

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018
OR

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

For the transition period from _____ to _____
Commission File Number 000-51485

Ruth's Hospitality Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

**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)

(407) 333-7440

Registrant's telephone number, including area code

None

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, if any, 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, smaller reporting company, or an emerging growth company. See the definitions of "accelerated filer," "large accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial 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 Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock as of October 26, 2018 was 30,809,350, which includes 1,078,571 shares of unvested restricted stock.

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,877	\$ 4,051
Accounts receivable, less allowance for doubtful accounts 2018 - \$371; 2017 - \$361	11,332	21,626
Inventory	7,989	8,688
Prepaid expenses and other	2,393	2,680
Total current assets	26,591	37,045
Property and equipment, net of accumulated depreciation 2018 - \$155,895; 2017 - \$144,373	120,813	112,212
Goodwill	36,522	36,522
Franchise rights, net of accumulated amortization 2018 - \$1,819; 2017 - \$396	45,399	46,822
Other intangibles, net of accumulated amortization 2018 - \$1,341; 2017 - \$1,181	4,915	3,904
Deferred income taxes	4,949	4,947
Other assets	582	644
Total assets	\$ 239,771	\$ 242,096
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 6,537	\$ 10,510
Accrued payroll	14,130	15,903
Accrued expenses	7,779	11,203
Deferred revenue	36,794	42,596
Other current liabilities	3,541	8,313
Total current liabilities	68,781	88,525
Long-term debt	54,000	50,000
Deferred rent	23,004	21,993
Unearned franchise fees	2,803	—
Other liabilities	1,897	2,074
Total liabilities	150,485	162,592
Commitments and contingencies (Note 11)	—	—
Common stock, par value \$.01 per share; 100,000,000 shares authorized, 29,730,779 shares issued and outstanding at September 30, 2018, 29,645,790 shares issued and outstanding at December 31, 2017		
	297	296
Additional paid-in capital	72,479	77,017
Retained earnings	16,510	2,191
Treasury stock, at cost; 71,950 shares at September 30, 2018 and December 31, 2017	—	—
Total shareholders' equity	89,286	79,504
Total liabilities and shareholders' equity	\$ 239,771	\$ 242,096

See accompanying notes to condensed consolidated financial statements.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income—Unaudited
(Amounts in thousands, except share and per share data)

	13 Weeks Ended		39 Weeks Ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Revenues:				
Restaurant sales	\$ 93,488	\$ 79,442	\$ 307,390	\$ 273,042
Franchise income	4,030	4,218	12,905	12,865
Other operating income	1,497	1,507	4,880	4,813
Total revenues	99,015	85,167	325,175	290,720
Costs and expenses:				
Food and beverage costs	26,440	25,319	86,894	82,012
Restaurant operating expenses	49,626	42,595	151,328	133,046
Marketing and advertising	3,813	3,197	11,930	9,056
General and administrative costs	8,809	7,096	27,056	23,267
Depreciation and amortization expenses	4,628	3,852	13,762	11,089
Pre-opening costs	845	121	1,258	1,473
Total costs and expenses	94,161	82,180	292,228	259,943
Operating income	4,854	2,987	32,947	30,777
Other income (expense):				
Interest expense, net	(470)	(197)	(1,253)	(521)
Other	(65)	(6)	(31)	33
Income from continuing operations before income tax expense	4,319	2,784	31,663	30,289
Income tax expense	727	1,017	4,873	9,632
Income from continuing operations	3,592	1,767	26,790	20,657
Income (loss) from discontinued operations, net of income taxes	9	(71)	30	(101)
Net income	\$ 3,601	\$ 1,696	\$ 26,820	\$ 20,556
Basic earnings (loss) per common share:				
Continuing operations	\$ 0.12	\$ 0.06	\$ 0.90	\$ 0.68
Discontinued operations	—	—	—	(0.01)
Basic earnings per share	\$ 0.12	\$ 0.06	\$ 0.90	\$ 0.67
Diluted earnings (loss) per common share:				
Continuing operations	\$ 0.12	\$ 0.06	\$ 0.88	\$ 0.67
Discontinued operations	—	(0.01)	—	(0.01)
Diluted earnings per share	\$ 0.12	\$ 0.05	\$ 0.88	\$ 0.66
Shares used in computing earnings per common share:				
Basic	29,720,472	30,348,180	29,708,055	30,490,554
Diluted	30,358,284	30,877,192	30,370,193	31,040,640
Cash dividends declared per common share	\$ 0.11	\$ 0.09	\$ 0.33	\$ 0.27

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock		Shareholders' Equity
	Shares	Value			Shares	Value	
Balance at December 31, 2017	29,646	\$ 296	\$ 77,017	\$ 2,191	72	\$ —	\$ 79,504
Net income	—	—	—	26,820	—	—	26,820
Cash dividends	—	—	—	(10,176)	—	—	(10,176)
Repurchase of common stock	(225)	(2)	(5,941)	—	—	—	(5,943)
Shares issued under stock compensation plan net of shares withheld for tax effects	309	3	(4,317)	—	—	—	(4,314)
Stock-based compensation	—	—	5,720	—	—	—	5,720
Cumulative effect of a change in accounting principle (Note 2)	—	—	—	(2,324)	—	—	(2,324)
Balance at September 30, 2018	<u>29,730</u>	<u>\$ 297</u>	<u>\$ 72,479</u>	<u>\$ 16,510</u>	<u>72</u>	<u>\$ —</u>	<u>\$ 89,286</u>
Balance at December 25, 2016	30,549	\$ 305	\$ 95,266	\$ (16,562)	72	\$ —	\$ 79,009
Net income	—	—	—	20,556	—	—	20,556
Cash dividends	—	—	—	(8,568)	—	—	(8,568)
Repurchase of common stock	(719)	(7)	(14,536)	—	—	—	(14,543)
Shares issued under stock compensation plan net of shares withheld for tax effects	263	3	(1,167)	—	—	—	(1,164)
Stock-based compensation	—	—	5,080	—	—	—	5,080
Balance at September 24, 2017	<u>30,093</u>	<u>\$ 301</u>	<u>\$ 84,643</u>	<u>\$ (4,575)</u>	<u>72</u>	<u>\$ —</u>	<u>\$ 80,369</u>

See accompanying notes to condensed consolidated financial statements.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows—Unaudited
(Amounts in thousands)

	39 Weeks Ended	
	September 30, 2018	September 24, 2017
Cash flows from operating activities:		
Net income	\$ 26,820	\$ 20,556
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,762	11,089
Deferred income taxes	744	4,472
Non-cash interest expense	62	97
Loss on the disposal of property and equipment, net	21	—
Debt issuance costs written-off	—	16
Amortization of below market lease	59	—
Stock-based compensation expense	5,720	5,080
Changes in operating assets and liabilities:		
Accounts receivable	10,295	11,002
Inventories	700	149
Prepaid expenses and other	287	217
Other assets	—	356
Accounts payable and accrued expenses	(9,797)	(6,064)
Deferred revenue	(6,070)	(10,671)
Deferred rent	834	493
Other liabilities	(2,895)	(1,702)
Net cash provided by operating activities	<u>40,542</u>	<u>35,090</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(22,113)	(14,326)
Acquisition of intangible assets	(1,171)	—
Net cash used in investing activities	<u>(23,284)</u>	<u>(14,326)</u>
Cash flows from financing activities:		
Principal borrowings on long-term debt	23,000	26,000
Principal repayments on long-term debt	(19,000)	(21,000)
Repurchase of common stock	(5,943)	(14,543)
Cash dividend payments	(10,176)	(8,568)
Tax payments from the vesting of restricted stock and option exercises	(4,342)	(2,079)
Proceeds from the exercise of stock options	29	913
Deferred financing costs	—	(413)
Net cash used in financing activities	<u>(16,432)</u>	<u>(19,690)</u>
Net increase in cash and cash equivalents	826	1,074
Cash and cash equivalents at beginning of period	4,051	3,788
Cash and cash equivalents at end of period	<u>\$ 4,877</u>	<u>\$ 4,862</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	\$ 1,204	\$ 405
Income taxes	\$ 6,730	\$ 6,539
Noncash investing and financing activities:		
Accrued acquisition of property and equipment	\$ 1,253	\$ 1,023

See accompanying notes to condensed consolidated financial statements.

RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements—Unaudited

(1) The Company and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Ruth's Hospitality Group, Inc. and its subsidiaries (collectively, the Company) as of September 30, 2018 and December 31, 2017 and for the thirteen and thirty-nine week periods ended September 30, 2018 and September 24, 2017 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The condensed consolidated financial statements include the financial statements of Ruth's Hospitality Group, Inc. and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Ruth's Hospitality Group, Inc. is a restaurant company focused on the upscale dining segment. Ruth's Hospitality Group, Inc. operates Company-owned Ruth's Chris Steak House restaurants and sells 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. As of September 30, 2018, there were 155 Ruth's Chris Steak House restaurants, including 78 Company-owned restaurants, two restaurants operating under contractual agreements and 75 franchisee-owned restaurants, including 20 international franchisee-owned restaurants in Aruba, Canada, China, Hong Kong, Indonesia, Japan, Mexico, Panama, Singapore and Taiwan. All Company-owned restaurants are located in the United States. A new Company-owned Ruth's Chris Steak House restaurant was opened in Jersey City, NJ in August 2018. Subsequent to the end of the quarter a franchisee-owned Ruth's Chris Steak House restaurant was closed in Panama City, Panama.

The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. The interim results of operations for the periods ended September 30, 2018 and September 24, 2017 are not necessarily indicative of the results that may be achieved for the full year. Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to the SEC's rules and regulations. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

The Company operates on a 52- or 53-week fiscal year ending on the last Sunday in December. The fiscal quarters ended September 30, 2018 and September 24, 2017 each contained thirteen weeks and are referred to herein as the third quarter of fiscal year 2018 and the third quarter of fiscal year 2017, respectively. Fiscal year 2018 is a 52-week year. Fiscal year 2017 was a 53-week year.

Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reporting of revenue and expenses during the periods to prepare these condensed consolidated financial statements in conformity with GAAP. Significant items subject to such estimates and assumptions include the carrying amounts of property and equipment, goodwill, franchise rights, and obligations related to gift cards, incentive compensation, workers' compensation and medical insurance. Actual results could differ from those estimates.

Recent Adopted Accounting Standard

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers, and replaces most existing revenue recognition guidance in GAAP. The Company adopted this new revenue recognition standard on January 1, 2018. See Note 2 for further information about our transition to this new revenue recognition standard.

Recent Accounting Pronouncements for Future Application

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update 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. This update is effective for annual and interim periods beginning after December 15, 2018, which will require the Company to adopt these provisions in the first quarter of fiscal year 2019. In July 2018, the FASB issued ASU 2018-11 which provides an alternative transition method that allows entities to apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This transition method option is in addition to the existing transition method of using a modified

retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating which transition method it will use. The Company's restaurants operate under facility lease agreements that provide for material future lease payments. The restaurant facility leases comprise the majority of the Company's material lease agreements. The Company is currently evaluating the effect of the standard on its ongoing financial reporting, but expects that the adoption of ASU 2016-02 will have a material effect on its consolidated financial statements. The Company expects that the most significant changes relate to 1) the recognition of new right-of-use assets and lease liabilities on the consolidated balance sheet for restaurant facility operating leases; and 2) the derecognition of existing lease liabilities on the consolidated balance sheet related to scheduled rent increases. The Company is implementing a new lease software program as a part of its adoption of ASU 2016-02.

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 2021. We do not believe the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

(2) Revenue

The Company adopted FASB Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers (Topic 606) with an initial date of application of January 1, 2018. As a result, the Company has 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 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 year 2018. The Company recognized \$1.1 million of advertising contributions from franchisees in the thirty-nine weeks of fiscal year 2018. Because of the offsetting adjustments, the reclassification of advertising contributions from franchisees will have no impact to the Company's net income for fiscal year 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 \$696 thousand in the first thirty-nine weeks of fiscal year 2018. Because of the offsetting adjustments, the reclassification of discounts recognized on the sale of gift cards will have no impact to the Company's net income for fiscal year 2018.

Impacts on Financial Statements

The following tables summarize the impacts of adopting Topic 606 on the Company's consolidated financial statements for the first thirty-nine weeks of fiscal year 2018.

	September 30, 2018	As Reported	Adjustments	Balances without adoption of Topic 606
Assets				
Current assets:				
Cash and cash equivalents	\$	4,877	\$ —	\$ 4,877
Accounts receivable, less allowance for doubtful accounts 2018 - \$371; 2017 - \$361		11,332	—	11,332
Inventory		7,989	—	7,989
Prepaid expenses and other		2,393	—	2,393
Total current assets		26,591	—	26,591
Property and equipment, net of accumulated depreciation 2018 - \$155,895; 2017 - \$144,373		120,813	—	120,813
Goodwill		36,522	—	36,522
Franchise rights, net of accumulated amortization 2018 - \$1,819; 2017 - \$396		45,399	—	45,399
Other intangibles, net of accumulated amortization 2018 - \$1,341; 2017 - \$1,181		4,915	—	4,915
Deferred income taxes		4,949	(718)	4,231
Other assets		582	—	582
Total assets	\$	239,771	\$ (718)	\$ 239,053
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable	\$	6,537	\$ —	\$ 6,537
Accrued payroll		14,130	—	14,130
Accrued expenses		7,779	—	7,779
Deferred revenue		36,794	(126)	36,668
Other current liabilities		3,541	—	3,541
Total current liabilities		68,781	(126)	68,655
Long-term debt		54,000	—	54,000
Deferred rent		23,004	—	23,004
Unearned franchise fees		2,803	(2,803)	—
Other liabilities		1,897	—	1,897
Total liabilities		150,485	(2,929)	147,556
Commitments and contingencies		—	—	—
Shareholders' equity:				
Common stock, par value \$.01 per share; 100,000,000 shares authorized, 29,730,779 shares issued and outstanding at September 30, 2018, 29,645,790 shares issued and outstanding at December 31, 2017		297	—	297
Additional paid-in capital		72,479	—	72,479
Retained earnings		16,510	2,211	18,721
Treasury stock, at cost; 71,950 shares at September 30, 2018 and December 31, 2017		—	—	—
Total shareholders' equity		89,286	2,211	91,497
Total liabilities and shareholders' equity	\$	239,771	\$ (718)	\$ 239,053

	13 Weeks Ended September 30, 2018			39 Weeks Ended September 30, 2018		
	As Reported	Adjustments	Balances without adoption of Topic 606	As Reported	Adjustments	Balances without adoption of Topic 606
Revenues:						
Restaurant sales	\$ 93,488	\$ 226 ⁽¹⁾	\$ 93,714	\$ 307,390	\$ 696 ⁽¹⁾	\$ 308,086
Franchise income	4,030	(415) ⁽²⁾	3,615	12,905	(1,265) ⁽²⁾	11,640
Other operating income	1,497	—	1,497	4,880	—	4,880
Total revenues	99,015	(189)	98,826	325,175	(569)	324,606
Costs and expenses:						
Food and beverage costs	26,440	—	26,440	86,894	—	86,894
Restaurant operating expenses	49,626	—	49,626	151,328	—	151,328
Marketing and advertising	3,813	(133) ⁽³⁾	3,680	11,930	(427) ⁽³⁾	11,503
General and administrative costs	8,809	—	8,809	27,056	—	27,056
Depreciation and amortization expenses	4,628	—	4,628	13,762	—	13,762
Pre-opening costs	845	—	845	1,258	—	1,258
Total costs and expenses	94,161	(133)	94,028	292,228	(427)	291,801
Operating income	4,854	(56)	4,798	32,947	(142)	32,805
Other income (expense):						
Interest expense, net	(470)	—	(470)	(1,253)	—	(1,253)
Other	(65)	—	(65)	(31)	—	(31)
Income from continuing operations before income tax expense	4,319	(56)	4,263	31,663	(142)	31,521
Income tax expense	727	(14) ⁽⁴⁾	713	4,873	(35) ⁽⁴⁾	4,838
Income from continuing operations	3,592	(42)	3,550	26,790	(107)	26,683
Income from discontinued operations, net of income taxes	9	—	9	30	—	30
Net income	\$ 3,601	\$ (42)	\$ 3,559	\$ 26,820	\$ (107)	\$ 26,713

- (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 \$226 thousand in the third quarter of fiscal year 2018 and \$696 thousand in the first thirty-nine weeks of fiscal year 2018.
- (2) In the third quarter of fiscal year 2018, the Company recognized \$359 thousand of advertising contributions from franchisees and \$56 thousand of franchise development and opening fees in excess of fees that would have been recognized had Topic 606 not been adopted. In the first thirty-nine weeks of fiscal year 2018, the Company recognized \$1.1 million of advertising contributions from franchisees and \$142 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 \$359 thousand of advertising contributions from franchisees in the third quarter of fiscal year 2018 and \$1.1 million and of advertising contributions from franchisees in the first thirty-nine weeks of 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 \$226 thousand in the third quarter of fiscal year 2018 and \$696 thousand in the first thirty-nine weeks of 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.

	39 Weeks		Adjustments	Balances without adoption of Topic 606
	Ended 2018	September 30, As Reported		
Cash flows from operating activities:				
Net income	\$	26,820	\$ (107)	\$ 26,713
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		13,762	—	13,762
Deferred income taxes		744	—	744
Non-cash interest expense		62	—	62
Loss on the disposal of property and equipment, net		21	—	21
Debt issuance costs written-off		—	—	—
Amortization of below market lease		59	—	59
Stock-based compensation expense		5,720	—	5,720
Changes in operating assets and liabilities:				
Accounts receivable		10,295	—	10,295
Inventories		700	—	700
Prepaid expenses and other		287	—	287
Other assets		—	—	—
Accounts payable and accrued expenses		(9,797)	—	(9,797)
Deferred revenue		(6,070)	142	(5,928)
Deferred rent		834	—	834
Other liabilities		(2,895)	(35)	(2,930)
Net cash provided by operating activities		<u>40,542</u>	<u>—</u>	<u>40,542</u>
Net cash used in investing activities		<u>(23,284)</u>	<u>—</u>	<u>(23,284)</u>
Net cash used in financing activities		<u>(16,432)</u>	<u>—</u>	<u>(16,432)</u>
Net increase in cash and cash equivalents	\$	<u>826</u>	<u>—</u>	<u>\$ 826</u>

Summary of Significant Revenue Policies

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 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).

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

13 Weeks Ended September 30, 2018:	Domestic	International	Total Revenue
Restaurant sales	\$ 93,488	\$ —	\$ 93,488
Franchise income	3,391	639	4,030
Other operating income	1,497	—	1,497
Total revenue	<u>\$ 98,376</u>	<u>\$ 639</u>	<u>\$ 99,015</u>

13 Weeks Ended September 24, 2017:	Domestic	International	Total Revenue
Restaurant sales	\$ 79,442	\$ —	\$ 79,442
Franchise income	3,534	684	4,218
Other operating income	1,507	—	1,507
Total revenue	<u>\$ 84,483</u>	<u>\$ 684</u>	<u>\$ 85,167</u>

39 Weeks Ended September 30, 2018:	Domestic	International	Total Revenue
Restaurant sales	\$ 307,390	\$ —	\$ 307,390
Franchise income	10,849	2,056	12,905
Other operating income	4,880	—	4,880
Total revenue	<u>\$ 323,119</u>	<u>\$ 2,056</u>	<u>\$ 325,175</u>

39 Weeks Ended September 24, 2017:	Domestic	International	Total Revenue
Restaurant sales	\$ 273,042	\$ —	\$ 273,042
Franchise income	10,737	2,128	12,865
Other operating income	4,813	—	4,813
Total revenue	<u>\$ 288,592</u>	<u>\$ 2,128</u>	<u>\$ 290,720</u>

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

	September 30, 2018	December 31, 2017
Accounts receivable, less allowance for doubtful accounts 2018 - \$371; 2017 - \$361	<u>\$ 10,736</u>	<u>\$ 21,130</u>
Deferred revenue	<u>\$ 36,794</u>	<u>\$ 42,596</u>
Unearned franchise fees	<u>\$ 2,803</u>	<u>\$ —</u>

Significant changes in the deferred revenue balance and the unearned franchise fees balance during the first thirty-nine weeks of fiscal year 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	(24,549)	—
Increases due to proceeds received, excluding amounts recognized during the period	18,709	—
Decreases due to recognition of franchise development and opening fees	—	(292)
Other	60	3
Balance at September 30, 2018	\$ 36,794	\$ 2,803

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

	Balance as of January 1, 2018	Fiscal Year 2018	Fiscal Year 2019	Fiscal Years 2020-2022	More Than 5 Years
Franchise development and opening fees	\$ 3,320	\$ 348	\$ 226	\$ 677	\$ 2,069

(3) Hawaii Acquisition

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 assets and liabilities of the Hawaiian Restaurants were recorded at their respective fair values as of the date of the acquisition. The fair values recorded for the assets of the Hawaiian Restaurants, including working capital, restaurant related fixed assets, leasehold improvements, franchise rights and goodwill, are based on preliminary valuations and are subject to adjustments as additional information is obtained. The Company is in the process of confirming the fair values using a combination of internal analysis and third party valuations. Once the process is complete, any adjustments to fair value of assets acquired or liabilities assumed may also result in adjustments to goodwill. The preliminary allocation of the purchase price did not change during the first thirty-nine weeks of fiscal year 2018.

Goodwill was measured as the excess of the consideration transferred over the net of the amounts assigned the identifiable assets acquired and the liabilities assumed as of the acquisition date. The goodwill for the Hawaiian Restaurants, 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. Reacquired franchise rights will be amortized over the remaining terms of the related franchise agreements, not including renewal options. Property and equipment will be depreciated over a period of three to twenty years.

As a result of the acquisition and related integration efforts, we incurred expenses of approximately \$1.3 million during the first thirty-nine weeks of fiscal year 2018, which are included in general and administrative expenses in the Company's consolidated statements of income.

(4) Long-term Debt

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

	September 30, 2018	December 31, 2017
Senior Credit Facility:		
Revolving credit facility	\$ 54,000	\$ 50,000
Less current maturities	—	—
	<u>\$ 54,000</u>	<u>\$ 50,000</u>

As of September 30, 2018, the Company had \$54.0 million of outstanding indebtedness under its senior credit facility with approximately \$31.8 million of borrowings available, net of outstanding letters of credit of approximately \$4.2 million. As of

September 30, 2018, the weighted average interest rate on the Company's outstanding debt was 3.7% and the weighted average interest rate on its outstanding letters of credit was 1.6%. In addition, the fee on the Company's senior credit facility was 0.2%.

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). The Credit Agreement provides for a revolving credit facility of \$90.0 million with a \$5.0 million subfacility for letters of credit and 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 the Company's 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 the Company's actual leverage ratio, ranging (a) from 1.50% to 2.25% above the applicable LIBOR rate or (b) at the Company's option, from 0.50% to 1.25% above the applicable base rate.

The 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 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 Credit Agreement and the lenders' commitments may be terminated. The obligations under the 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.

(5) Shareholders' Equity

In October 2017, our Board of Directors approved a share repurchase program authorizing the Company to repurchase up to \$60 million of outstanding common stock from time to time. The share repurchase program replaced the previous share repurchase program announced in April 2016, which was terminated. During the first thirty-nine weeks of fiscal year 2018, 224,605 shares were repurchased at an aggregate cost of \$5.9 million, or an average cost of \$26.46 per share. As of September 30, 2018, \$44.7 million remained available for future purchases under the share repurchase program.

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

	Declaration Date	Dividend per Share	Record Date	Total Amount	Payment Date
Fiscal Year 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
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

Subsequent to the end of the third quarter of fiscal year 2018, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.11 per common and restricted share, or approximately \$3.4 million in the aggregate based on the number of shares currently outstanding, payable on November 29, 2018 to stockholders of record as of the close of business on November 15, 2018.

Outstanding unvested restricted stock is not included in common stock outstanding amounts. Restricted stock outstanding as of September 30, 2018 aggregated 1,076,906 shares.

(6) Fair Value Measurements

The carrying amounts of cash and cash equivalents, receivables, prepaid expenses, accounts payable and accrued expenses and other current liabilities are reasonable estimates of their fair values due to their short duration. Borrowings classified as long-term debt as of

September 30, 2018 and December 31, 2017 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 September 30, 2018. The Company's non-financial assets measured at fair value on a non-recurring basis as of December 31, 2017 were as follows:

	<u>Fair Value as of December 31, 2017</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Losses on Impairment</u>
Long-lived assets held for sale	\$ —	\$ —	\$ —	\$ 3,904

(7) 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 September 30, 2018, (i) the Company-owned steakhouse restaurant segment included 78 Ruth's Chris Steak House restaurants and two Ruth's Chris Steak House restaurants operating under contractual agreements and (ii) the franchise operations segment included 75 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 Company-owned steakhouse segment 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 (in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Revenues:				
Company-owned steakhouse restaurants	\$ 94,481	\$ 80,390	\$ 310,181	\$ 275,732
Franchise operations	4,030	4,218	12,905	12,865
Unallocated other revenue and revenue discounts	504	559	2,089	2,123
Total revenues	\$ 99,015	\$ 85,167	\$ 325,175	\$ 290,720
Segment profits:				
Company-owned steakhouse restaurants	\$ 18,415	\$ 12,476	\$ 71,959	\$ 60,674
Franchise operations	4,030	4,218	12,905	12,865
Total segment profit	22,445	16,694	84,864	73,539
Unallocated operating income	504	559	2,089	2,123
Marketing and advertising expenses	(3,813)	(3,197)	(11,930)	(9,056)
General and administrative costs	(8,809)	(7,096)	(27,056)	(23,267)
Depreciation and amortization expenses	(4,628)	(3,852)	(13,762)	(11,089)
Pre-opening costs	(845)	(121)	(1,258)	(1,473)
Interest expense, net	(470)	(197)	(1,253)	(521)
Other income	(65)	(6)	(31)	33
Income from continuing operations before income tax expense	\$ 4,319	\$ 2,784	\$ 31,663	\$ 30,289
Capital expenditures:				
Company-owned steakhouse restaurants	\$ 9,574	\$ 3,600	\$ 20,615	\$ 13,592
Corporate assets	650	77	1,498	734
Total capital expenditures	\$ 10,224	\$ 3,677	\$ 22,113	\$ 14,326

	September 30, 2018	December 31, 2017
Total assets:		
Company-owned steakhouse restaurants	\$ 229,285	\$ 223,354
Franchise operations	2,178	3,021
Corporate assets - unallocated	3,359	10,774
Deferred income taxes - unallocated	4,949	4,947
Total assets	\$ 239,771	\$ 242,096

(8) Stock-Based Employee Compensation

On May 15, 2018, the Company's stockholders approved a new 2018 Omnibus Incentive Plan ("2018 Plan") which replaces the Amended and Restated 2005 Equity Incentive Plan ("2005 Plan"), which expired on May 30, 2018. The 2018 Plan authorizes 2.5 million shares reserved for future grants. Awards that were previously awarded under the 2005 Plan that are forfeited or cancelled in the future will be made available for grant or issuance under the 2018 Plan. The 1,649,394 shares that were authorized but unissued under the 2005 Plan as of May 15, 2018 were cancelled. As of September 30, 2018, there were 7,465 shares of common stock issuable upon exercise of currently outstanding options, and 947,906 currently outstanding unvested restricted stock awards under the 2005 Plan. As of September 30, 2018, the 2018 Plan has 2,464,826 shares available for future grants. During the first thirty-nine weeks of fiscal year 2018, the Company issued 355,843 restricted stock awards to directors, officers and other employees of the Company. Of the 355,843 restricted stock awards issued during the first thirty-nine weeks of fiscal year 2018, 36,718 shares will vest in fiscal year 2019, 99,700 shares will vest in fiscal year 2020, 97,093 shares will vest in fiscal year 2021, 41,666 will vest in 2022 and 80,666 will vest in 2023. Total stock compensation expense recognized during the first thirty-nine weeks of fiscal years 2018 and 2017 was \$5.7 million and \$5.1 million, respectively.

(9) Income Taxes

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:

	39 Weeks Ended	
	September 30, 2018	September 24, 2017
Income tax expense at statutory rates	21.0%	35.0%
Increase (decrease) in income taxes resulting from:		
State income taxes, net of federal benefit	3.6%	3.0%
Federal employment tax credits	(9.6%)	(7.0%)
Other	0.4%	0.8%
Effective tax rate	<u>15.4%</u>	<u>31.8%</u>

The Tax Cuts and Jobs Act (the "2017 Tax Act"), signed into law on December 22, 2017, significantly revised several aspects of U.S. tax law. Effective January 1, 2018, the 2017 Tax Act reduced the statutory corporate tax rate from 35% to 21%. The reduction in the statutory corporate tax rate is the principal driver for the decrease to the Company's continuing operations quarterly effective tax rate illustrated above.

The Company utilizes the federal FICA tip credit 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.

The Company files consolidated and separate income tax returns in the United States federal jurisdiction and many state jurisdictions, respectively. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations for years before 2013.

(10) Earnings Per Share

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

	13 Weeks Ended		39 Weeks Ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Income from continuing operations	\$ 3,592	\$ 1,767	\$ 26,790	\$ 20,657
Income (loss) from discontinued operations, net of income taxes	9	(71)	30	(101)
Net income	<u>\$ 3,601</u>	<u>\$ 1,696</u>	<u>\$ 26,820</u>	<u>\$ 20,556</u>
Shares:				
Weighted average number of common shares outstanding - basic	29,720,472	30,348,180	29,708,055	30,490,554
Weighted average number of common shares outstanding - diluted	30,358,284	30,877,192	30,370,193	31,040,640
Basic earnings (loss) per common share:				
Continuing operations	\$ 0.12	\$ 0.06	\$ 0.90	\$ 0.68
Discontinued operations	—	—	—	(0.01)
Basic earnings per common share	<u>\$ 0.12</u>	<u>\$ 0.06</u>	<u>\$ 0.90</u>	<u>\$ 0.67</u>
Diluted earnings (loss) per common share:				
Continuing operations	\$ 0.12	\$ 0.06	\$ 0.88	\$ 0.67
Discontinued operations	—	(0.01)	—	(0.01)
Diluted earnings per common share	<u>\$ 0.12</u>	<u>\$ 0.05</u>	<u>\$ 0.88</u>	<u>\$ 0.66</u>

There were no anti-dilutive shares in the third quarters of fiscal year 2018 and 2017. Diluted earnings per share for the first thirty-nine weeks of fiscal year 2018 and 2017 excludes restricted shares of 727 and 857, respectively, which were outstanding during the period but were anti-dilutive and had a weighted average exercise price of \$0 and \$21.60 per share, respectively.

(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 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.

The Company sold eighteen Mitchell's Fish Markets and three Mitchell's/Cameron's Steakhouse restaurants (Mitchell's Restaurants) on January 21, 2015 to Landry's Inc. and Mitchell's Entertainment, Inc., an affiliate of Landry's Inc. (together with Landry's Inc., Landry's). The Company guaranteed Landry's lease obligations aggregating \$27.9 million under seven of the Mitchell's Restaurant's leases. 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. Landry's also indemnified the Company in the event of a default under any of the leases.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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, and the impact of healthcare inflation, recent accounting pronouncements and tax reform legislation, 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; 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 inability to successfully integrate the Hawaiian Restaurants into the Company's business operations; 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 the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which is available on the SEC’s website at www.sec.gov. All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update this Quarterly Report on Form 10-Q to reflect events or circumstances after the date hereof. You should not assume that material events subsequent to the date of this Quarterly Report on Form 10-Q 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.

Overview

Ruth’s Hospitality Group, Inc. is a restaurant company focused on the upscale dining segment. Ruth’s Hospitality Group, Inc. operates Company-owned Ruth’s Chris Steak House restaurants and sells 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. As of September 30, 2018, there were 155 Ruth’s Chris Steak House restaurants, including 78 Company-owned restaurants, two restaurants operating under contractual agreements and 75 franchisee-owned restaurants. A new Company-owned Ruth’s Chris Steak House restaurant was opened in Jersey City, NJ in August 2018. Subsequent to the end of the third quarter 2018 a franchisee-owned Ruth’s Chris Steak House restaurant was closed in Panama City, Panama.

The Ruth’s Chris menu features a broad selection of USDA Prime- and other high quality 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 over 50 years committed 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.

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 20 international franchisee-owned restaurants in Aruba, Canada, China, Hong Kong, Indonesia, Japan, Mexico, Panama, Singapore and Taiwan.

Our business is subject to seasonal fluctuations. Historically, our first and fourth quarters have tended to be the strongest revenue quarters due largely to the year-end holiday season and the popularity of dining out during the fall and winter months. Consequently, 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.

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 provides additional information about our business, operations and financial condition.

Results of Operations

The table below sets forth certain operating data expressed as a percentage of total revenues for the periods indicated, except as otherwise noted. Our historical results are not necessarily indicative of the operating results that may be expected in the future.

	13 Weeks Ended		39 Weeks Ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Revenues:				
Restaurant sales	94.4%	93.2%	94.5%	93.9%
Franchise income	4.1%	5.0%	4.0%	4.4%
Other operating income	1.5%	1.8%	1.5%	1.7%
Total revenues	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Food and beverage costs (percentage of restaurant sales)	28.3%	31.9%	28.3%	30.0%
Restaurant operating expenses (percentage of restaurant sales)	53.1%	53.6%	49.2%	48.7%
Marketing and advertising	3.9%	3.8%	3.7%	3.1%
General and administrative costs	8.9%	8.3%	8.3%	8.0%
Depreciation and amortization expenses	4.7%	4.5%	4.2%	3.8%
Pre-opening costs	0.9%	0.1%	0.4%	0.5%
Total costs and expenses	95.1%	96.5%	89.9%	89.4%
Operating income	4.9%	3.5%	10.1%	10.6%
Other income (expense):				
Interest expense, net	(0.5%)	(0.2%)	(0.4%)	(0.2%)
Other	(0.1%)	—	—	—
Income from continuing operations before income tax expense	4.3%	3.3%	9.7%	10.4%
Income tax expense	0.7%	1.2%	1.5%	3.3%
Income from continuing operations	3.6%	2.1%	8.2%	7.1%
Loss from discontinued operations, net of income taxes	—	(0.1%)	—	—
Net income	3.6%	2.0%	8.2%	7.1%

Third Quarter Ended September 30, 2018 (13 Weeks) Compared to Third Quarter Ended September 24, 2017 (13 Weeks)

Overview. Operating income increased by \$1.9 million, or 62.5%, to \$4.9 million for the third quarter of fiscal year 2018 from the third quarter of fiscal year 2017. Operating income for the third quarter of fiscal year 2018 was favorably impacted by a \$14.0 million increase in restaurant sales partially offset by a \$7.0 million increase in restaurant operating expenses, a \$1.7 million increase in general and administrative costs, a \$1.1 million increase in food and beverage costs, a \$776 thousand increase in depreciation and amortization, a \$724 thousand increase in pre-opening expenses and a \$616 thousand increase in marketing and advertising expenses. Income from continuing operations increased from the third quarter of fiscal year 2017 by \$1.8 million to \$3.6 million. Net income increased from the third quarter of fiscal year 2017 by \$1.9 million to \$3.6 million.

Segment Profits. Segment profitability information is presented in Note 7 to the condensed consolidated financial statements. Not all operating expenses are allocated to operating segments. The Ruth's Chris Steak House Company-owned restaurants, which are all located in the United States, are managed as an operating segment. The Ruth's Chris concept operates within the full-service dining industry, providing similar products to similar customers. The franchise operations are reported as a separate operating segment. Segment profits for the third quarter of fiscal year 2018 for the Company-owned steakhouse restaurant segment increased by \$5.9 million to \$18.4 million from the third quarter of fiscal year 2017. The increase was driven primarily by a \$14.1 million increase in restaurant sales offset by a \$7.0 million increase in restaurant operating expenses and a \$1.1 million increase in food and beverage costs. Franchise income decreased \$188 thousand in the third quarter of fiscal year 2018 compared to the third quarter of fiscal year 2017.

Restaurant Sales. Restaurant sales increased by \$14.0 million, or 17.7%, to \$93.5 million in the third quarter of fiscal year 2018 from the third quarter of fiscal year 2017. The increase was driven by a \$10.5 million increase in restaurant sales from new restaurants,

including the acquired Hawaii Restaurants, and a 3.7% increase in Company-owned comparable restaurant sales which consisted of an average check increase of 2.1% and a traffic increase of 1.5%. During the third quarter of 2017 Hurricanes Harvey and Irma negatively impacted Company-owned comparable restaurant sales by approximately 150 to 200 basis points, driven by 64 lost operating days.

Franchise Income. Franchise income in the third quarter of fiscal year 2018 decreased \$188 thousand compared to the third quarter of fiscal year 2017. The acquisition of the Hawaii Restaurants decreased sales based royalty income by \$445 thousand. This was offset by the reclassification of franchisee advertising fees of \$359 thousand from marketing and advertising expense to franchise income in accordance with Topic 606.

Other Operating Income. Other operating income remained consistent in the third quarter of fiscal year 2018 compared to the third quarter of fiscal year 2017.

Food and Beverage Costs. Food and beverage costs increased \$1.1 million in the third quarter of fiscal year 2018 compared to the third quarter of fiscal year 2017. As a percentage of restaurant sales, food and beverage costs decreased to 28.3% in the third quarter of fiscal year 2018 from 31.9% in the third quarter of fiscal year 2017. The decrease in food and beverage costs as a percentage of restaurant sales was primarily due to a 20.5% decrease in total beef costs as well as an increase in average check of 2.1%.

Restaurant Operating Expenses. Restaurant operating expenses increased \$7.0 million, or 16.5%, to \$49.6 million in the third quarter of fiscal year 2018 from the third quarter of fiscal year 2017. Restaurant operating expenses, as a percentage of restaurant sales, decreased to 53.0% in the third quarter of fiscal year 2018 from 53.6% in the third quarter of fiscal year 2017. The decrease in restaurant operating expenses as a percentage of restaurant sales was primarily due to impact of health care claims as well as an increase in average check of 2.1%.

Marketing and Advertising. Marketing and advertising expenses increased \$616 thousand to \$3.8 million in the third quarter of fiscal year 2018 from the third quarter of fiscal year 2017. The increase in marketing and advertising expenses in the third quarter of fiscal year 2018 was primarily attributable to the reclassification of \$416 thousand in certain corporate marketing support costs that have been historically charged to general and administrative costs and the reclassification of \$359 thousand of marketing and advertising contributions to franchise income.

General and Administrative Costs. General and administrative costs increased \$1.7 million to \$8.8 million in the third quarter of fiscal year 2018 from the third quarter of fiscal year 2017. The increase in general and administrative costs was primarily attributable to \$1.4 million increase in incentive based compensation costs and \$336 thousand in Hawaii Restaurants acquisition and integration costs.

Depreciation and Amortization Expenses. Depreciation and amortization expense increased \$776 thousand to \$4.6 million in the third quarter of fiscal year 2018 from the third quarter of fiscal year 2017 primarily due to depreciation on new restaurant and remodel assets placed in service within the last twelve months including \$700 thousand of depreciation and amortization related to the Hawaii Restaurants.

Pre-opening Costs. Pre-opening costs were \$845 thousand in the third quarter of fiscal year 2018 primarily due to the planned openings of Ruth's Chris Steak House Restaurants in Jersey City, NJ, which opened in August 2018, and Paramus, NJ, which is expected to open in the fourth quarter of 2018. Pre-opening costs were \$121 thousand in the third quarter of fiscal year 2017, primarily due to the opening of a Ruth's Chris Steak House Restaurant in Denver, CO, which opened in the fourth quarter of fiscal year 2017.

Interest Expense. Interest expense increased \$273 thousand to \$470 thousand in the third quarter of fiscal year 2018 from the third quarter of fiscal year 2017, primarily due to higher average debt balances during the third quarter of fiscal year 2018 compared to the third quarter of 2017.

Other Income and Expense. During the third quarter of fiscal year 2018, we recognized other expense of \$65 thousand. During the third quarter of fiscal year 2017 we recognized other expense of \$6 thousand.

Income Tax Expense. During the third quarter of fiscal year 2018, we recognized income tax expense of \$727 thousand. During the third quarter of fiscal year 2017, we recognized income tax expense of \$1.0 million. The effective tax rate, including the impact of discrete items, decreased to 16.8% for the third quarter of fiscal year 2018 compared to 36.5% for the third quarter of fiscal year 2017. The effective tax rate decreased in the third quarter of fiscal year 2018 primarily due to 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%. Fiscal year 2018 discrete items and other unexpected changes impacting the annual tax expense may cause the effective tax rate for fiscal year 2018 to differ from the effective tax rate for the third quarter of fiscal year 2018.

Income from Continuing Operations. Income from continuing operations of \$3.6 million in the third quarter of fiscal year 2018 increased by \$1.8 million compared to the third quarter of fiscal year 2017 due to the factors noted above.

Income or Loss from Discontinued Operations, net of income taxes. Income from discontinued operations, net of income taxes, for the third quarter of fiscal year 2018 was \$9 thousand compared to expense of \$71 thousand during the third quarter of fiscal year 2017.

Net Income. Net income was \$3.6 million in the third quarter of fiscal year 2018 and increased by \$1.9 million compared to \$1.7 million in the third quarter of fiscal year 2017. The increase was largely attributable to the factors noted above.

Thirty-nine Weeks Ended September 30, 2018 Compared to Thirty-nine Weeks Ended September 24, 2017

Overview. Operating income increased by \$2.2 million, or 7.1%, to \$32.9 million for the first thirty-nine weeks of fiscal year 2018 from the first thirty-nine weeks of fiscal year 2017. Operating income for the first thirty-nine weeks of fiscal year 2018 was favorably impacted by a \$34.3 million increase in restaurant sales and a \$215 thousand decrease in pre-opening expenses, partially offset by a \$18.3 million increase in restaurant operating expenses, a \$4.9 million increase in food and beverage costs, a \$3.8 million increase in general and administrative expenses, a \$2.9 million increase in marketing and advertising, and a \$2.7 million increase in depreciation and amortization. Income from continuing operations increased from the first thirty-nine weeks of fiscal year 2017 by \$6.1 million to \$26.8 million, due to the factors noted above and a 164 basis point decrease in the effective income tax rate. Net income for the first thirty-nine weeks of fiscal year 2018 increased from the first thirty-nine weeks of fiscal year 2017 by \$6.3 million to \$26.9 million.

Segment Profits. Segment profitability information is presented in Note 7 to the condensed consolidated financial statements. Not all operating expenses are allocated to operating segments. The Ruth's Chris Steak House Company-owned restaurants, which are all located in the United States, are managed as an operating segment. The Ruth's Chris concept operates within the full-service dining industry, providing similar products to similar customers. The franchise operations are reported as a separate operating segment. Segment profits for the first thirty-nine weeks of fiscal year 2018 for the Company-owned steakhouse restaurant segment increased by \$11.3 million to \$72.0 million from the first thirty-nine weeks of fiscal year 2017. The increase was driven primarily by a \$34.4 million increase in restaurant sales, partially offset by a \$18.3 million increase in restaurant operating expenses and a \$4.9 million increase in food and beverage costs. Franchise income increased \$40 thousand in the first thirty-nine weeks of fiscal year 2018 compared to the first thirty-nine weeks of fiscal year 2017.

Restaurant Sales. Restaurant sales increased by \$34.3 million, or 12.6%, to \$307.4 million in the first thirty-nine weeks of fiscal year 2018 from the first thirty-nine weeks of fiscal year 2017. The increase was attributable to a \$32.7 million increase in restaurant sales at new restaurants and an increase in Company-owned comparable restaurant sales of \$2.6 million. Excluding discontinued operations, total operating weeks during the first thirty-nine weeks of fiscal year 2018 increased to 3,008 from 2,715 in the first thirty-nine weeks of fiscal year 2017. Fiscal year 2018, which began one week later than fiscal year 2017, does not include restaurant sales from the last week of December 2017. As a result, restaurant sales in the first thirty-nine weeks of fiscal year 2018 were negatively impacted by approximately \$3.0 million, and annual comparable sales were negatively impacted by approximately 160 basis points. Adjusting for the timing of this calendar shift, Company-owned comparable restaurant sales increased 1.9%, driven by an average check increase of 1.5%.

Franchise Income. Franchise income increased \$40 thousand in the first thirty-nine weeks of fiscal year 2018 compared to the first thirty-nine weeks of fiscal year 2017. The acquisition of the Hawaii Restaurants decreased sales based royalty income by \$1.3 million. This was offset by the reclassification of franchisee advertising fees of \$1.1 million from marketing and advertising expense to franchise income and the recognition of \$236 thousand in franchise development and site specific fees in accordance with Topic 606.

Other Operating Income. Other operating income increased \$67 thousand in the first thirty-nine weeks of fiscal year 2018 compared to the first thirty-nine weeks of fiscal year 2017. The increase in other operating income was primarily due to an increase in income from restaurants operated under contractual agreements.

Food and Beverage Costs. Food and beverage costs increased \$4.9 million in the first thirty-nine weeks of fiscal year 2018 compared to the first thirty-nine weeks of fiscal year 2017. As a percentage of restaurant sales, food and beverage costs decreased to 28.3% in the first thirty-nine weeks of fiscal year 2018 from 30.0% in the first thirty-nine weeks of fiscal year 2017. The decrease in food and beverage costs as a percentage of restaurant sales was primarily due to decreases in beef costs as well as an increase in average check.

Restaurant Operating Expenses. Restaurant operating expenses increased \$18.3 million, or 13.7%, to \$151.3 million in the first thirty-nine weeks of fiscal year 2018 from the first thirty-nine weeks of fiscal year 2017. Restaurant operating expenses, as a percentage of restaurant sales, increased to 49.2% in the first thirty-nine weeks of fiscal year 2018 from 48.7% in the first thirty-nine weeks of fiscal year 2017. The increase in restaurant operating expenses as a percentage of restaurant sales was primarily attributable to an increase in occupancy costs.

Marketing and Advertising. Marketing and advertising expenses increased \$2.9 million to \$11.9 million in the first thirty-nine weeks of fiscal year 2018 from the first thirty-nine weeks of fiscal year 2017. The increase in marketing and advertising expenses in the first thirty-nine weeks of fiscal year 2018 was primarily attributable to a planned increase in advertising spending in addition to the reclassification of \$1.3 million in certain corporate marketing support costs that have been historically charged to general and administrative costs and the reclassification of \$1.1 million of marketing and advertising contributions to franchise income.

General and Administrative Costs. General and administrative costs increased \$3.8 million to \$27.1 million in the first thirty-nine weeks of fiscal year 2018 from the first thirty-nine weeks of fiscal year 2017. The increase in general and administrative costs was primarily attributable to \$3.0 million in compensation costs, \$1.0 million in professional fees, \$1.2 million in Hawaii Restaurants acquisition and integration costs partially offset by a \$1.3 million reduction in certain corporate marketing support costs that were reclassified to marketing and advertising.

Depreciation and Amortization Expenses. Depreciation and amortization expense increased \$2.7 million to \$13.8 million in the first thirty-nine weeks of fiscal year 2018 from the first thirty-nine weeks of fiscal year 2017 primarily due to depreciation on new restaurant and remodel assets placed in service within the last twelve months including \$2.0 million of depreciation and amortization related to the Hawaii Restaurants acquisition.

Pre-opening Costs. Pre-opening costs were \$1.3 million in the first thirty-nine weeks of fiscal year 2018 primarily due to the opening of the Ruth's Chris Steak House Restaurant in Jersey City, NJ in August 2018 and the anticipated opening of the Ruth's Chris Steak House Restaurant in Paramus, NJ. Pre-opening costs were \$1.5 million in the first thirty-nine weeks of fiscal year 2017 primarily due to the openings of three new Company-owned restaurants in Waltham, MA and Cleveland, OH, which opened in the first quarter of 2017 and Denver, CO, which opened in December 2017.

Interest Expense. Interest expense increased \$732 thousand to \$1.3 million in the first thirty-nine weeks of fiscal year 2018 from the first thirty-nine weeks of fiscal year 2017 primarily due to higher than average debt balances during the first thirty-nine weeks of fiscal year 2018 compared to the first thirty-nine weeks of fiscal year 2017.

Other Income and Expense. During the first thirty-nine weeks of fiscal year 2018, we recognized other expense of \$31 thousand. During the first thirty-nine weeks of fiscal year 2017 we recognized \$33 thousand of other income.

Income Tax Expense. During the first thirty-nine weeks of fiscal year 2018, we recognized income tax expense of \$4.9 million. During the first thirty-nine weeks of fiscal year 2017, we recognized income tax expense of \$9.6 million. The effective tax rate, including the impact of discrete items, decreased to 15.4% for the first thirty-nine weeks of fiscal year 2018 compared to 31.8% for the first thirty-nine weeks of fiscal year 2017. The effective tax rate decreased in the first thirty-nine weeks of fiscal year 2018 primarily due to 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%. Fiscal year 2018 discrete items and other unexpected changes impacting the annual tax expense may cause the effective tax rate for fiscal year 2018 to differ from the effective tax rate for the third quarter of fiscal year 2018.

Income (loss) from Continuing Operations. Income from continuing operations of \$26.8 million in the first thirty-nine weeks of fiscal year 2018 increased by \$6.1 million compared to the first thirty-nine weeks of fiscal year 2017 due to the factors noted above.

Loss from Discontinued Operations, net of income taxes. Income from discontinued operations, net of income taxes, for the first thirty-nine weeks of fiscal year 2018 was \$30 thousand compared to a loss of \$101 thousand during the first thirty-nine weeks of fiscal year 2017.

Net Income. Net income was \$26.8 million in the first thirty-nine weeks of fiscal year 2018 and increased by \$6.3 million compared to \$20.6 million in the first thirty-nine weeks of fiscal year 2017. The increase was largely attributable to the factors noted above.

Liquidity and Capital Resources

Overview

Our principal sources of cash have been historically provided by our operating activities as well as periodic borrowings from our senior credit facility. During the first thirty-nine weeks of 2018 our principal uses of cash flow from operations were capital expenditures, dividend payments and the repurchase of common stock. 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 2017, our Board of Directors approved a new share repurchase program authorizing us to repurchase up to \$60 million of outstanding common stock from time to time. The new share repurchase program replaced the previous share repurchase program

announced in April 2016, which was terminated. During the first thirty-nine weeks of fiscal year 2018, the Company repurchased 224,605 shares at an aggregate cost of \$5.9 million or an average cost of \$26.46 per share. All repurchased shares were retired and cancelled. As of September 30, 2018, \$44.7 million remained available for future repurchases 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 \$0.11 per share, or \$3.4 million in the aggregate, during the third quarter of fiscal year 2018. On November 2, 2018, we announced that our Board of Directors declared a quarterly cash dividend of \$0.11 per share, or \$3.4 million in the aggregate, to be paid on November 29, 2018 to common and restricted stockholders of record as of the close of business on November 15, 2018. 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 for the next 12 months.

Senior Credit Facility

As of September 30, 2018, we had \$54.0 million of outstanding indebtedness under our senior credit facility with approximately \$31.8 million of availability, net of outstanding letters of credit of approximately \$4.2 million. As of September 30, 2018, the weighted average interest rate on our outstanding debt was 3.7% and the weighted average interest rate on our outstanding letters of credit was 1.6%. In addition, the fee on the unused portion of our senior credit facility was 0.2%.

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 our prior credit facility. The Credit Agreement provides for a revolving credit facility of \$90.0 million with a \$5.0 million subfacility for letters of credit and 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 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.

The 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 September 30, 2018, we were in compliance with all of the covenants in the Credit Agreement. The 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 Credit Agreement and the lenders' commitments may be terminated. The obligations under the 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 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 2.00:1.00. As of the date of this Quarterly Report on Form 10-Q, \$51.4 million in junior restricted payments have been made since February 2, 2017.

Sources and Uses of Cash

The following table presents a summary of our net cash provided by (used in) operating, investing and financing activities (in thousands):

	39 Weeks Ended	
	September 30, 2018	September 24, 2017
Net cash provided by (used in):		
Operating activities	\$ 40,542	\$ 35,090
Investing activities	(23,284)	(14,326)
Financing activities	(16,432)	(19,690)
Net increase in cash and cash equivalents	\$ 826	\$ 1,074

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, general and administrative costs and income taxes. Operating activities provided cash flow during the first thirty-nine weeks of both fiscal years 2018 and 2017 primarily because operating revenues exceeded cash-based expenses.

Investing Activities. Cash used in investing activities aggregated \$23.3 million in the first thirty-nine weeks of fiscal year 2018 compared with \$14.3 million cash used in the first thirty-nine weeks of fiscal year 2017. Cash used in investing projects during the first thirty-nine weeks of fiscal year 2018 primarily pertained to \$11.3 million for restaurant remodel and capital replacement projects, and \$10.4 million for new restaurants that are anticipated to open in 2018. Cash used in investing activities during the first thirty-nine weeks of fiscal year 2017 primarily pertained to \$6.7 million for restaurant remodel and capital replacement projects and \$6.8 million for new restaurants.

Financing Activities. Financing activities used cash during the first thirty-nine weeks of both fiscal years 2018 and 2017. During the first thirty-nine weeks of fiscal year 2018, we: paid dividends of \$10.2 million; used \$5.9 million to repurchase common stock; paid \$4.3 million in employee taxes in connection with the vesting of restricted stock and the exercise of stock options; and increased debt by \$4.0 million. We paid the \$4.3 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 the first thirty-nine weeks of fiscal year 2017, we: used \$14.5 million to repurchase common stock; paid dividends of \$8.6 million; increased the debt outstanding under our senior credit facility by \$5.0 million; and paid \$2.1 million in employee taxes in connection with the vesting of restricted stock and the exercise of stock options.

Off-Balance Sheet Arrangements

As of September 30, 2018, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the periods presented. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 includes a summary of the critical accounting policies and estimates that we believe are the most important to aid in the understanding our financial results. Other than the adoption of Topic 606 (see Note 2), there have been no material changes to these critical accounting policies and estimates that impacted our reported amounts of assets, liabilities, revenues or expenses during the first thirty-nine weeks of fiscal year 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company is exposed to market risk from fluctuations in interest rates. For fixed rate debt, interest rate changes affect the fair market value of such debt but do not impact earnings or cash flows. Conversely, for variable rate debt, including borrowings under the Company's senior credit facility, interest rate changes generally do not affect the fair market value of such debt, but do impact future earnings and cash flows, assuming other factors are held constant. At September 30, 2018, the Company had \$54.0 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 immediate one percentage point change in interest rates would be expected to have an impact on pre-tax earnings and cash flows for fiscal year 2018 of approximately \$540 thousand.

Foreign Currency Risk

The Company believes that fluctuations in foreign exchange rates do not present a material risk to its operations due to the relatively small amount of franchise income it receives from outside the U.S. During the first thirty-nine weeks of fiscal years 2018 and 2017, franchise income attributable to international locations was approximately \$2.1 million in each year.

Commodity Price Risk

The Company is exposed to market price fluctuations in beef and other food product prices, which in the past have been volatile and have impacted 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. During the second quarter of 2018, the Company entered into negotiated set pricing for approximately 25% of its beef requirements from mid-August 2018 through mid-February 2019 at a price approximately 7.0% below prior year. 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 \$1.0 million to \$1.5 million for the remainder of fiscal year 2018.

From time to time, the Company enters into purchase price agreements for other lower-volume food products, including seafood. In the 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 the Company's costs increase, the Company's results of operations could be adversely affected.

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 \$225 thousand for the remainder of 2018.

Effects of Inflation

The Company believes that general inflation, excluding increases in food, employee wages and employee health plan costs, has not had a material impact on its results of operations in recent years. Additionally, increases in statutory minimum wage rates may increase our operating costs. Recently, governmental entities acted to increase minimum wage rates in states where Company-owned restaurants are located. The increased minimum wage rates are expected to increase employee compensation and related taxes by approximately \$1.3 million in fiscal year 2018 compared to fiscal year 2017. Also, the U.S. government may consider legislation to increase the federal minimum wage rate, which, if enacted, would further increase employee compensation and related taxes.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of September 30, 2018. 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 September 30, 2018 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.

Changes in internal control over financial reporting

During the fiscal quarter ended September 30, 2018, except for the addition of internal controls around the adoption of Topic 606, 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.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. While litigation is subject to uncertainties and the outcome of litigated matters is not predictable with assurance, the Company is not aware of any legal proceedings pending or threatened against it that it expects to have a material adverse effect on its financial condition or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The impact of circumstances and events described in such risk factors could result in significant adverse effects on our financial position, results of operations and cash flows.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock repurchase activity during the fiscal quarter ended September 30, 2018 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
July 2, 2018 to August 5, 2018	—	—	—	\$ 44,712
August 6, 2018 to September 2, 2018	—	—	—	\$ 44,712
September 3, 2018 to September 30, 2018	—	—	—	\$ 44,712
Totals for the fiscal quarter	—	—	—	\$ 44,712

On November 3, 2017, 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 share repurchase program replaced the Company's previous share repurchase program announced in April 2016, which was terminated. The share repurchase program does not obligate the Company to repurchase any dollar amount or number of shares, and has no termination date. The Company intends to conduct any open market share repurchase activities in compliance with the safe harbor provisions of Rule 10b-18 of the Exchange Act. The Company's ability to make future stock purchases under the program is currently limited by our Credit Agreement. Under our Credit Agreement, we are limited to \$100.0 million of junior stock payments, which include cash dividends, repurchases of common stock and prepayments of subordinated indebtedness, if our consolidated leverage ratio is greater than or equal to 2.00:1.00. As of September 30, 2018, \$51.4 million of such payments had been made.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.1 [Terms of Employment/Letter of Understanding and Salary Continuation Agreement dated October 24, 2018 between the Company and Susan L. Mirdamadi \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 25, 2018\).](#)

- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
 - 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
 - 32.1 [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
 - 32.2 [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
 - 101.INS XBRL Instance Document.
 - 101.SCH XBRL Taxonomy Extension Schema Document.
 - 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
 - 101.DEF XBRL Taxonomy Definition Linkbase Document.
 - 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
 - 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
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**CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Cheryl J. Henry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ruth's Hospitality Group, Inc. (the "Company");
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 Company as of, and for, the periods presented in this report;
4. The Company'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 Company 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 Company, 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 Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company'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 Company'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 Company's internal control over financial reporting.

Date: November 2, 2018

By _____
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 quarterly report on Form 10-Q of Ruth's Hospitality Group, Inc. (the "Company") for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Executive 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: November 2, 2018

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 quarterly report on Form 10-Q of Ruth's Hospitality Group, Inc. (the "Company") for the quarter ended September 30, 2018, 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: November 2, 2018

By _____ /s/ Arne G. Haak
Arne G. Haak
Executive Vice President and Chief Financial
Officer of Ruth's Hospitality Group, Inc. (Principal
Financial Officer)