liability is derecognized for unredeemed gift cards in proportion to actual gift card redemptions based on historical breakage rates.

Deferred Revenue. Deferred revenue primarily includes (1) the Company's liability for gift cards that have been sold but not yet redeemed and (2) the Company's liability for franchise development and opening fees that will be recognized over the life of the applicable franchise agreements. When gift cards are redeemed (typically within five years), the Company recognizes restaurant sales and reduces the deferred revenue liability. A portion of gift cards redeemed are used by customers to pay for sales taxes and gratuities, neither of which results in Company restaurant sales. Company issued gift cards redeemed at franchisee-owned restaurants result in royalty based franchise income and reduce the deferred revenue liability. The expected redemption value of gift cards represents the full consideration received for 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 (gift card breakage). The Company recognized gift card breakage revenue of \$3.9 million in fiscal year 2019 and \$2.9 million in fiscal years 2018 and 2017.

(m) International Revenues

The Company currently has 21 international franchisee-owned restaurants in Aruba, Canada, China, Hong Kong, Indonesia, Japan, Mexico, Singapore and Taiwan. In accordance with its franchise agreements relating to these international restaurants, the Company receives royalty revenue from these franchisees in U.S. dollars. Franchise fee revenues from international restaurants were \$2.9 million, \$2.7 million and \$2.9 million in fiscal years 2019, 2018 and 2017, respectively.

(n) 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 an operating lease right-of-use (ROU) asset.

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

(o) Marketing and Advertising

Marketing and advertising expenses in the accompanying consolidated statements of income include expenses related to advertising, online initiatives, traditional public relations and consumer research. Advertising expenses were \$6.3 million, \$6.8 million and \$6.7 million in fiscal years 2019, 2018 and 2017, respectively. Advertising costs are expensed as incurred.

(p) 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 liabilities for the estimated exposure for aggregate losses below those limits. The recorded liabilities are based on estimates of the ultimate costs to be incurred to settle known claims and claims incurred but not reported as of the balance sheet date. The estimated liabilities are not discounted and are based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions. Independent actuaries are used to develop estimates of the workers' compensation, general and employee health care liabilities.

(q) Stock-Based Compensation

The Company recognizes stock-based compensation in accordance with FASB ASC Topic 718, Compensation—Stock Compensation, (Topic 718). Stock-based compensation cost includes compensation cost for all share-based payments granted based on the grant date fair value estimated in accordance with the provisions of Topic 718. Compensation cost is recognized on a straight-line basis over the requisite service period of each award. The Company does not estimate forfeitures when recognizing compensation expense. Forfeitures are accounted for as they occur.

(r) Pre-Opening Costs

Pre-opening costs incurred with the opening of new restaurants are expensed as incurred. These costs include rent expense, 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.

(s) 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.

The Company applies the provisions of FASB ASC Topic 740, Income Taxes (Topic 740). Topic 740 requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company's continuing practice is to recognize interest and penalties related to uncertain tax positions in income tax expense.

(t) Discontinued Operations

The Company accounts for its closed restaurants in accordance with the provisions of FASB ASC Topic 360, Property, Plant and Equipment. For fiscal years 2019, 2018 and 2017, all impairment charges, loss on disposal and remeasurement of lease liabilities along with restaurant sales, direct recurring costs and expenses and income taxes attributable to restaurants classified as discontinued operations have been aggregated to a single caption entitled loss from discontinued operations, net of tax benefit in the consolidated statements of income for all periods presented. Cash flows from discontinued operations are combined with the cash flows from continuing operations within each of the categories on our consolidated statements of cash flows.

(u) Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is calculated by dividing net income by the diluted weighted average shares of common stock outstanding during each period. Potentially dilutive securities include shares of non-vested stock awards. Diluted earnings per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an antidilutive effect. Stock awards are excluded from the calculation of diluted earnings per share in the event they are antidilutive.

(3) Franchisee Acquisition

On July 29, 2019, the Company completed the acquisition of substantially all of the assets of the MBR Franchise Acquisition restaurants for a cash purchase price of \$18.6 million. The acquisition was funded with borrowings under the Company's senior credit facility. The results of operations, financial position and cash flows of the MBR Franchise Acquisition restaurants are included in the Company's consolidated financial statements as of the date of the acquisition.

The assets and liabilities of the MBR Franchise Acquisition restaurants were recorded at their respective fair values as of the date of the acquisition. The Company confirmed the fair values using a combination of internal analysis and third party valuations. The Company finalized the fair values recorded for the MBR Franchise Acquisition during the fourth quarter of fiscal year 2019 and no adjustments were required.

The allocation of purchase price is as follows (in thousands):

	Balances at December 29, 2019	
Current assets	\$	387
Property and equipment		2,398
Goodwill		9,027
Franchise Rights		7,100
Other intangibles		475
Total assets acquired	\$	19,387
Current liabilities		725
Other liabilities		43
Total liabilities assumed	\$	768
Net assets acquired	\$	18,619

The goodwill for the MBR Franchise Acquisition is all deductible for federal income tax purposes. Goodwill was measured as the excess of the consideration transferred over the net of the amounts assigned to identifiable assets acquired and the liabilities assumed as of the acquisition date, and includes the economic value of expected future cash flows not assigned to identifiable assets, efficiencies from combining the operations of the acquired restaurants with other Company-owned restaurants and an assembled workforce. The goodwill for the MBR Franchise Acquisition, which is included with the goodwill for the reporting unit identified as the steakhouse operating segment, will be reviewed for potential impairment annually or more frequently if triggering events are detected. The determination of the acquisition date fair value of the franchise and territory rights was based on a multi-period excess earnings approach and involved projected after-royalty future earnings discounted using a market discount rate, from which a contributory asset charge for net working capital, property and equipment and assembled workforce was subtracted. The reacquired franchise and territory rights will be amortized over a weighted average term of 8.2 years, which reflects the remaining terms of the related franchise agreements, not including renewal options. Property and equipment will be depreciated over a period of two to twenty years.

As a result of the acquisition and related integration efforts, we incurred expenses of approximately \$536 thousand during the fiscal year 2019, which are included in general and administrative expenses in the Company's consolidated statements of income. Pro-forma financial information reflecting the impact of the MBR Franchise Acquisition for periods prior to the acquisition are not presented due to the immaterial impact of the financial results of the MBR Franchise Acquisition on the Company's consolidated financial statements.

(4) Leases

Effective December 31, 2018, the Company adopted Topic 842 using the modified retrospective method for all leases in effect at the date of adoption. This new lease standard requires a lessee to recognize on the balance sheet a liability for future lease obligations and a corresponding operating lease ROU asset. The guidance also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. The Company chose the effective date as its initial date of adoption.

Consequently, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to carry forward prior conclusions regarding lease identification, lease classification and initial indirect costs for existing leases. The Company did not elect the hindsight practical expedient.

In addition to the recognition of a liability for future lease obligations and a corresponding ROU asset, upon adoption, the Company:

- Derecognized existing deferred rent and tenant allowance balances totaling \$25.4 million.
- Derecognized existing assets related to below market leases of \$758 thousand.
- Derecognized existing deferred gains on previous sale-leaseback transactions of \$1.8 million. The deferred gain associated with this change in accounting was recognized through opening retained earnings as of December 31, 2018.
- Recognized a retained earnings adjustment of \$3.5 million related to the write-off of the ROU asset from a previously impaired Ruth's Chris Steak House restaurant.
- Recognized \$413 thousand of additional deferred income taxes from the previously mentioned adoption related equity adjustments.

The Company did not experience material changes to either the consolidated statements of income or the consolidated statements of cash flows due to the adoption of Topic 842. The following table summarizes the impacts of adopting Topic 842 on the Company's condensed consolidated balance sheet as of December 31, 2018 (in thousands):

	December 30, 2018 As Reported	Adjustments Due to the Adoption of ASC 842	December 31, 2018
Assets			
Current assets:			
Cash and cash equivalents	\$ 5,062	\$ —	\$ 5,062
Accounts receivable, less allowance for doubtful accounts	19,476	812	20,288
Inventory	9,296	—	9,296
Prepaid expenses and other	2,528	—	2,528
Total current assets	36,362	812	37,174
Property and equipment, net of accumulated depreciation	125,991	—	125,991
Operating lease right of use assets	—	166,040	166,040
Goodwill	36,522	—	36,522
Franchise rights, net of accumulated amortization	44,919	—	44,919
Other intangibles, net of accumulated amortization	4,862	(758)	4,104
Deferred income taxes	5,353	413	5,766
Other assets	604	—	604
Total assets	<u>\$ 254,613</u>	<u>\$ 166,507</u>	<u>\$ 421,120</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$ 10,273	\$ —	\$ 10,273
Accrued payroll	19,475	—	19,475
Accrued expenses	10,535	—	10,535
Deferred revenue	48,370	—	48,370
Current operating lease liabilities	—	16,707	16,707
Other current liabilities	6,619	(1,698)	4,921
Total current liabilities	95,272	15,009	110,281
Long-term debt	41,000	—	41,000
Operating lease liabilities	—	178,256	178,256
Deferred rent	23,692	(23,692)	—
Unearned franchise fees	2,680	—	2,680
Other liabilities	1,837	(1,805)	32
Total liabilities	164,481	167,768	332,249
Commitments and contingencies (Note 11)	—	—	—
Shareholders' equity:			
Common stock, par value \$.01 per share; 100,000,000 shares authorized, 29,268,776 shares issued and outstanding at December 30, 2018	293	—	293
Additional paid-in capital	61,819	—	61,819
Retained earnings	28,020	(1,261)	26,759
Treasury stock, at cost; 71,950 shares at December 30, 2018	—	—	—
Total shareholders' equity	90,132	(1,261)	88,871
Total liabilities and shareholders' equity	<u>\$ 254,613</u>	<u>\$ 166,507</u>	<u>\$ 421,120</u>

The Company leases restaurant facilities and equipment. The Company determines whether an arrangement is or contains a lease at contract inception. The Company's leases are all classified as operating leases, which are included as ROU assets and operating lease liabilities in the Company's consolidated balance sheet. Operating lease liabilities are recognized based on the present value of future minimum lease payments over the expected lease term at commencement date. ROU assets are measured based on the operating lease liabilities adjusted for lease incentives, initial indirect costs and impairments of operating lease assets. Minimum lease payments include only the fixed lease components of the agreements, as well as any variable rate payments that depend on an index, which are

measured initially using the index at the lease commencement dates. To determine the present value of future minimum lease payments, the Company estimates incremental secured borrowing rates based on the information available at the lease commencement dates, or the transition date at adoption. The Company estimates its rates by starting with the interest rate on its senior revolving credit facility and makes adjustments to that rate to reflect the amount that it would pay to borrow the amount of the lease payments on a collateralized basis over similar terms. The Company validates such rates by determining its credit rating, adjusting the rating to capture payment terms on a collateralized basis and establishing a yield curve based on such credit rating. The expected lease terms include options to extend when it is reasonably certain the Company will exercise the options up to a total term of 20 years. For financial reporting purposes, minimum rent payments are expensed on a straight-line basis over the lives of the leases. Additionally, incentives received from landlords used to fund leasehold improvements reduce the ROU assets related to those leases and are amortized as reductions to rent expense over the lives of the leases. Variable lease payments that do not depend on a rate or index, payments associated with non-lease components and short-term rentals (leases with terms less than 12 months) are expensed as incurred.

At December 29, 2019, all of the Company-owned Ruth's Chris Steak House restaurants operated in leased premises, with the exception of the restaurant in Ft. Lauderdale, FL, which is an owned property, and the restaurants in Anaheim, CA, Lake Mary, FL, Princeton, NJ and South Barrington, IL, which operate on leased land. The leases generally provide for minimum annual rental payments with scheduled minimum rent payments increases during the terms of the leases. Certain leases also provide for rent deferral during the initial term, lease incentives in the form of tenant allowances to fund leasehold improvements, and/or contingent rent provisions based on the sales at the underlying restaurants. Most of the Company's restaurant leases have remaining lease terms of 1 year to 20 years, some of which include options to extend the leases for 5 years or more. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The weighted average term and discount rate for operating leases is 13.4 years and 5.0%, respectively.

The components of lease expense are as follows (in thousands):

	Classification	Fiscal Year Ended December 29, 2019
Operating lease cost	Restaurant operating expenses and General and administrative costs	\$ 27,141
Variable lease cost	Restaurant operating expenses and General and administrative costs	10,736
Total lease cost		<u>\$ 37,877</u>

As of December 29, 2019, maturities of lease liabilities are summarized as follows (in thousands):

	Company Total
2020	\$ 28,593
2021	28,088
2022	27,010
2023	24,089
2024	23,889
Thereafter	203,131
	<u>334,800</u>
Imputed interest	(97,195)
	<u>\$ 237,605</u>

Under the previous lease accounting prior to the adoption of ASC842, future minimum annual rental commitments for operating leases as of December 30, 2018 were as follows (in thousands):

	Company Total
2019	\$ 25,767
2020	24,177
2021	22,520
2022	21,388
2023	18,858
Thereafter	154,661
	<u>\$ 267,371</u>

Supplemental cash flow information related to leases was as follows (in thousands):

	Fiscal Year Ended	
	December 29, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	26,660
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$	56,608

Additionally, as of December 29, 2019 the Company has executed seven leases for new Ruth's Chris Steak House Restaurant locations with undiscounted fixed payments over the initial term of \$35.4 million. These leases are expected to commence during the next 12 months and are expected to have an economic lease term of 20 years. These leases will commence when the landlords make the properties available to the Company. The Company will assess the reasonably certain lease term at the lease commencement date.

The Company previously operated eighteen Mitchell's Fish Markets and three Mitchell's/Cameron's Steakhouse restaurants (collectively, the Mitchell's Restaurants). The sale of the Mitchell's Restaurants to Landry's, Inc. and Mitchell's Entertainment, Inc., an affiliate of Landry's Inc. (together with Landry's Inc., Landry's) 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. The Company guaranteed Landry's lease obligations aggregating \$24.2 million under five of the Mitchell's Restaurants' leases which extend until the leases terminate which may continue into 2040. The Company did not record a financial accounting liability for the lease guarantees, because the likelihood of Landry's defaulting on the lease agreements was deemed to be remote. Separate from the purchase agreement, Landry's has agreed to indemnify the Company in the event of a default under any of the leases. Pursuant to the terms of the Agreement, upon closing of the sale of the Mitchell's Restaurants, Landry's assumed the lease obligations of the Mitchell's Restaurants. The above tables do not include potential lease obligations for the Mitchell's Restaurants.

(5) Revenue

The Company adopted Topic 606 with an initial date of application of January 1, 2018. As a result, the Company changed its accounting policy for revenue recognition. The Company applied Topic 606 using the cumulative effect method to contracts that were not completed at January 1, 2018, which resulted in the recognition of the cumulative effect of initially adopting Topic 606 as an adjustment to the opening balance of shareholders' equity at January 1, 2018. Therefore, the comparative information previous to fiscal year 2018 has not been adjusted and continues to be reported under the Company's revenue recognition policy in effect prior to the adoption of Topic 606. The Company adopted Topic 606 using the practical expedient in paragraph 606-10-65-1(f)(4), under which the Company aggregated all contract modifications that occurred before January 1, 2018 to identify the satisfied and unsatisfied performance obligations, to determine the transaction price, and to allocate the transaction price to the satisfied and unsatisfied performance obligations. The details of the significant changes as a result of adopting Topic 606 are provided below.

Franchise Income. Prior to the adoption of Topic 606, the Company recognized franchise development and opening fees when a franchisee-owned restaurant opened. Under Topic 606, the Company now recognizes franchise development and opening specific fees over the life of the applicable franchise agreements. The Company increased its deferred revenue liability by \$3.1 million, increased its deferred tax assets by \$746 thousand and decreased the opening balance of shareholders' equity by \$2.3 million for previously recognized franchise development and opening fees that will now be recognized over the life of the applicable franchise agreements. The adoption of Topic 606 also impacts the classification of advertising contributions from franchisees. Prior to the adoption of Topic 606, the Company recorded advertising contributions from franchisees as a liability against which specific marketing and advertising costs were charged, which reduced the Company's marketing expense on the consolidated statements of income. Under Topic 606, advertising contributions from franchisees are classified as franchise income on the consolidated statements of income in fiscal years 2019 and 2018. The Company recognized \$1.5 million of advertising contributions from franchisees for the fiscal years 2019 and 2018. Because of the offsetting adjustments, the reclassification of advertising contributions from franchisees had no impact to the Company's net income for fiscal year 2019 and 2018.

Gift Cards. Under Topic 606, the Company now classifies certain discounts recognized on the sale of gift cards, historically recognized as marketing expense, as a reduction to restaurant sales on the consolidated statements of income. The reclassification of discounts recognized on the sale of gift cards from marketing expense to restaurant sales on the consolidated statements of income totaled \$957 thousand in fiscal year 2019 and \$1.1 million in fiscal year 2018. Because of the offsetting adjustments, the reclassification of discounts recognized on the sale of gift cards had no impact to the Company's net income for fiscal years 2019 and 2018.

Impacts on Financial Statements

The following tables summarize the impacts of adopting Topic 606 on the Company's consolidated financial statements for fiscal year 2018 (in thousands).

	December 30, 2018 As Reported	Adjustments	Balances without adoption of Topic 606
Assets			
Current assets:			
Cash and cash equivalents	\$ 5,062	\$ —	\$ 5,062
Accounts receivable, less allowance for doubtful accounts 2018 - \$322; 2017 - \$361	19,476	—	19,476
Inventory	9,296	—	9,296
Prepaid expenses and other	2,528	—	2,528
Total current assets	36,362	—	36,362
Property and equipment, net of accumulated depreciation 2018 - \$160,153; 2017 - \$144,373	125,991	—	125,991
Goodwill	36,522	—	36,522
Franchise rights, net of accumulated amortization 2018 - \$2,299; 2017 - \$396	44,919	—	44,919
Other intangibles, net of accumulated amortization 2018 - \$1,395; 2017 - \$1,181	4,862	—	4,862
Deferred income taxes	5,353	(686)	4,667
Other assets	604	—	604
Total assets	<u>\$ 254,613</u>	<u>\$ (686)</u>	<u>\$ 253,927</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$ 10,273	\$ —	\$ 10,273
Accrued payroll	19,475	—	19,475
Accrued expenses	10,535	—	10,535
Deferred revenue	48,370	(121)	48,249
Other current liabilities	6,619	—	6,619
Total current liabilities	95,272	(121)	95,151
Long-term debt	41,000	—	41,000
Deferred rent	23,692	—	23,692
Unearned franchise fees	2,680	(2,680)	—
Other liabilities	1,837	—	1,837
Total liabilities	164,481	(2,801)	161,680
Commitments and contingencies	—	—	—
Shareholders' equity:			
Common stock, par value \$.01 per share; 100,000,000 shares authorized, 29,268,776 shares issued and outstanding at December 30, 2018, 29,645,790 shares issued and outstanding at December 31, 2017	293	—	293
Additional paid-in capital	61,819	—	61,819
Retained earnings	28,020	2,115	30,135
Treasury stock, at cost; 71,950 shares at December 30, 2018 and December 31, 2017	—	—	—
Total shareholders' equity	90,132	2,115	92,247
Total liabilities and shareholders' equity	<u>\$ 254,613</u>	<u>\$ (686)</u>	<u>\$ 253,927</u>

	<u>As Reported</u>	<u>Adjustments</u>	<u>Balances without adoption of Topic 606</u>
Revenues:			
Restaurant sales	\$ 427,433	\$ 1,058 ⁽¹⁾	\$ 428,491
Franchise income	17,919	(1,577) ⁽²⁾	16,342
Other operating income	6,982	—	6,982
Total revenues	452,334	(519)	451,815
Costs and expenses:			
Food and beverage costs	120,112	—	120,112
Restaurant operating expenses	206,258	—	206,258
Marketing and advertising	16,639	(399) ⁽³⁾	16,240
General and administrative costs	37,253	—	37,253
Depreciation and amortization expenses	18,538	—	18,538
Pre-opening costs	1,875	—	1,875
Total costs and expenses	400,675	(399)	400,276
Operating income	51,659	(120)	51,539
Other income (expense):			
Interest expense, net	(1,739)	—	(1,739)
Other	(73)	—	(73)
Income from continuing operations before income tax expense	49,847	(120)	49,727
Income tax expense	8,247	(29) ⁽⁴⁾	8,218
Income from continuing operations	41,600	(91)	41,509
Income from discontinued operations, net of income taxes	80	—	80
Net income	\$ 41,680	\$ (91)	\$ 41,589

- (1) The reclassification of discounts recognized on the sale of gift cards from marketing expense to restaurant sales on the consolidated statements of income totaled \$1.1 million for fiscal year 2018.
- (2) In fiscal year 2018, the Company recognized \$1.5 million of advertising contributions from franchisees and \$119 thousand of franchise development and opening fees in excess of fees that would have been recognized had Topic 606 not been adopted.
- (3) The Company recognized \$1.5 million and of advertising contributions from franchisees in fiscal year 2018, which prior to the adoption of Topic 606 were recognized as a reduction to marketing and advertising expense. Discounts recognized on the sale of gift cards were reclassified from marketing expense to restaurant sales on the consolidated statements of income, which totaled \$1.1 million in fiscal year 2018.
- (4) Income tax expense related to the pre-tax income impact of the adjustments is calculated using the Company's marginal federal and state income tax rates.

	52 Weeks Ended December 30, 2018	Adjustments	Balances without adoption of Topic 606
	As Reported		
Cash flows from operating activities:			
Net income	\$ 41,680	\$ (91)	\$ 41,589
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,538	—	18,538
Deferred income taxes	341	—	341
Non-cash interest expense	82	—	82
Debt issuance costs written-off	—	—	—
Gain on the disposal of property and equipment, net	55	—	55
Loss on impairment	—	—	—
Amortization of below market lease	79	—	79
Stock-based compensation expense	7,647	—	7,647
Changes in operating assets and liabilities:			
Accounts receivable	2,151	—	2,151
Inventories	(608)	—	(608)
Prepaid expenses and other	151	—	151
Other assets	(42)	—	(42)
Accounts payable and accrued expenses	2,590	—	2,590
Deferred revenue	5,383	120	5,503
Deferred rent	1,462	—	1,462
Other liabilities	(1,215)	(29)	(1,244)
Net cash provided by operating activities	<u>78,294</u>	<u>—</u>	<u>78,294</u>
Net cash used in investing activities	<u>(31,907)</u>	<u>—</u>	<u>(31,907)</u>
Net cash used in financing activities	<u>(45,376)</u>	<u>—</u>	<u>(45,376)</u>
Net increase in cash and cash equivalents	<u>\$ 1,011</u>	<u>—</u>	<u>\$ 1,011</u>

In the following tables, the Company's revenue is disaggregated by major component for each category on the consolidated statements of income (in thousands).

52 Weeks Ended December 29, 2019:	Domestic	International	Total Revenue
Restaurant sales	\$ 441,361	\$ —	\$ 441,361
Franchise income	15,004	2,875	17,879
Other operating income	8,786	—	8,786
Total revenue	<u>\$ 465,151</u>	<u>\$ 2,875</u>	<u>\$ 468,026</u>

52 Weeks Ended December 30, 2018:	Domestic	International	Total Revenue
Restaurant sales	\$ 427,433	\$ —	\$ 427,433
Franchise income	15,194	2,725	17,919
Other operating income	6,982	—	6,982
Total revenue	<u>\$ 449,609</u>	<u>\$ 2,725</u>	<u>\$ 452,334</u>

53 Weeks Ended December 31, 2017:	Domestic	International	Total Revenue
Restaurant sales	\$ 390,434	\$ —	\$ 390,434
Franchise income	14,596	2,949	17,545
Other operating income	6,844	—	6,844
Total revenue	<u>\$ 411,874</u>	<u>\$ 2,949</u>	<u>\$ 414,823</u>

The following table provides information about receivables and deferred revenue liabilities from contracts with customers (in thousands).

	December 29, 2019	December 30, 2018
Accounts receivable, less allowance for doubtful accounts 2019 - \$241; 2018 - \$322	\$ 19,615	\$ 18,336
Deferred revenue	\$ 52,856	\$ 48,370
Unearned franchise fees	\$ 2,489	\$ 2,680

Significant changes in the deferred revenue balance and the unearned franchise fees balance during the fifty-two weeks of fiscal years 2019 and 2018 are presented in the following table (in thousands).

	Deferred Revenue	Unearned Franchise Fees
Balance at December 31, 2017	\$ 42,596	\$ —
Increase (decrease) due to the cumulative effect of adopting Topic 606	(22)	3,092
Decreases in the beginning balance from gift card redemptions	(29,103)	—
Increases due to proceeds received, excluding amounts recognized during the period	34,861	—
Decreases due to recognition of franchise development and opening fees	—	(419)
Other	38	7
Balance at December 30, 2018	48,370	2,680
Decreases in the beginning balance from gift card redemptions	(30,970)	—
Increases due to proceeds received, excluding amounts recognized during the period	34,903	—
MBR Franchisee Acquisition assumed liability, excluding amounts recognized during the period	563	—
Decreases due to recognition of franchise development and opening fees	—	(191)
Other	(10)	—
Balance at December 29, 2019	<u>\$ 52,856</u>	<u>\$ 2,489</u>

The projected recognition of revenue related to deferred franchise development and opening fees is as follows (in thousands).

	Balance as of December 29, 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Years 2022- 2024	More Than 5 Years
Franchise development and opening fees	\$ 2,489	\$ 236	\$ 236	\$ 709	\$ 1,308

(6) Fair Value Measurements

Fair value is defined under FASB ASC Topic 820, Fair Value Measurements and Disclosures (Topic 820), as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Topic 820 also establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels of inputs are:

- Level 1—quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2—quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3—unobservable and significant to the fair value measurement of the asset or liability.

The following were used to estimate the fair value of each class of financial instruments:

- The carrying amount of cash and cash equivalents, receivables, prepaid expenses, accounts payable and accrued expenses and other current liabilities are a reasonable estimate of their fair values due to their short duration.
- Borrowings under the senior credit facility as of December 29, 2019 and December 30, 2018 have variable interest rates that reflect currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of its fair value (Level 2).

The Company did not have any non-financial assets measured at fair value on a non-recurring basis as of the end of fiscal year 2019 or 2018.

(7) Franchise Rights and Goodwill

In accordance with FASB ASC Topic 350, goodwill and owned franchise rights with indefinite useful lives must be reviewed for potential impairment annually and when triggering events are detected. The Company performed its annual impairment test of its goodwill and franchise rights as of December 1, 2019 using a qualitative assessment. Using the qualitative approach, the Company evaluated factors, including but not limited to, recent financial performance; forecasts for future cash flows; the Company's stock price and market capitalization; recent impairment tests; legal factors; the business climate; and the competitive environment. Based on the results of the qualitative assessment, the Company determined that it is not more likely than not that the carrying values of goodwill and franchise rights exceed the fair values.

If the qualitative assessment is not performed, or if the Company determines that it is not more likely than not that the fair values of the intangible assets exceed the carrying values, then the Company performs the following analysis for franchise rights and goodwill to measure fair values.

Franchise Rights

To determine the fair value of acquired franchise rights with indefinite useful lives, the Company uses a multi-period excess earnings approach. This approach involves projecting after-royalty future earnings, discounting those earnings using an appropriate market discount rate and subtracting a contributory charge for net working capital, property and equipment, assembled workforce and customer relationships to arrive at excess earnings attributable to these franchise rights. The Company calculates the present value of cash flows generated from future excess earnings and compares the fair values to the financial statement carrying values.

Goodwill

In performing the evaluation of goodwill impairment under FASB ASC Topic 350-20, the Company compares the carrying value of its reporting unit, which is considered to be the steakhouse operating segment, to its fair value. The Company utilizes a multiple of EBITDA to approximate the fair value of the reporting unit for purposes of completing Step 1 of the evaluation. The Company considers EBITDA multiples of publicly held companies, including its own, as well as recent industry acquisitions. If a reporting unit's fair value does not exceed its carrying value as the balance sheet date, the Company would complete Step 2 of the evaluation by comparing the implied fair value of goodwill with the net asset value of the reporting unit. The Company would calculate 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.

The financial statement carrying values of the Company's franchise rights and other intangible assets were as follows (amounts in thousands):

	Weighted Average Amortization Period	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizing intangible assets:				
Franchise rights	7.2 yrs	\$ 22,117	\$ (4,401)	\$ 17,716
Lease assets	10.9 yrs	2,000	(1,083)	917
Other assets	2.9 yrs	490	(356)	134
		24,607	(5,840)	18,767
Indefinite-lived intangible assets:				
Franchise rights		32,200	-	32,200
Liquor licenses		3,280	-	3,280
Other assets		118	-	118
		35,598	-	35,598
Total intangible assets		\$ 60,205	\$ (5,840)	\$ 54,365

Aggregate amortization expense for amortizing intangible assets was \$2.2 million for the fiscal year 2019, \$2.1 million for the fiscal year 2018 and \$277 thousand for the fiscal year 2017. Estimated amortization expense for the next five years is: \$2.7 million in fiscal years 2020, 2021 and 2022, \$2.6 million in fiscal year 2023 and \$2.5 million in fiscal year 2024.

The financial statement carrying values of the Company's goodwill was as follows (amounts in thousands):

	Gross Goodwill	Accumulated Goodwill Impairment Losses	Net Carrying Value of Goodwill
Balance as of December 30, 2018	\$ 47,080	\$ (10,558)	\$ 36,522
Balance as of December 29, 2019	\$ 56,107	\$ (10,558)	\$ 45,549

(8) Property and Equipment, net

Property and equipment consists of the following (amounts in thousands):

	December 29, 2019	December 30, 2018
Land	\$ 616	\$ 616
Building and building improvements	25,477	25,163
Equipment	44,227	41,852
Computer equipment	16,472	12,085
Furniture and fixtures	27,758	25,049
Leasehold improvements	192,096	167,650
Construction-in-progress	10,161	13,729
	316,807	286,144
Less accumulated depreciation	(173,845)	(160,153)
	\$ 142,962	\$ 125,991

(9) Long-term Debt

Long-term debt consists of the following (amounts in thousands):

	December 29, 2019	December 30, 2018
Senior Credit Facility:		
Revolving credit facility	\$ 64,000	\$ 41,000
Less current maturities	—	—
	<u>\$ 64,000</u>	<u>\$ 41,000</u>

As of December 29, 2019, the Company had \$64.0 million of outstanding indebtedness under its senior credit facility with approximately \$51.2 million of borrowings available, net of outstanding letters of credit of approximately \$4.8 million. As of December 29, 2019, the weighted average interest rate on the Company's outstanding debt was 3.5% and the weighted average interest rate on our outstanding letters of credit was 1.9%. In addition, the fee on the Company's senior credit facility was 0.3%.

On February 2, 2017, the Company entered into a credit agreement with Wells Fargo Bank, National Association as administrative agent, and certain other lenders (the Credit Agreement) governing a senior credit facility that replaced the prior credit facility. The Credit Agreement provides for a revolving credit facility of \$90.0 million with a \$5.0 million subfacility for swingline loans. Subject to the satisfaction of certain conditions and lender consent, the revolving credit facility may be increased up to a maximum of \$150.0 million. The Credit Agreement has a maturity date of February 2, 2022. At our option, revolving loans may bear interest at (i) LIBOR, plus an applicable margin, (ii) the highest of (a) the rate publicly announced by Wells Fargo as its prime rate, (b) the average published federal funds rate in effect on such day plus 0.50% and (c) one month LIBOR plus 1.00%, plus an applicable margin. The applicable margin is based on our actual leverage ratio, ranging (a) from 1.50% to 2.25% above the applicable LIBOR rate or (b) at our option, from 0.50% to 1.25% above the applicable base rate.

On September 18, 2019, the Company entered into the First Amendment to Credit Agreement (the "First Amendment") which amends its existing Credit Agreement, dated as of February 2, 2017 (the "Existing Credit Agreement" and the Existing Credit Agreement as amended by the First Amendment, the "Amended Credit Agreement"). The First Amendment, among other changes, increases the amount of the revolving credit facility to \$120.0 million. Subject to the satisfaction of certain conditions and lender consent, the revolving credit facility under the Amended Credit Agreement may be increased up to a maximum of \$150.0 million. The amounts of the letters of credit subfacility and swingline subfacility under the Amended Credit Agreement remain unchanged from the Existing Credit Agreement at \$5.0 million each.

The Amended Credit Agreement contains customary representations and affirmative and negative covenants (including limitations on indebtedness and liens) as well as financial covenants requiring a minimum fixed coverage charge ratio and limiting the Company's consolidated leverage ratio. The Amended Credit Agreement also contains events of default customary for credit facilities of this type (with customary grace periods, as applicable), including nonpayment of principal or interest when due; material incorrectness of representations and warranties when made; breach of covenants; bankruptcy and insolvency; unsatisfied ERISA obligations; unstayed material judgment beyond specified periods; default under other material indebtedness; and certain changes of control of the Company. If any event of default occurs and is not cured within the applicable grace period, or waived, the outstanding loans may be accelerated by lenders holding a majority of the commitments under the Amended Credit Agreement and the lenders' commitments may be terminated. The obligations under the Amended Credit Agreement are guaranteed by certain of the Company's subsidiaries (the Guarantors), and are secured by a lien on substantially all of the Company's personal property assets other than any equity interest in current and future subsidiaries of the Company.

(10) Franchise Operations

The Company franchises Ruth's Chris Steak House restaurants. The Company executes franchise agreements for each franchisee-owned 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 at franchisee-owned restaurants plus a 1% advertising fee applied to national advertising expenditures. The Company recognizes sales based royalties 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. Prior to the adoption of Topic 606 in fiscal year 2018, the Company recorded the 1% advertising fee as a liability against which specific marketing and advertising costs were charged, which reduced the Company's marketing expense on the consolidated statement of income. Under Topic 606, advertising contributions from franchisees are classified as franchise income on the consolidated statement of income in fiscal years 2019 and 2018.

The Company executes area development agreements with franchisees that gives each franchisee exclusive rights to develop a specific number of restaurants within a specified area. The Company receives a development fee at the time that an area development

agreement is executed. Prior to the adoption of Topic 606 in fiscal year 2018, the development fee was recognized as revenue as franchisee-owned restaurants opened. Under Topic 606, the Company now recognizes franchise development over the life of the applicable franchise agreements. The Company also executes separate, site-specific franchise agreements for each restaurant developed by a franchisee under an area development agreement. The Company charges a site-specific fee at the time the franchise agreement is executed. This fee is related to construction assistance and consulting regarding operating procedures and purchasing. These services are performed prior to the restaurant opening. These site-specific franchise fees are recognized as revenue over the life of the applicable franchise agreements under Topic 606. Prior to the adoption of Topic 606 they were recorded when the related restaurant opened.

The Company currently has 73 franchisee-owned Ruth's Chris Steak House restaurants, including 21 international restaurants. One new franchisee-owned restaurant opened in fiscal year 2019 including Chongqing, China in February. Two new franchisee-owned restaurants opened in fiscal year 2018 including Ft. Wayne, IN in May and a Markham, Ontario location in November. Two new franchisee-owned restaurants opened in fiscal year 2017 including Chengdu, China in September and Kauai, HI in October. The Kauai, HI restaurant was acquired by the Company in December 2017. Three franchisee-owned Ruth's Chris Steak House restaurants closed in fiscal year 2018 including Ridgeland, MS in March; Dubai, United Arab Emirates in April and Panama City, Panama in October. In September 2017, the franchisee-owned Ruth's Chris Steak House restaurant in San Juan, Puerto Rico closed. In July 2019, the Company acquired the restaurants associated with the MBR Franchise Acquisition. In December 2017, the Company acquired the Hawaiian Restaurants. No franchisee-owned restaurants were sold or purchased during fiscal year 2018. Franchise income includes opening and development fees and income generated from existing franchisee-owned restaurants. The Company classifies franchise income separately in the consolidated statements of income (in thousands):

	Fiscal Year		
	2019	2018	2017
Franchise income:			
Income from existing franchise locations	\$ 17,689	\$ 17,500	\$ 17,335
Opening and development fee income	190	419	210
Total franchise income:	<u>\$ 17,879</u>	<u>\$ 17,919</u>	<u>\$ 17,545</u>

(11) Commitments and Contingencies

The Company is subject to 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. The Company expenses legal fees as incurred.

The legislation and regulations related to tax and unclaimed property matters are complex and subject to varying interpretations by both government authorities and taxpayers. The Company remits a variety of taxes and fees to various governmental authorities, including excise taxes, property taxes, sales and use taxes, and payroll taxes. The taxes and fees remitted by the Company are subject to review and audit by the applicable governmental authorities which could assert claims for additional assessments. Although management believes that the tax positions are reasonable and consequently there are no accrued liabilities for claims which may be asserted, various taxing authorities may challenge certain of the positions taken by the Company which may result in additional liability for taxes and interest. These tax positions are reviewed periodically based on the availability of new information, the lapsing of applicable statutes of limitations, the conclusion of tax audits, the identification of new tax contingencies, or the rendering of relevant court decisions. An unfavorable resolution of assessments by a governmental authority could negatively impact the Company's results of operations and cash flows in future periods.

The Company is subject to unclaimed or abandoned property (escheat) laws which require the Company to turn over to certain state governmental authorities the property of others held by the Company that has been unclaimed for specified periods of time. The Company is subject to audit by individual U.S. states with regard to its escheatment practices. The Company has a pending voluntary disclosure agreement with the State of Delaware to resolve potential liability surrounding gift cards.

On February 26, 2018, a former restaurant hourly employee filed a class action lawsuit in the Superior Court of the State of California for the County of Riverside, alleging that the Company violated the California Labor Code and California Business and Professions Code, by failing to pay minimum wages, pay overtime wages, permit required meal and rest breaks and provide accurate wage statements, among other claims. This lawsuit seeks unspecified penalties under the California's Private Attorney's General Act in addition to other monetary payments (*Quiroz Guerrero v. Ruth's Hospitality Group, Inc., et al.*; Case No RIC1804127). Although the ultimate outcome of this matter, including any possible loss, cannot be predicted or reasonable estimated at this time, we intend to vigorously defend this matter.

The Company currently buys a majority of its beef from two suppliers. 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.

(12) Shareholders' Equity

The holders of the Company's common stock are entitled to one vote per share on all matters to be voted on by the Company's shareholders.

In October 2019, our Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to \$60 million of outstanding common stock from time to time. The new share repurchase program replaces the previous share repurchase program announced in October 2017, which has been terminated. During fiscal year 2019, 1,148,515 shares were purchased at an aggregate cost of \$25.8 million or an average cost of \$22.48 per share under this new program. All repurchased shares were retired and cancelled. As of December 29, 2019, \$54.8 million remained available for future purchases under the new program. Share repurchases under both programs were accounted for under the cost method and all repurchased shares were retired and cancelled. The excess of the purchase price over the par value of the shares was recorded as a reduction in additional paid-in capital.

The Company repurchased 1,148,515; 689,000; and 1,169,442 shares under all share repurchase programs during fiscal years 2019, 2018, and 2017, respectively.

The Company's Board of Directors declared the following dividends during the periods presented (amounts in thousands, except per share amounts):

Declaration Date	Dividend per Share	Record Date	Total Amount	Payment Date
Fiscal Year 2019				
February 22, 2019	\$ 0.13	March 7, 2019	\$ 3,967	March 21, 2019
May 3, 2019	\$ 0.13	May 23, 2019	\$ 3,931	June 6, 2019
August 2, 2019	\$ 0.13	August 22, 2019	\$ 3,854	September 5, 2019
November 1, 2019	\$ 0.13	November 21, 2019	\$ 3,814	December 5, 2019
Fiscal Year 2018				
February 21, 2018	\$ 0.11	March 8, 2018	\$ 3,390	March 22, 2018
May 4, 2018	\$ 0.11	May 24, 2018	\$ 3,397	June 7, 2018
August 10, 2018	\$ 0.11	August 23, 2018	\$ 3,389	September 6, 2018
November 2, 2018	\$ 0.11	November 15, 2018	\$ 3,351	November 29, 2018
Fiscal Year 2017				
February 17, 2017	\$ 0.09	February 23, 2017	\$ 2,862	March 9, 2017
May 5, 2017	\$ 0.09	May 18, 2017	\$ 2,862	June 1, 2017
July 28, 2017	\$ 0.09	August 10, 2017	\$ 2,844	August 24, 2017
November 3, 2017	\$ 0.09	November 9, 2017	\$ 2,815	November 22, 2017

Subsequent to the end of fiscal year 2019, the Company's Board of Directors declared a \$0.15 per share cash dividend (\$4.4 million in total) payable on March 20, 2020. Dividends are paid to holders of common stock and restricted stock.

Under the Credit Agreement, restricted junior payments, which include cash dividend payments, repurchases of the Company's equity securities and payments and prepayments of subordinated indebtedness, made subsequent to February 2, 2017 are limited to \$100.0 million if the Company's consolidated leverage ratio is greater than or equal to 2.00:1.00, and are not limited in amount if our consolidated leverage ratio is less than or equal to 2.00:1.00. As of the date of this Annual Report on Form 10-K, \$108.7 million in junior restricted payments have been made since February 2, 2017.

(13) Employee Benefit Plan

In 2000, the Company established a 401(k) and Profit Sharing Plan. The Company may make matching contributions in an amount determined by the Board of Directors. In addition, the Company may contribute each period, at its discretion, an additional amount from profits. 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 \$357 thousand, \$354 thousand and \$324 thousand for fiscal years 2019, 2018 and 2017, respectively.

(14) Incentive and Stock Option Plans

Long-Term Equity Incentive Plans

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 non-employee directors, officers, key employees and other key individuals performing services for the Company. The restricted stock units are settled in shares upon vest. Initially, 2.4 million shares were authorized for issuance under the 2005 Equity Incentive Plan. 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, and restricted stock vests, 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 1.5 million shares. The Amended and Restated 2005 Equity Incentive Plan was adopted on October 26, 2012, and the number of shares authorized for issuance under the Amended and Restated 2005 Long-Term Equity Incentive Plan was increased by 2.0 million shares at the 2013 annual meeting of stockholders. On May 15, 2018, the Company's stockholders approved a new 2018 Omnibus Incentive Plan (the 2018 Equity Incentive Plan) which replaces the Amended and Restated 2005 Equity Incentive Plan which expired on May 30, 2018. The 2018 Equity Incentive Plan authorizes 2.5 million shares reserved for future grants. Awards that were previously awarded under the 2005 Equity Incentive Plan that are forfeited or cancelled in the future will be made available for grant or issuance under the 2018 Equity Incentive Plan. The 1,649,394 shares that were authorized but unissued under the 2005 Equity Incentive Plan as of May 15, 2018 were cancelled. As of December 29, 2019, there are 501,186 currently outstanding unvested restricted stock awards under the 2005 Equity Incentive Plan. Under the 2018 Equity Incentive Plan there are 421,236 shares of currently outstanding unvested restricted stock awards and units outstanding under the 2018 Equity Incentive Plan at December 29, 2019, and 2.3 million shares available for future grants.

During fiscal year 2017, the Company issued 251,512 awards of restricted stock awards to certain non-employee directors, employees and executive officers from available shares under the Amended and Restated 2005 Equity Incentive Plan. The shares were issued with a grant date fair market value equal to the closing price of the stock on the date of the grants. Of the 251,512 shares of restricted stock issued during 2017, 38,217 shares will vest in fiscal year 2018, 135,071 shares will vest in fiscal year 2019, 48,224 shares will vest in fiscal year 2020, and 10,000 shares will vest annually in fiscal years 2021, 2022 and 2023.

During fiscal year 2018, the Company issued 357,508 awards of restricted stock awards to certain non-employee directors, employees and executive officers from available shares under the Amended and Restated 2005 Equity Incentive Plan and the 2018 Plan. The shares were issued with a grant date fair market value equal to the closing price of the stock on the date of the grants. Of the 357,508 shares of restricted stock issued during 2018, 37,273 shares will vest in fiscal year 2019, 100,255 shares will vest in fiscal year 2020, 97,648 shares will vest in fiscal year 2021, 41,666 shares will vest in fiscal year 2022 and 80,666 shares will vest in fiscal year 2023.

During fiscal year 2019, the Company issued 274,453 awards of restricted stock awards to certain employees and executive officers and 22,824 awards of restricted stock units to non-employee directors from available shares under the 2018 Plan. The shares were issued with a grant date fair market value equal to the closing price of the stock on the date of the grants. Of the 297,277 shares of restricted stock issued during 2019, 55,834 shares will vest in fiscal year 2020, 152,189 shares will vest in fiscal year 2021, 66,544 shares will vest in 2022 and 22,710 will vest in fiscal year 2024.

The Company recorded \$8.2 million, \$7.6 million and \$6.8 million in total stock option and restricted stock compensation expense during fiscal years 2019, 2018, and 2017, respectively that was classified primarily as general and administrative costs. The Company recognized \$466 thousand, \$634 thousand and \$376 thousand in income tax benefit related to stock-based compensation plans during fiscal years 2019, 2018, and 2017, respectively.

A summary of the status of non-vested restricted stock as of December 29, 2019 and changes during fiscal year 2019 is presented below.

	2019	
	Shares	Weighted-Average Grant-Date Fair Value Per Share
Non-vested shares at beginning of year	1,078,571	\$ 20.44
Granted	297,457	24.42
Vested	(448,606)	17.56
Forfeited	(5,000)	19.73
Non-vested shares at end of year	<u>922,422</u>	<u>\$ 23.13</u>

As of December 29, 2019, there was \$12.6 million of total unrecognized compensation cost related to 922,422 shares of non-vested restricted stock. This cost is expected to be recognized over a weighted-average period of approximately 2.2 years. The total grant date fair value of restricted stock vested in fiscal years 2019, 2018, and 2017 was \$7.9 million, \$7.7 million and \$4.5 million, respectively.

The following table summarizes stock option activity for fiscal year 2019:

	2019			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000's)
Outstanding at beginning of year	5,073	\$ 3.07		
Granted	—	—		
Exercised	(5,073)	3.07		
Forfeited	—	—		
Outstanding at end of year	—	\$ —	—	\$ —
Options exercisable at year end	—	\$ —	—	\$ —

As of December 29, 2019, there was no unrecognized compensation cost related to non-vested stock options. The total intrinsic value of options exercised in fiscal years 2019, 2018, and 2017 was \$89 thousand, \$231 thousand and \$681 thousand, respectively.

During fiscal years 2019, 2018, and 2017, the Company received \$16 thousand, \$32 thousand and \$945 thousand, respectively, in cash related to the exercise of options. The exercise of shares were fulfilled from shares reserved for issuance under the Amended and Restated 2005 Equity Incentive Plan and resulted in an increase in issued shares outstanding.

(15) Income Taxes

Total income tax expense (benefit) for fiscal years 2019, 2018, and 2017 was (in thousands):

	2019	2018	2017
Income tax expense from continuing operations	\$ 8,173	\$ 8,247	\$ 15,669
Income tax expense (benefit) from discontinued operations	—	26	(68)
Total consolidated income tax expense	\$ 8,173	\$ 8,273	\$ 15,601

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

	Current	Deferred	Total
Year ended December 29, 2019			
U.S. Federal	\$ 4,350	\$ 563	\$ 4,913
State	2,685	274	2,959
Foreign	301	—	301
	\$ 7,336	\$ 837	\$ 8,173
Year ended December 30, 2018			
U.S. Federal	\$ 4,851	\$ 326	\$ 5,177
State	2,723	14	2,737
Foreign	333	—	333
	\$ 7,907	\$ 340	\$ 8,247
Year ended December 31, 2017			
U.S. Federal	\$ 8,431	\$ 4,557	\$ 12,988
State	1,916	422	2,338
Foreign	343	—	343
	\$ 10,690	\$ 4,979	\$ 15,669

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 (in thousands):

	2019	2018	2017
Income tax expense at statutory rates	\$ 10,580	\$ 10,468	\$ 16,070
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal benefit	2,317	1,886	1,316
Employment-related tax credits, net	(4,976)	(4,628)	(3,389)
Non-deductible executive compensation	1,023	1,234	729
Stock-based compensation	(392)	(542)	(349)
Impact of the 2017 Tax Act	—	(669)	1,086
Other	(379)	498	206
	<u>\$ 8,173</u>	<u>\$ 8,247</u>	<u>\$ 15,669</u>
Effective tax rate	16.2%	16.5%	34.1%

The Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on December 22, 2017. The 2017 Tax Act significantly revised existing U.S. tax law, and included many changes that impacted the Company, most notably a reduction of the statutory corporate tax rate from 35% to 21%. In accordance with FASB ASC 740, the Company remeasured its deferred tax assets and liabilities to reflect the reduced tax rates that will apply when these deferred items are realized or settled in future periods. During fiscal year 2018, we completed our analysis of the impact of the 2017 Tax Act which resulted in a tax benefit of \$669 thousand, and additional tax expense of \$1.1 million, for the fiscal periods ending December 30, 2018 and December 31, 2017, respectively.

The Employment-related tax credits line in the effective tax rate schedule above is comprised mainly of federal FICA tip credits which the Company utilizes to reduce its periodic federal income tax expense. A restaurant company employer may claim a credit against the company’s federal income taxes for FICA taxes paid on certain tip wages (the FICA tip credit). The credit against income tax liability is for the full amount of eligible FICA taxes. Employers cannot deduct from taxable income the amount of FICA taxes taken into account in determining the credit.

Income taxes applicable to discontinued operations are comprised of taxes calculated at the composite federal and state statutory tax rate times the pre-tax loss. A reconciliation of the U.S. statutory tax rate to the effective tax rate applicable to discontinued operations for fiscal years 2019, 2018 and 2017 follows (in thousands):

	2019	2018	2017
Income tax benefit at statutory rates	\$ —	\$ 22	\$ (62)
Increase (decrease) in income taxes resulting from:			
State income taxes at state statutory rate, net of federal impact	—	4	(6)
	<u>\$ —</u>	<u>\$ 26</u>	<u>\$ (68)</u>
Effective tax rate	N/A	24.6%	38.6%

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

	2019	2018
Deferred tax assets:		
Accounts payable and accrued expenses	\$ 9,171	\$ 8,835
Operating lease liabilities	60,473	—
Deferred rent	—	6,267
Net state operating loss carryforwards	3,598	3,674
Tax credit carryforwards	450	502
Other	60	128
Total gross deferred tax assets	73,752	19,406
Less valuation allowance	(1,926)	(1,897)
Net deferred tax assets	71,826	17,509
Deferred tax liabilities:		
Property and equipment	(1,590)	(539)
Intangible assets	(12,533)	(11,617)
Operating lease right of use assets	(52,774)	—
Total gross deferred tax liabilities	(66,897)	(12,156)
Net deferred tax assets	\$ 4,929	\$ 5,353

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 on this evaluation, management has recorded a valuation allowance against the Company's gross deferred tax assets of \$1.9 million as of December 29, 2019 and December 30, 2018 related to certain state net operating loss and state tax credit carryforwards that are not likely to be offset by future state taxable income. 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 the net deferred tax assets.

As of December 29, 2019, the Company has state net operating loss carry-forwards of \$69.2 million and state tax credit carry-forwards of \$569 thousand, which are available to offset state taxable income with the last of such benefit expiring in 2039.

As of December 29, 2019, the Company's gross unrecognized tax benefits totaled approximately \$283 thousand, of which \$224 thousand, 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.

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows (amounts in thousands):

Unrecognized tax benefits balance at December 30, 2018	\$ 607
Gross increases for tax positions of prior years	9
Reductions due to settlements with taxing authorities	(333)
Unrecognized tax benefits balance at December 29, 2019	\$ 283

The Company files consolidated and separate income tax returns in the United States Federal jurisdiction and many state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal or state and local income tax examinations for fiscal years before 2015.

(16) Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is calculated by dividing net income by the diluted weighted average shares of common stock outstanding during each period. Potentially dilutive securities include shares of non-vested stock awards. Diluted earnings per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an antidilutive effect. Stock awards are excluded from the calculation of diluted earnings per share in the event they are antidilutive.

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

	Fiscal Year		
	2019	2018	2017
Income from continuing operations	\$ 42,206	\$ 41,600	\$ 30,245
Income (loss) from discontinued operations, net of income taxes	—	80	(108)
Net income	<u>\$ 42,206</u>	<u>\$ 41,680</u>	<u>\$ 30,137</u>
Shares:			
Weighted average number of common shares outstanding - basic	28,998,382	29,659,461	30,346,999
Basic earnings (loss) per common share:			
Continuing operations	\$ 1.46	\$ 1.40	\$ 1.00
Discontinued operations	—	0.01	(0.01)
Basic earnings per common share	<u>\$ 1.46</u>	<u>\$ 1.41</u>	<u>\$ 0.99</u>

Diluted earnings (loss) per share for fiscal years 2019, 2018 and 2017 excludes 25,915 restricted shares with no exercise price, 9,591 restricted shares with no exercise price and 685 stock options and restricted shares at a weighted-average price of \$21.60, respectively, which were outstanding during the periods but were anti-dilutive.

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

	Fiscal Year		
	2019	2018	2017
Income from continuing operations	\$ 42,206	\$ 41,600	\$ 30,245
Income (loss) from discontinued operations, net of income taxes	—	80	(108)
Net income	<u>\$ 42,206</u>	<u>\$ 41,680</u>	<u>\$ 30,137</u>
Shares:			
Weighted average number of common shares outstanding - basic	28,998,382	29,659,461	30,346,999
Dilutive shares	378,598	614,380	569,365
Weighted average number of common shares outstanding - diluted	29,376,980	30,273,841	30,916,364
Diluted earnings (loss) per common share:			
Continuing operations	\$ 1.44	\$ 1.37	\$ 0.98
Discontinued operations	—	0.01	(0.01)
Diluted earnings per common share	<u>\$ 1.44</u>	<u>\$ 1.38</u>	<u>\$ 0.97</u>

(17) Segment Information

The Company has two reportable segments – the Company-owned steakhouse segment and the franchise operations segment. The Company does not rely on any major customers as a source of revenue.

The Company-owned Ruth's Chris Steak House restaurants, all of which are located in North America, operate within the full-service dining industry, providing similar products to similar customers. Revenues are derived principally from food and beverage sales. As of December 29, 2019, (i) the Company-owned steakhouse restaurant segment included 83 Ruth's Chris Steak House restaurants and three Ruth's Chris Steak House restaurants operating under a management agreement and (ii) the franchise operations segment included 73 franchisee-owned Ruth's Chris Steak House restaurants. Segment profits for the Company-owned steakhouse restaurant segments equal segment revenues less segment expenses. Segment revenues for the Company-owned steakhouse restaurants include restaurant sales, management agreement income and other restaurant income. Gift card breakage revenue is not allocated to operating segments. Not all operating expenses are allocated to operating segments. Segment expenses for the Company-owned steakhouse segment include food and beverage costs and restaurant operating expenses. No other operating costs are allocated to the segments for the purpose of determining segment profits because such costs are not directly related to the operation of individual restaurants. The accounting policies applicable to each segment are consistent with the policies used to prepare the consolidated financial statements. The profit of the franchise operations segment equals franchise income, which consists of franchise royalty fees and franchise opening fees. No costs are allocated to the franchise operations segment. Segment information related to the Company's two reportable business segments follows.

	Fiscal Year		
	2019	2018	2017
	(dollar amounts in thousands)		
Revenues:			
Company-owned steakhouse restaurants	\$ 446,257	\$ 431,536	\$ 394,359
Franchise operations	17,879	17,919	17,545
Unallocated other revenue and revenue discounts	3,890	2,879	2,919
Total revenues	\$ 468,026	\$ 452,334	\$ 414,823
Segment profits:			
Company-owned steakhouse restaurants	\$ 103,945	\$ 105,166	\$ 92,554
Franchise operations	17,879	17,919	17,545
Total segment profit	121,824	123,085	110,099
Unallocated operating income	3,890	2,879	2,919
Marketing and advertising expenses	(15,432)	(16,639)	(12,724)
General and administrative costs	(34,643)	(37,253)	(32,700)
Depreciation and amortization expenses	(21,354)	(18,538)	(14,995)
Pre-opening costs	(1,824)	(1,875)	(2,013)
Loss on impairment	—	—	(3,904)
Interest expense, net	(2,197)	(1,739)	(821)
Other income	115	(73)	53
Income from continuing operations before income tax expense	\$ 50,379	\$ 49,847	\$ 45,914
Capital expenditures:			
Company-owned steakhouse restaurants	\$ 30,026	\$ 29,433	\$ 20,363
Corporate assets	1,642	2,474	892
Total capital expenditures	\$ 31,668	\$ 31,907	\$ 21,255
	Fiscal Year		
	December 29, 2019	December 30, 2018	December 31, 2017
	(dollar amounts in thousands)		
Total assets:			
Company-owned steakhouse restaurants	\$ 471,756	\$ 233,446	\$ 223,354
Franchise operations	2,435	2,911	3,021
Corporate assets - unallocated	17,756	12,903	10,774
Deferred income taxes - unallocated	4,929	5,353	4,947
Total assets	\$ 496,876	\$ 254,613	\$ 242,096

(18) Supplemental Consolidated Financial Statement Information**(a) Accounts Receivable, net**

Accounts receivable, net consists of the following (amounts in thousands):

	December 29, 2019	December 30, 2018
Bank credit card receivables	\$ 7,669	\$ 7,223
Landlord contributions	3,565	531
Franchise fees	2,354	2,759
Trade	1,065	932
Receivable from gift card issuances	8,802	7,630
Other	555	723
Allowance for doubtful accounts	(241)	(322)
	<u>\$ 23,769</u>	<u>\$ 19,476</u>

(b) Other Assets

Other assets consist of the following (amounts in thousands):

	December 29, 2019	December 30, 2018
Deposits	\$ 497	\$ 348
Deferred financing costs, net	205	256
	<u>\$ 702</u>	<u>\$ 604</u>

(19) Quarterly Financial Data (Unaudited)

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

	Quarter Ended				Total
	March 31, 2019	June 30, 2019	September 29, 2019	December 29, 2019	
Total revenues	\$ 119,741	\$ 110,243	\$ 103,009	\$ 135,033	\$ 468,026
Cost and expenses	(102,898)	(98,597)	(97,438)	(116,633)	(415,565)
Operating income	16,843	11,646	5,571	18,400	52,461
Interest expense, net	(405)	(417)	(638)	(737)	(2,197)
Other	2	13	18	82	115
Income from continuing operations before income tax expense	16,440	11,242	4,951	17,745	50,379
Income tax expense	2,529	1,933	423	3,287	8,173
Income from continuing operations	13,911	9,309	4,528	14,458	42,206
Discontinued operations, net of income tax	-	-	-	-	-
Net income (loss)	<u>\$ 13,911</u>	<u>\$ 9,309</u>	<u>\$ 4,528</u>	<u>\$ 14,458</u>	<u>\$ 42,206</u>
Basic earnings per share:					
Continuing operations	\$ 0.48	\$ 0.32	\$ 0.16	\$ 0.51	\$ 1.46
Discontinued operations	—	—	—	—	—
Basic earnings per share	<u>\$ 0.48</u>	<u>\$ 0.32</u>	<u>\$ 0.16</u>	<u>\$ 0.51</u>	<u>\$ 1.46</u>
Diluted earnings per share:					
Continuing operations	\$ 0.47	\$ 0.31	\$ 0.16	\$ 0.50	\$ 1.44
Discontinued operations	—	—	—	—	—
Diluted earnings per share	<u>\$ 0.47</u>	<u>\$ 0.31</u>	<u>\$ 0.16</u>	<u>\$ 0.50</u>	<u>\$ 1.44</u>
Dividends declared per common share	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.52

	Quarter Ended				Total
	April 1, 2018	July 1, 2018	September 30, 2018	December 30, 2018	
Total revenues	\$ 116,526	\$ 109,635	\$ 99,015	\$ 127,159	\$ 452,334
Cost and expenses	(100,138)	(97,930)	(94,161)	(108,446)	(400,675)
Operating income	16,388	11,705	4,854	18,713	51,659
Interest expense, net	(380)	(403)	(470)	(486)	(1,739)
Other	12	22	(65)	(42)	(73)
Income from continuing operations before income tax expense	16,020	11,324	4,319	18,185	49,847
Income tax expense	2,384	1,763	727	3,375	8,247
Income from continuing operations	13,636	9,561	3,592	14,810	41,600
Discontinued operations, net of income tax	10	12	9	50	80
Net income	\$ 13,646	\$ 9,573	\$ 3,601	\$ 14,860	\$ 41,680
Basic earnings per share:					
Continuing operations	\$ 0.46	\$ 0.32	\$ 0.12	\$ 0.50	\$ 1.40
Discontinued operations	—	—	—	—	0.01
Basic earnings per share	\$ 0.46	\$ 0.32	\$ 0.12	\$ 0.50	\$ 1.41
Diluted earnings per share:					
Continuing operations	\$ 0.45	\$ 0.32	\$ 0.12	\$ 0.49	\$ 1.37
Discontinued operations	—	—	—	—	0.01
Diluted earnings per share	\$ 0.45	\$ 0.32	\$ 0.12	\$ 0.49	\$ 1.38
Dividends declared per common share	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.44

Consent of Independent Registered Public Accounting Firm

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

We consent to the incorporation by reference in the registration statements (No. 333-171485 and 333-160231) on Form S-3 and (No. 333-127681, 333-182845, 333-196836 and 333-225183) on Forms S-8 of Ruth's Hospitality Group, Inc. of our reports dated February 27, 2020 with respect to the consolidated balance sheets of Ruth's Hospitality Group, Inc. as of December 29, 2019 and December 30, 2018, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 29, 2019, and the related notes, and the effectiveness of internal control over financial reporting as of December 29, 2019, which reports appear in the December 29, 2019 annual report on Form 10-K/A of Ruth's Hospitality Group, Inc.

Our report on the consolidated financial statements contains an explanatory paragraph relating to the Company changing its methods of accounting for leases and revenue.

/s/ KPMG LLP

Orlando, Florida
March 2, 2020

**CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Cheryl J. Henry, certify that:

1. I have reviewed this annual report on Form 10-K of Ruth's Hospitality Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2020

By: _____
/s/ CHERYL J. HENRY
Cheryl J. Henry
President and Chief Executive Officer
of Ruth's Hospitality Group, Inc.

**CERTIFICATION PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report on Form 10-K of Ruth's Hospitality Group, Inc. (the "Company") for the year ended December 29, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Executive Vice President and Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 2, 2020

/s/ ARNE G. HAAK

Arne G. Haak
Executive Vice President and Chief Financial Officer of Ruth's Hospitality Group,
Inc.