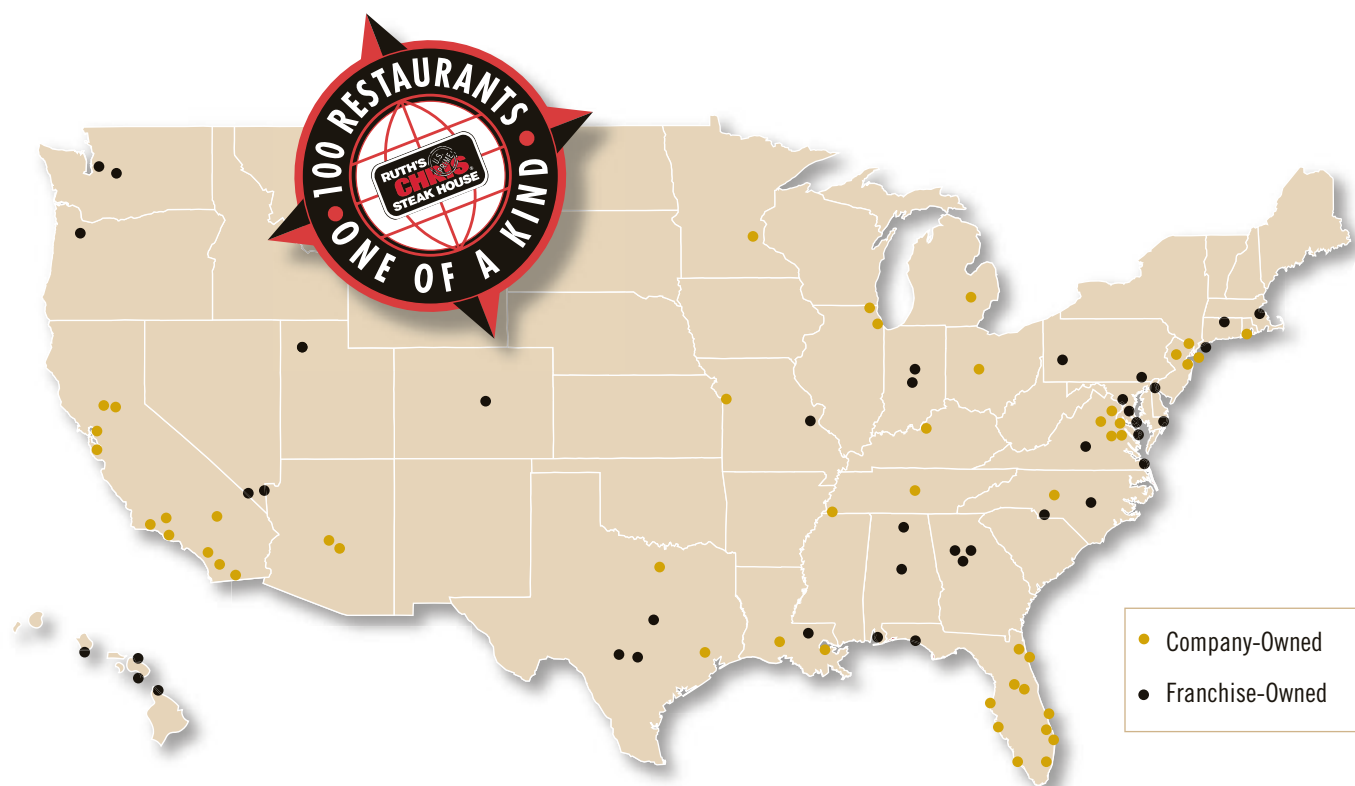




## 2006 ANNUAL REPORT



RUTH'S CHRIS STEAK HOUSE, INC.



## SELECTED FINANCIAL DATA

| \$ in thousands                                | 2005             | 2006 <sup>(1)</sup> | % Change     |
|--|------------------|---------------------|--------------|
| Revenues:                                      |                  |                     |              |
| Restaurant Sales                               | \$199,621        | \$254,718           | 27.6%        |
| Franchise royalties and fees                   | \$11,432         | \$12,399            | 8.5%         |
| Other operating income                         | \$777            | \$4,362             | 461.4%       |
| <b>Total Revenues</b>                          | <b>\$211,830</b> | <b>\$271,479</b>    | <b>28.2%</b> |
| Income from continuing operations              | \$10,796         | \$23,724            | 120.3%       |
| Total assets                                   | \$134,196        | \$209,720           |              |
| Total long-term debt including current portion | \$38,500         | \$68,000            |              |
| Total shareholders' equity                     | \$40,265         | \$67,978            |              |

## SELECTED OPERATING DATA

|  | 2005  | 2006  | % Change |
|--|-------|-------|----------|
| Company Restaurants:   |       |       |          |
| Number of locations at end period                            | 41    | 50    | 22.0%    |
| Average Restaurant Volume (in millions) <sup>(2)</sup>       | \$5.2 | \$5.7 | 9.1%     |
| Comparable restaurant sales growth <sup>(3)</sup>            | 10.4% | 6.2%  | NM       |
| System-wide restaurants open at end of period <sup>(4)</sup> | 92    | 100   | 8.7%     |

(1) Fiscal 2006 had 53-weeks of operation versus 52-weeks of operations in Fiscal 2005. (2) Average restaurant volume represents the average annual restaurants sales for all company restaurants in operation based on a 52-week fiscal year (Total Restaurant Sales divided by total operating weeks times 52 weeks.) (3) Comparable restaurant sales growth reflects the change in year-over-year sales for the comparable restaurant base on a 52-week versus 52-week basis. The Company defines the comparable restaurant base to include those restaurants open for a full fifteen months before the beginning of the later fiscal period. (4) System-wide restaurants include company and franchise locations. NM - Not meaningful.

Dear Shareholders:

At Ruth's Chris Steak House, the vision of our founder Ruth Fertel, and the dedication and commitment of our 5,500 system team members continue to drive what we do every day. In fact, we appreciate that our success is predicated on carefully nurturing and protecting the fine traditions of Southern hospitality that she instilled in our brand more than forty years ago. As the premier fine dining company in our category, our unwavering commitment to providing an upscale dining experience with exceptional guest service has never been stronger.

The year ended December 31, 2006 represented our first full year as a public company, and I am pleased that it also marked a highly productive period for all facets of our business. Our performance was characterized by continued development of both company-owned and franchised restaurants, solid comparable restaurant sales growth and strong volumes at our newest locations, opportunistic acquisitions, and improved profitability. We achieved these results despite several negative macro-economic factors affecting our industry during the year such as higher than anticipated beef costs, volatile gas prices, and a rising interest rate environment. In addition, we continued to build our corporate infrastructure to support the accelerated growth we are planning in 2007 and beyond.

Total revenue grew 28.2% to \$271.5 million in 2006, while comparable sales increased 6.2% on a 52-week comparable basis, including 0.7% entrée growth, and an average check increase of 5.5%. Diluted earnings per share were \$1.02 versus \$0.39 during the previous year. Pro forma earnings per share, a non-GAAP measure adjusting for certain non-reoccurring items, were \$0.92, reflecting an approximately 23% increase over the previous year. We credit mix improvements supported by our beverage program, new appetizers, promotions, private dining, and a sustainable culture of excellence that has made our sizzling steaks the gold standard of fine dining.

Over the course of the year, we opened three company-operated restaurants in Pasadena, California, Bonita Springs/Estero, Florida and our 100th worldwide location in Providence, Rhode Island. In the spirit of "giving back" to these communities that support the Ruth's Chris brand, it has become an important tradition to host a charity event when opening each new restaurant. We firmly believe that meaningful connections to the guests we serve and the broader communities is important, and a big part of our continued success.

Our newest restaurants continue to outperform our already healthy comparable base, which demonstrates the strong appeal of our concept and a validation of our strategy. We also completed the acquisition of seven franchised restaurants during the year, which were not only accretive to shareholders, but allowed us to enter markets that can support significant future development.

Franchise development was also active in 2006, with a combination of new and existing partners adding locations to the Ruth's Chris Steak House system. Our franchise partners opened six new locations in Clayton, Missouri, Ocean City, Maryland, Destin, Florida, Salt Lake City, Utah, Edmonton, Alberta (Canada); Huntsville, Alabama; and Hawaii. In addition to our robust domestic franchise pipeline, we have signed franchised agreements for Japan, Canada, Central America, and are in discussions with experienced operators in other parts of Asia, as well as the Middle East to bring the Ruth's Chris Steak House dining experience to these geographies.

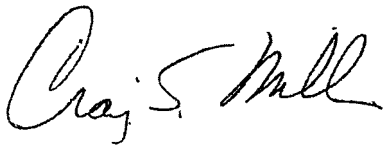
The restaurant business is not only about being relevant to today's guest. It is also about looking forward and anticipating the desires of all potential visitors. We appreciate that fact, and in order to remain the upscale destination of choice, we understand the need to design our restaurants to accommodate evolving needs. We are therefore increasingly utilizing information to further improve the guest experience while incorporating these findings into our development plans. These include expanding our bars and lounges to promote adult beverages and optimize evening socialization, as well as creating multiple private dining options. We're also ensuring that our restaurant designs preserve the unique characteristics of the location, combined with the legendary spirit and décor that epitomize the Ruth's Chris Steak House New Orleans heritage.

Looking ahead, we believe Ruth's Chris is well positioned to expand on its leadership position in the fine dining segment. Our current research indicates a domestic universe of at least 250 Ruth's Chris Steak House

restaurants, which suggests we have a long runway of opportunity ahead. In developing our footprint, we are particularly excited about the emergence of high-end life style centers across the country and how they fit so well into our strategy. Real estate developers are offering us prime locations within these facilities because they appreciate the attractiveness of securing a well known and proven brand like Ruth's Chris Steak House and how that might spur interest from other higher end or "aspirational" retailers.

Our unique business model, in addition to investments in our people and facilities, enables us to enhance long-term shareholder value in a number of different ways; including growing comparable sales and expanding operating margins as we build scale and leverage our infrastructure. Our dual growth strategy of company-owned restaurant development and cultivating new franchise partnerships continues to efficiently build our brand and capture market share while simultaneously producing some of the highest returns in our industry. Finally, we'll continue to evaluate franchise acquisitions on an opportunistic basis to unlock territories and spur company-owned development. We intend to fully take advantage of the demand for higher end dining occasions and expand our world-wide presence while at the same time delivering a superior dining experience to each guest we serve.

We appreciate and would like to thank you for your continued interest in our Company. These are exciting times for Ruth Chris Steak House and we look forward with great anticipation for things to come in 2007 and beyond.

A handwritten signature in black ink, reading "Craig S. Miller". The signature is fluid and cursive, with the first name "Craig" being more prominent and the last name "Miller" following in a similar style.

Craig S. Miller  
Chairman, President and Chief Executive Officer

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

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(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

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 CHRIS STEAK HOUSE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

72-1060618

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

500 International Parkway, Suite 100

Heathrow, Florida

(Address of Principal Executive Offices)

32746

(Zip Code)

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

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

Common stock, par value \$0.01 per share

(Title of class)

The NASDAQ Stock Market LLC

(Name of exchange on which registered)

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

None

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

As of June 25, 2006, the last day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock, par value \$0.01 per share, held by non-affiliates of the registrant was approximately \$374,199,138. For this purpose, all shares held by directors, executive officers and shareholders beneficially owning five percent or more of the registrant's common stock have been treated as held by affiliates.

The number of shares outstanding of the registrant's common stock as of March 13, 2007, was 23,181,874.

#### DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of Form 10-K, to the extent not set forth herein, is incorporated herein by reference to the registrants Proxy Statement for the 2007 Annual Meeting of Shareholders to be held on May 10, 2007, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the registrant's fiscal year.

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## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <b>PART I</b>  |             |
| Item 1. Business .....   | 4           |
| Item 1A. Risk Factors .....  | 13          |
| Item 1B. Unresolved Staff Comments .....   | 20          |
| Item 2. Properties .....   | 20          |
| Item 3. Legal Proceedings .....  | 22          |
| Item 4. Submission of Matters to a Vote of Security Holders .....  | 22          |
| <b>PART II</b>   |             |
| Item 5. Market for the Registrant’s Common Stock, Related Stockholder Matters and Issuer Purchases<br>of Equity Securities ..... | 22          |
| Item 6. Selected Financial Data .....  | 24          |
| Item 7. Management’s Discussion and Analysis of Results of Operations and Financial Condition ....                               | 25          |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risks .....   | 40          |
| Item 8. Financial Statements and Supplementary Data .....  | 41          |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure ....                                | 41          |
| Item 9A. Controls and Procedures .....   | 41          |
| Item 9B. Other Information .....   | 43          |
| <b>PART III</b>  |             |
| Item 10. Directors and Executive Officers of the Registrant .....  | 43          |
| Item 11. Executive Compensation .....  | 43          |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder<br>Matters .....                 | 43          |
| Item 13. Certain Relationships and Related Transactions, and Director Independence .....   | 44          |
| Item 14. Principal Accounting Fees and Services .....  | 44          |
| <b>PART IV</b>   |             |
| Item 15. Exhibits and Financial Statement Schedules .....  | 44          |
| Signatures .....   | 45          |



## FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K and the materials incorporated by reference herein contain “forward-looking statements” that reflect, when made, the Company’s expectations or beliefs concerning future events that involve risks and uncertainties. Forward-looking statements frequently are identified by the words “believe,” “anticipate,” “expect,” “estimate,” “intend,” “project,” “will be,” “will continue,” “will likely result,” or other similar words and phrases. Similarly, statements herein that describe the Company’s objectives, plans or goals also are forward-looking statements. Actual results could differ materially from those projected, implied or anticipated by the Company’s forward-looking statements. Some of the factors that could cause actual results to differ include: changes in economic conditions and trends generally; changes in consumer preferences or discretionary spending; the effect of competition in the restaurant industry; the Company’s ability to achieve and manage its planned expansion; the Company’s ability to execute its business strategy effectively; health concerns about beef or other food products; reductions in the availability of, or increases in the cost of, USDA Prime grade beef and other food items; labor shortages or increases in labor costs; the impact of federal, state or local government regulations relating to Company employees, the sale or preparation of food, the sale of alcoholic beverages and the opening of new restaurants; the Company’s ability to achieve market acceptance, particularly in new markets; harmful actions taken by the Company’s franchisees; the Company’s ability to protect its name and logo and other proprietary information; the impact of litigation; and the loss of key management personnel. For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, please see Item 1A. “Risk Factors” in this Annual Report on Form 10-K as well as the Company’s other filings with the Securities and Exchange Commission (the “SEC”), all of which are available on the SEC’s website at [www.sec.gov](http://www.sec.gov). All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update this Annual Report on Form 10-K to reflect events or circumstances after the date hereof. Stockholders and other security holders or buyers of the Company’s securities or its other creditors should not assume that material events subsequent to the date of this report have not occurred.

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

In August 2005, the Company completed a 20.75281-for-1 split of its common stock. All prior share and per share amounts included in this Annual Report on Form 10-K give retroactive effect to the stock split.

## **PART I**

### **Item 1. BUSINESS**

#### **Our Company**

The Company believes that it is the largest upscale steakhouse company in the United States, based on total company- and franchisee-owned restaurants as published in the Technomic, Inc. 2006 Top 500 Restaurant Report. The Company's menu features a broad selection of high-quality USDA Prime grade steaks and other premium offerings served in Ruth's Chris' signature fashion—"sizzling" and topped with seasoned butter—complemented by other traditional menu items inspired by its New Orleans heritage. The Company's restaurants reflect its more than 40-year commitment to the core values instilled by its founder, Ruth Fertel, of caring for guests by delivering the highest quality food, beverages and service in a warm and inviting atmosphere. The Company believes that Ruth's Chris is currently one of the strongest brands in fine dining.

The Company caters to families and special occasion diners, in addition to the business clientele traditionally served by upscale steakhouses, by providing a dining experience designed to appeal to a wide range of guests. The Company believes its focus on creating this broad appeal provides it with opportunities to expand into a wide range of markets, including many markets not traditionally served by upscale steakhouses.

The Company offers USDA Prime grade steaks that are aged and prepared to exacting company standards and cooked in 1,800-degree broilers. The Company also offers veal, lamb, poultry and seafood dishes, and a broad selection of appetizers, including New Orleans-style barbequed shrimp, mushrooms stuffed with crabmeat, shrimp remoulade, Louisiana seafood gumbo, onion soup au gratin, crabtini and seven salad variations. The Company complements its distinctive food offerings with an award-winning core wine list, featuring bottles priced between \$28 and \$200 and many selections offered by the glass.

As of December 31, 2006, there were 100 Ruth's Chris restaurants, of which 50 were company-owned and 50 were franchisee-owned, including ten international franchisee-owned restaurants in Mexico, Hong Kong, Taiwan and Canada.

#### **Our History**

The Company was founded in 1965 when Ruth Fertel mortgaged her home for \$22,000 to purchase the "Chris Steak House," a 60-seat restaurant located near the New Orleans Fair Grounds racetrack. After a fire destroyed the original restaurant, Ruth relocated her restaurant to a new 160-seat facility nearby. As the terms of the original purchase prevented the use of the "Chris Steak House" name at a new location, Ruth added her name to that of the original restaurant—thus creating the "Ruth's Chris Steak House" brand. The Company's expansion began in 1972, when Ruth opened a second restaurant in Metairie, a suburb of New Orleans. In 1976, the first franchisee-owned Ruth's Chris Steak House opened in Baton Rouge, Louisiana. In July 1999, affiliates of Madison Dearborn Partners LLC ("Madison Dearborn") and certain unaffiliated investors acquired all of the Company's outstanding capital stock. On May 19, 2005, the Company reincorporated in Delaware by merging Ruth's Chris Steak House, Inc., a Louisiana corporation, into a newly formed Delaware subsidiary. In August 2005, the Company and certain selling shareholders completed an initial public offering of 9,375,000 and 5,575,000 shares of the Company's common stock, respectively, at \$18.00 per share.

#### **Restaurant Industry Overview**

According to the National Restaurant Association (the "Association"), restaurant industry sales in 2006 were approximately \$511 billion, which represented approximately 4% of the U.S. gross domestic product. The Association projects that 2007 restaurant industry sales will be \$537 billion, which would mark the sixteenth consecutive year of real sales growth for the industry and a 5% increase over 2006. The Association projects that 47.9% of total U.S. food expenditures will be spent at restaurants in 2007, up from 25.0% in 1955.



The Association also projects that full-service restaurants will grow at a higher rate, approximately 5.1%, than the total restaurant industry in 2007. They also estimate that real disposable personal income will increase 3.3% (adjusted for inflation) in 2007 following a gain of 3.1% in 2006. Increases in household income historically have led to growth in both total expenditures for food-away-from-home and the proportion of food expenditures allocated to food-away-from-home.

## **Our Strengths**

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

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

The Company believes that Ruth's Chris is currently one of the strongest brands in the fine dining segment of the restaurant industry. The Company's restaurants continue to receive numerous awards at the local and national level. Many continue to be ranked best steakhouse by local publications in the areas in which they operate. In addition, the Company has been recognized for its award-winning core wine list, for which 72 of its restaurants received "Awards of Excellence" from *Wine Spectator* magazine in 2006.

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

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

### ***Broad Appeal***

The Company believes that the combination of its high quality food offerings, friendly and attentive service and warm and inviting atmosphere creates a dining experience that appeals to a wide range of guests, including families, special occasion diners and business clientele. The Company believes its focus on creating this broad appeal gives it the opportunity to enter into many new markets, including markets not traditionally served by upscale steakhouses. In addition, the Company believes that the diversity of its customer base may reduce its exposure to fluctuations in the spending habits of any particular group of guests.

### ***Attractive Unit Economics***

The Company believes that it has successfully operated restaurants in a wide range of markets and achieved attractive rates of return on invested capital. The Company believes that this historical success provides it with negotiating leverage during the initial phase of new restaurant construction, and has permitted it to open new restaurants at what it believes to be favorable levels of investment. The strength of the Ruth's Chris brand has allowed the Company to generate high unit volumes within one to two years of opening in new markets. The Company's six newest company-owned restaurants that opened in 2005 and 2006 generated average unit volumes in excess of \$6.0 million (on an annualized basis of 52 weeks) in fiscal 2006, compared to average unit volumes of approximately \$5.6 million in fiscal 2006 for those restaurants, excluding acquired locations, in its existing company-owned restaurant base which have been open for at least fifteen months. In addition, each of its existing company-owned restaurants generated positive cash flow in each of fiscal 2005 and fiscal 2006.

### ***Experienced, Committed Management Team***

The members of the Company's senior management team average nearly 20 years of restaurant industry experience. Craig Miller, its President and Chief Executive Officer and Chairman of the Board, has over 40 years of industry experience, including periods as the head of publicly traded restaurant corporations, most notably as President and Chief Executive Officer of Uno Restaurant Corporation. Mr. Miller served as Chairman of the

National Restaurant Association, the leading business association for the restaurant industry, from May 2005 to May 2006. The Company's management team has a meaningful equity ownership stake in the Company and is committed to growing its business by building on the core strengths of its business model. As of December 31, 2006, the Company's management team collectively owned, through restricted stock and options subject to vesting, approximately 9.3% of the Company's common stock on a fully diluted basis.

## **Our Strategy**

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

### ***Improve Profitability***

The Company intends to improve profitability by continuing to implement key operating initiatives. These initiatives have helped the Company to increase its comparable restaurant sales in each of the last twelve quarters, including increases of between 4.3% and 13.0% in each fiscal quarter since the beginning of fiscal 2004. These operating initiatives include:

- ensuring consistency of food quality through more streamlined preparation and presentation;
- increasing emphasis on wine sales by providing wine education for employees;
- enhancing brand awareness through increased marketing at the national, regional and local levels;
- enhancing and/or developing innovative marketing programs, such as its website, [www.ruthschris.com](http://www.ruthschris.com), Ruth's Chris gift cards and a recognition program for frequent guests; and
- improving guest traffic through increased focus on table utilization and efficiency, including its adoption of an online reservation and table management system.

### ***Expand Restaurant Base***

The Company believes that the 50 most populous markets in the United States could support an additional 75 to 100 company-owned and franchisee-owned Ruth's Chris restaurants, based on its analysis of current demand and its competitors' penetration of those markets. Further, the Company believes there is potential for an additional 25 to 50 Ruth's Chris restaurants in smaller markets in the United States. The Company continues to evaluate opportunities to open new Ruth's Chris restaurants in both new and existing markets.

On July 10, 2006, October 8, 2006 and October 30, 2006, the Company acquired a total of seven franchisee-owned restaurants from Mr. Thomas J. Moran. The acquired restaurants are located in Northbrook, Illinois; Memphis, Tennessee; Nashville, Tennessee; Jacksonville, Florida; Ponte Vedra, Florida; Chicago, Illinois and Troy, Michigan. The asset purchase agreement governing this transaction also provides that an eighth restaurant, located in Baton Rouge, Louisiana, can be purchased by the Company for an agreed upon price (determined according to a formula set forth in the agreement) from the period commencing January 1, 2008 through December 31, 2012.

*Company-owned restaurants:* The Company currently expects to open six to eight company-owned restaurants per year in each of the next several years. The Company opened three new restaurants and acquired seven previously franchised restaurants during fiscal 2006. The Company also has outstanding lease commitments for nine new restaurant locations that are scheduled to open in fiscal 2007 and fiscal 2008 and continues to negotiate with potential lessors in several other locations in which the Company plans to open new restaurants.

*Franchisee-owned restaurants:* Seven new Ruth's Chris franchisee-owned restaurants opened during fiscal 2006, and the Company expects six to eight new franchisee-owned Ruth's Chris restaurants to open in each of the next several years. The Company's franchise income, which consists of a 5% royalty fee on all sales from franchisee-owned restaurants and franchise fees, totaled \$12.4 million and comprised approximately 4.6% of its total revenues in fiscal 2006.

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

The Company intends to grow its franchising business by developing relationships with a limited number of new franchisees and by expanding the rights of existing franchisees to open new restaurants. The Company believes that building relationships with quality franchisees is a cost-effective way to strengthen the Ruth's Chris brand and generate additional revenues. Franchisees opened fourteen Ruth's Chris restaurants from 1999 to the end of 2005 and the Company granted ten new franchisee rights during that period. In fiscal 2006, existing and new franchisees opened three and four restaurants, respectively. During fiscal 2006, the Company also entered into three development agreements with new franchisees. Overall, there are 24 outstanding franchise locations to be built as of December 31, 2006. The Company intends to continue to focus on providing operational guidance to its franchisees, including the sharing of "best practices" from company-owned Ruth's Chris restaurants.

### **Site Selection, Development and Design**

The Company's evaluation of prospective restaurant sites includes analysis of population density, potential population growth and demographic characteristics of the surrounding area, as well as research concerning accessibility, visibility, surrounding traffic patterns, the number and proximity of competitive restaurants and the potential return on invested capital.

The costs of opening a new Ruth's Chris Steak House restaurant depend upon, among other things, the location and size of the site and the extent of any renovation required. While the Company generally leases its company-owned restaurant sites, the Company owns the land and building for eight company-owned restaurants. The Company's future plans include both leasing and owning restaurant locations, depending upon which alternative provides the highest return on capital. For leased restaurants, the Company currently targets an average cash investment of approximately \$2.5 million to \$4.5 million per restaurant, net of tenant allowances but including pre-opening expenses.

The Company's designers use standard styles in its restaurant interiors, although each location is tailored to reflect local tastes and preferences. The Company's restaurants typically consist of a bar area and public seating, as well as most of the Company's restaurants also have dining rooms that are available for private dining functions.

### **Menu**

The Company's menu features a broad selection of high-quality USDA Prime grade steaks and other premium offerings served in Ruth's Chris signature fashion—"sizzling" and topped with seasoned butter—complemented by other traditional menu items inspired by its New Orleans heritage. USDA Prime is a meat grade label, which refers to the evenly distributed marbling that enhances the flavor of the steak. The Company's menu also includes premium quality lamb chops, veal chops, fish, chicken and lobster. Steak and seafood combinations and a vegetable platter are also available at selected restaurants. Dinner entrees are generally priced from \$19.95 to \$45.95. Four company-owned restaurants are open for lunch and offer entrees generally ranging in price from \$12.95 to \$33.95. The Company's core menu is similar at all of its restaurants. The Company occasionally introduces new items such as specials that allow it to give its guests additional choices while taking advantage of fresh sourcing and advantageous cost opportunities.

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

The Company's core wine list features bottles typically ranging in price from \$28 to \$200. Individual restaurants supplement its 250-bottle core wine list with a minimum of 50 additional selections that reflect local market tastes. Most of the Company's restaurants also offer approximately 30 to 40 wines-by-the-glass and

numerous beers, liquors and alcoholic dessert drinks. Bottled wines account for approximately 70% of total wine sales.

### **Purchasing**

The Company's ability to maintain consistent quality throughout its restaurants depends in part upon its ability to acquire food and other supplies from reliable sources in accordance with its specifications. Purchasing at the restaurant level is directed primarily by the chef, who is trained in the Company's purchasing philosophy and specifications, and who works with its regional and corporate managers to ensure consistent sourcing of meat, fish, produce and other supplies. Each of the Company's restaurants also has an in-store beverage manager who is responsible for purchasing wines based on guest preferences, market availability and menu content and works directly with the Company's Vice President of Beverage to ensure quality and price efficiency.

During fiscal 2006 the Company purchased more than 96% of the beef it used in its company-owned restaurants from one vendor, New City Packing Company, Inc., with which it has no long-term contractual arrangement. In addition, the Company has a long-term distribution arrangement with a national food and restaurant supply distributor, Commissary Operations, Inc., which purchases products for the Company from various suppliers and through which 42 of its company-owned restaurants receive a significant portion of their food supplies.

### **Restaurant Operations and Management**

The Company's Chief Operating Officer has primary responsibility for managing its company-owned restaurants and participates in analyzing restaurant-level performance and strategic planning. Each of the Company's seven regional vice presidents supervises restaurant operations at six to eight company-owned restaurants and has oversight responsibility for franchise-owned restaurants in his or her region.

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

The Company believes that the compensation it pays its managers and employees is comparable to that provided by other fine dining steakhouses, and because many of its restaurants are open during dinner hours only, it pays many of its employees hourly wages that exceed those of many of its competitors. The Company believes that its compensation policies allow it to attract quality personnel and retain them at turnover rates considerably lower than those generally experienced by full service restaurants.

### **Quality Control**

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

and quality assurance. General Managers and certified coaches provide all other employee training at the restaurants. The Company requires that all restaurant-level employees be certified by the Company in order to be able to demonstrate knowledge of its systems, standards and operating philosophy.

On a daily basis, the executive chef, together with the restaurant managers, oversees a line check system of quality control and must complete a quality assurance checklist verifying the flavor, presentation and proper temperature of the food and beverage. The Company retains outside consultants to perform quality assessments not less than four times per year of the front-of-the-house operations of company-owned and franchisee-owned restaurants. During these assessments, unidentified two person teams dine in its restaurants and evaluate food quality, customer service and general restaurant operations through alternating weekday and weekend visits. The consultants complete a standard checklist and provide us with a written critique. Outside consultants are also utilized to perform random visits to all company- and franchisee-owned restaurants throughout the year to perform health inspections that are above and beyond local health inspections. In addition, the Company's regional vice presidents perform system-wide quality assessments of all aspects of restaurant operations, with a focus on back-of-the-house functions.

## **Marketing and Promotions**

The goals of the Company's marketing efforts are to increase comparable restaurant sales by attracting new guests, increase the frequency of visits by current guests, improve brand recognition in new markets or markets where it intends to open a restaurant and to communicate the overall uniqueness, value and quality exemplified by the Ruth's Chris brand. The Company uses multiple media channels to accomplish these goals, and increased its national advertising through increased radio and online marketing in fiscal 2006. The Company complements its national advertising with targeted local media such as outdoor and airport directional posters and tourist publications.

### ***Advertising***

In fiscal 2006, the Company spent \$8.3 million, or 3.1% of its revenues, in total advertising expenditures. Of its total advertising expenditures, \$5.0 million, or 60%, was spent on local media and local events. This local media spending was split between local tourist, entertainment and business magazines, outdoor billboards and airport dioramas, local radio, internet media and local community events such as golf tournaments, arts gatherings and charitable organizations. In fiscal 2006, the Company spent approximately \$3.3 million, or 40% of total advertising expenditures, on national media, consisting primarily of national radio and online initiatives.

In fiscal 2006, the Company increased its online marketing efforts. Online advertisements were placed and appeared on highly visited sites such as CNN, AOL and ESPN. The Company also advertised on targeted sites such as Epicurean.com, WineCountry.com and GolfCourses.com. The Company also used local online advertising for sites catering to company and franchise geographic locations. The Company's online strategy also placed an emphasis on growing its Email marketing database. Communication ranged from announcing seasonal specials, to holidays, and personalized birthday and anniversary invitations.

The Company's current "Life's too short to eat anywhere else" advertising campaign is integrated into all marketing communications including television, radio, print and outdoor advertisement. In addition, the Company uses its website, [www.ruthschris.com](http://www.ruthschris.com) to help increase brand identity and facilitate online reservations and gift card sales. Many of the Company's locations also schedule events to strengthen community ties and increase local market presence. The Company's franchisees also conduct their own local advertising campaigns.

### ***Gift Cards***

The Company sells Ruth's Chris gift cards at its restaurants, through its toll-free reservation system and on its website. Ruth's Chris patrons frequently purchase gift cards for holidays, including Christmas, Hanukkah, Valentine's Day, Mothers' Day and Fathers' Day, and other special occasions such as birthdays, graduations and anniversaries. These gift cards have become popular as holiday gifts and among business professionals

celebrating promotions. In fiscal 2006, system-wide gift card sales were approximately \$36.2 million, representing a 17.2% increase over fiscal 2005. Ruth's Chris gift cards are redeemable at both company- and franchisee-owned restaurants.

### **Franchisee Program and Relationship**

The Company's 50 franchise-owned restaurants are owned by 21 franchisees with the three largest franchisees owning six, five and five restaurants, respectively. Currently, the Company has open agreements with franchisees for an aggregate of 24 additional restaurants. Prior to 2004, each franchisee entered into a ten-year franchise agreement with three ten-year renewal options for each restaurant. Each agreement grants the franchisee territorial protection, with the option to develop a certain number of restaurants in their territory. The Company's franchise agreements generally include termination clauses in the event of nonperformance by the franchisee and non-compete clauses if the agreement is terminated. To date, only two franchisees have had the Company's franchise agreement terminated or a restaurant closed as a result of nonperformance.

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

Under the Company's new franchise program, each franchise arrangement consists of a development agreement and a separate franchise agreement for each restaurant. The Company's new form of development agreement grants exclusive rights to a franchisee to develop a minimum number of restaurants in a defined area, typically during a five-year period. Individual franchise agreements govern the operation of each restaurant opened and have a 20-year term with two renewal options each for additional 10-year terms if certain conditions are met. The Company's new form of franchise agreement requires franchisees to pay a 5% royalty on gross revenues plus up to a 1% advertising fee applied to national advertising expenditures. Under the Company's prior form of franchise agreement, franchisees pay a 5% royalty on gross revenues, of which the Company has applied 1% to national advertising.

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

The Company's existing franchise agreements signed before 2004 generally limit the number of restaurants each franchisee can develop to two. The Company expanded its domestic franchise base in 2004 by first offering existing franchisees the opportunity to open additional restaurants in its existing territories. In order to obtain these new rights, existing franchisees were provided a new Uniform Franchise Offering Circular ("UFOC") and were required to sign the Company's new form of development and franchise agreement which commits the franchisee to a store development schedule. New franchise rights will be sold pursuant to the new UFOC and franchise agreement described above, which enables the Company to better manage the growth of its franchise system. The Company anticipates opening six to eight franchise restaurants per year over the next several years.

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

All of the Company's restaurants use computerized point-of-sale systems, which are designed to improve operating efficiency, provide corporate management timely access to financial and marketing data and reduce restaurant and corporate administrative time and expense. These systems record each order and print the food requests in the kitchen for the cooks to prepare. The data captured for use by operations and corporate



management includes gross sales amounts, cash and credit card receipts and quantities of each menu item sold. Sales and receipts information is generally transmitted to the corporate office daily, where it is reviewed and reconciled by the accounting department before being recorded in the accounting system. All restaurants have personal computers and use programs to calculate ideal food cost and compare those costs to actual food costs.

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

### Service Marks

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

### Seasonality

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

### Employees

As of December 31, 2006, the Company employed 3,827 persons, of whom 380 were salaried and 3,447 were hourly personnel, who were employed in the positions set forth in the table below. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that it has good relations with its employees.

| <u>Functional Area</u>                                 | <u>Number of Employees</u> |
|--|----------------------------|
| Senior Officers / Corporate VPs / Operations VPs ..... | 27                         |
| General Managers .....                                 | 52                         |
| Managers .....   | 136                        |
| Regional Corporate Chefs / Executive Chefs .....       | 54                         |
| Sous Chefs .....                                       | 42                         |
| Non-salaried restaurant staff .....                    | 3,443                      |
| Corporate salaried .....                               | 69                         |
| Corporate non-salaried .....                           | 4                          |
| Total number of employees .....                        | <u>3,827</u>               |

### Executive Officers of the Registrant

Certain information regarding our executive officers is provided below:

| <u>Name</u>                  | <u>Age</u> | <u>Position</u>  |
|------------------------------|------------|--|
| Craig S. Miller .....        | 57         | President, Chief Executive Officer and Chairman of the Board           |
| Geoffrey D. K. Stiles .....  | 53         | Executive Vice President, Operations and Chief Operating Officer       |
| David L. Cattell .....       | 57         | Senior Vice President, Chief Development Officer                       |
| Sarah C. Jackson .....       | 48         | Senior Vice President, Human Resources                                 |
| Thomas E. O'Keefe .....      | 46         | Senior Vice President, General Counsel and Secretary                   |
| Thomas J. Pennison, Jr. .... | 39         | Senior Vice President, Chief Financial Officer and Assistant Secretary |

*Craig S. Miller* has served as the Company's President and Chief Executive Officer and Chairman of the Board since September 2006. From March 2004 to September 2006, Mr. Miller served as the President and Chief Executive Officer and as a member of the board of directors. Prior to that, from October 2002 to March 2004, Mr. Miller was the founder and Chairman of Miller Partners Restaurant Solutions, Inc. From October 2001 to October 2002, Mr. Miller served as President and Chief Executive Officer of Furr's Restaurant Group. In January 2003, Furr's Restaurant Group filed for bankruptcy protection under chapter 11 of the U.S. Bankruptcy Code. From October 1996 to October 2001, Mr. Miller served as President and Chief Executive Officer of Uno Restaurant Corporation. Prior to October 1996, Mr. Miller held various executive level positions with Uno Restaurant Corporation. Mr. Miller is a member of the Board of the National Restaurant Association (the "Association"). Mr. Miller served as Chairman of the Association from May 2005 to May 2006.

*Geoffrey D. K. Stiles* has served as the Company's Executive Vice President, Operations and Chief Operating Officer since November 2003. From April 2003 to November 2003, Mr. Stiles was employed as a consultant by one of the Company's franchisees. Mr. Stiles previously served as the Company's Director of Operations from January 2001 to April 2003. Prior to joining the Company, Mr. Stiles served in executive and senior management positions at several restaurant groups, including Capitol Restaurant Concepts, Inc., Bertolini's Restaurants Inc., Romano's Macaroni Grill and the Olive Garden.

*David L. Cattell* has served as the Company's Senior Vice President and Chief Development Officer since November 2005. From September 2004 to November 2005, Mr. Cattell served as the Vice President, Development and Construction and Chief Development Officer. Prior to joining the Company, from January 2000 to January 2004, Mr. Cattell served as Vice President of Restaurant Development at Metromedia Restaurant Group. From 1981 to 1995, Mr. Cattell directed and managed real estate, construction, architecture and engineering functions for Kentucky Fried Chicken as Vice President of Restaurant Development.

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

*Thomas E. O'Keefe* has served as the Company's Senior Vice President, General Counsel and Assistant Secretary since November 2005. From March 2005 to November 2005, Mr. O'Keefe served as the Vice President and General Counsel. Prior to joining the Company, from October 2003 to March 2005, Mr. O'Keefe was engaged in the private practice of law as a sole practitioner practicing in the areas of franchise, product distribution, antitrust and general corporate law. From August 1993 to September 2003, Mr. O'Keefe was Vice President and General Counsel to G.C. & K. B. Investments, Inc. d/b/a "Speedee Oil Change & Tune-Up," an international franchisor of automobile service centers. From 1991 to 1993, Mr. O'Keefe served as Corporate Counsel to AFCE, Inc. d/b/a "Popeyes and Church's Chicken," an international franchisor of quick-service restaurants. Mr. O'Keefe relinquished his position as Assistant Secretary effective December 2006 and assumed the position of Secretary for the Company.

*Thomas J. Pennison, Jr.* has served as the Company's Senior Vice President, Chief Financial Officer and Secretary since November 2005. From April 2004 to November 2005, Mr. Pennison served as Vice President, Finance and Chief Financial Officer, and from February 1998 to April 2004, Mr. Pennison served as Vice President, Finance. From October 1996 to January 1998, Mr. Pennison served as the Director of Finance. Prior to joining the Company, from April 1994 to October 1996, Mr. Pennison served as Assistant Corporate Controller of Casino Magic Corp., with primary responsibilities for corporate finance and SEC reporting. From January 1991 to April 1994, Mr. Pennison was at the public accounting firm KPMG LLP. Mr. Pennison relinquished his position as Secretary effective December 2006 and assumed the position of Assistant Secretary for the Company.

## Government Regulation

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

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

## Competition

The restaurant business is highly competitive and highly fragmented, and the number, size and strength of the Company's competitors vary widely by region. The Company believes that restaurant competition is based on, among other things, quality of food products, customer service, reputation, restaurant location, name recognition and price. The Company's restaurants compete with a number of fine dining steakhouses within their markets, both locally owned restaurants and restaurants within regional or national chains. The principal fine dining steakhouses with which the Company competes are Fleming's, The Capital Grille, Smith & Wollensky, The Palm, Del Frisco's and Morton's of Chicago. Many of the Company's competitors are better established in certain of its existing markets and/or markets into which it intends to expand.

## Available Information

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

## Item 1A. RISK FACTORS

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

***The restaurant industry in general and the fine dining segment in particular are vulnerable to fluctuations in economic conditions, including volatility in levels of consumer discretionary spending.***

A significant deterioration in economic conditions in any of the Company's markets would reduce guest traffic or require its affected restaurants to lower their prices, either of which would reduce the Company's total revenues and operating income. For example, the Company's total revenues fell 4.9% and 0.1% in fiscal 2001

and fiscal 2002, respectively, which were years of declining discretionary consumer spending in the United States due in part to the September 11, 2001 attacks. In addition, natural disasters, including extreme weather events such as hurricanes, occurring within any of the Company's market territories could cause reductions in revenues and/or disruptions in operations, such as restaurant closures. Any similar changes in economic conditions would affect the Company's ability to attract guests or price its menu items at favorable levels, which would result in significant reductions in revenue and/or operating income.

***Competitive conditions, consumer tastes and unexpected operating expenses could adversely affect the profitability of restaurants that the Company opens in new markets.***

The Company's growth strategy includes opening restaurants in markets where it has little or no meaningful operating experience and in which its brand may not be well known. Competitive conditions, consumer tastes and discretionary spending patterns in these new markets may differ from those in its existing markets. The Company may be unable to generate similar acceptance of the Ruth's Chris Steak House brand due to these factors, which may require it to incur significant additional promotion costs in order to increase restaurant sales at these locations. The Company's ability to operate new restaurants profitably will depend on numerous factors, some of which are beyond its control, including, but not limited to, the following:

- locating and securing suitable new restaurant sites on acceptable lease terms;
- construction and development costs;
- obtaining adequate construction financing;
- securing governmental approvals and permits, including liquor licenses;
- hiring, training and retaining skilled management, chefs and other personnel;
- successfully promoting new restaurants and competing in the markets in which new restaurants are located; and
- general economic conditions and conditions specific to the restaurant industry.

Any one of these factors could preclude the Company from operating new restaurants successfully, which could adversely affect growth and profitability.

***The Company's growth may strain its infrastructure and resources, which could delay the opening of new restaurants and adversely affect its ability to manage existing restaurants.***

The Company currently plans to continue its accelerated pace of new restaurant growth. This growth will place increased demands on management resources as well as human resources, purchasing and site management teams. The Company's planned growth in franchisee-owned restaurants will also require additional infrastructure for the development and maintenance of franchise relationships, as well as for the monitoring of those restaurants. In addition, if the Company's current restaurant management systems, financial and management controls and information systems are insufficient to support this expansion, its ability to open new restaurants and to manage existing restaurants would be adversely affected. If the Company fails to continue to improve its infrastructure, the Company may be unable to implement its growth strategy and/or maintain current levels of operating performance in existing restaurants.

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

The Company's success depends, in large part, upon the popularity of its menu offerings. Negative publicity resulting from poor food quality, illness, injury or other health concerns (including e-coli, Bovine Spongiform Encephalopathy (mad cow disease), Hepatitis A and foot and mouth disease), whether related to one of the Company's restaurants or to the beef industry in general, or operating problems related to one or more

restaurants, could make the Company's menu offerings less appealing to consumers and reduce demand in its restaurants. In addition, any other shifts in consumer preferences away from the kinds of food the Company offers, particularly beef, whether because of dietary or other health concerns or otherwise, would make its restaurants less appealing and adversely affect revenues.

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

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

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

The Company's ability to maintain consistent quality throughout company-owned restaurants depends in part upon its ability to purchase USDA Prime grade beef and other food products in accordance with its rigid specifications. During fiscal 2006, the Company purchased more than 96% of the beef it used in company-owned restaurants from one vendor, New City Packing Company, Inc., with which the Company has no long-term contractual arrangement. In addition, the Company currently has a long-term arrangement with a distributor, Commissary Operations, Inc., which purchases products for it from various suppliers, and through which 42 of its company-owned restaurants receive a significant portion of their food supplies. If these or other vendors or distributors cease doing business with the Company, it could experience short-term supply shortages in certain company-owned restaurants and could be required to purchase supplies at higher prices until the Company is able to secure an alternative supply source. Any delay the Company experiences in replacing vendors or distributors on acceptable terms could increase food costs or, in extreme cases, require it to temporarily remove items from the menu of one or more restaurants.

***Increases in the prices of, or reductions in the availability of, USDA Prime grade beef could reduce the Company's operating margins and revenues.***

The Company purchases large quantities of beef, particularly USDA Prime grade beef, which is subject to extreme price fluctuations due to seasonal shifts, climate conditions, industry demand and other factors. The Company's beef costs represented approximately 50.6% of its food and beverage costs during fiscal 2006 and the Company historically has not had any long-term contractual arrangements, nor does it use future contracts or other financial risk management strategies to reduce exposure to potential price fluctuations. For fiscal 2007, the Company has signed a contract with a beef supplier that establishes set pricing on approximately 50% of its anticipated beef purchases. The market for USDA Prime grade beef is particularly volatile. For example, in late 2003, increased demand, together with the impact of supply rationalization during late 2001 and 2002, resulted in shortages of USDA Prime grade beef, requiring the Company to pay significantly higher prices for the USDA Prime grade beef it purchased. If prices for the types of beef the Company uses in its restaurants increase in the future and it chooses not to pass, or cannot pass, these increases on to its guests, the Company's operating margins would decrease. If certain kinds of beef become unavailable for the Company to purchase, its revenues would decrease as well.

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

The Company's success depends in part upon its ability to continue to attract, motivate and retain employees with the qualifications to succeed in its industry and the motivation to apply the Company's core



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

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

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

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

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

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

The Company's development and construction of additional restaurants must comply with applicable zoning, land use and environmental regulations. More stringent and varied requirements of local government bodies with respect to zoning, land use and environmental factors could delay construction of new restaurants and add to their cost in the future which could adversely affect the Company's future operating results. In addition, difficulties or failure in obtaining the required licenses and approvals could delay, or result in its decision to cancel, the opening of new restaurants.



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

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

***You should not rely on past increases in the Company's average unit volumes or its comparable restaurant sales as an indication of future operating results, because they may fluctuate significantly, which could have an adverse effect on the market price of its stock.***

For a number of reasons, including but not limited to, those described below and elsewhere in this Annual Report on Form 10-K, the Company's operating results, revenues and expenses have in the past varied and may in the future vary significantly from quarter-to-quarter or year-to-year. These fluctuations could have an adverse effect on the market price of the Company's common stock. A number of factors historically have affected, and are likely to continue to affect, the Company's average unit volumes and/or comparable restaurant sales, including, among other factors:

- the Company's ability to execute its business strategy effectively;
- initial sales performance by new restaurants;
- levels of competition in one or more of its markets;
- consumer trends impacting levels of beef consumption; and
- general economic conditions.

The Company's average unit volumes and comparable restaurant sales may not increase at rates achieved over recent periods. Changes in its average unit volumes and comparable restaurant sales could cause the price of the Company's common stock to fluctuate substantially.

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

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

***Contracts with certain of the Company's franchisees limit its ability to grow the Ruth's Chris brand in attractive markets.***

The Company has granted exclusive development rights for some of the United States' largest markets, including Atlanta, Philadelphia and Las Vegas, to franchisees. The terms of the Company's agreements with these franchisees prevent the Company from opening company-owned restaurants in these markets. While the Company is currently working with these franchisees in order to create additional opportunities for growth, it may be unable to open additional company-owned or franchisee-owned restaurants in these markets. The Company's failure to grow within these large markets could harm its long-term competitive position in these markets and/or prevent it from sustaining its growth. In addition, the Company's failure to grow the Ruth's Chris brand in these markets by opening additional restaurants could limit the visibility of its brand in these large markets, resulting in lower guest traffic in existing restaurants in these markets.

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

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

***Continued expansion in the upscale steakhouse segment of the restaurant industry could prevent the Company from realizing anticipated benefits from new restaurant growth or continued growth in comparable restaurant sales.***

The Company's competitors have opened many upscale steakhouses in recent years, and a key element of its strategy is to continue to accelerate the opening of new company-owned and franchisee-owned restaurants in both new and existing markets. If the Company overestimates demand for Ruth's Chris Steak House restaurants or underestimates the popularity of competitors' restaurants in these markets, the Company may be unable to realize anticipated revenues from these new restaurants. Similarly, if one or more of its competitors open new restaurants in any of these new markets, or in markets where the Company already has an established presence, sales in its restaurants may be lower than it expects. Any unanticipated slowdown in demand in any of its restaurants due to this industry growth could reduce the Company's average unit volumes and comparable restaurant sales, as well as its franchisee royalty revenues.

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

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

- pay dividends or purchase stock and other restricted payments to shareholders;
- borrow money or issue guarantees;
- make investments;
- use assets as security in other transactions;
- sell assets or merge with or into other companies;
- enter into transactions with affiliates;
- sell stock in its subsidiaries; and
- create or permit restrictions on its subsidiaries' ability to make payments to us.

The Company's ability to engage in these types of transactions is limited even if it believes that a specific transaction would contribute to its future growth or improve its operating results. The Company's senior credit agreement also requires it to achieve specified financial and operating results and maintain compliance with certain financial ratios. The Company's ability to comply with these ratios may be affected by events outside of its control. Any non-compliance would result in a default under its senior credit agreement and could result in its lenders declaring the Company's senior debt immediately due and payable, which would have a material adverse effect on its ability to operate as a going concern.

***Approximately 17.7% of the Company's voting power is controlled by one principal stockholder whose interests may conflict with those of its other stockholders.***

Affiliates of Madison Dearborn hold approximately 17.7% of the Company's voting power. As a result of this ownership, as well as the fact that a representative of Madison Dearborn serves on the Company's board of directors, Madison Dearborn has significant influence in the consideration of all matters requiring the approval of its stockholders and/or its board of directors. These matters include the election of directors, the adoption of amendments to the Company's amended and restated certificate of incorporation and by-laws and approval of mergers or sales of substantially all of its assets. This influence may also have the effect of delaying or preventing a change in control of the Company or discouraging others from making tender offers for its shares, which could prevent stockholders from receiving a premium for their shares. So long as affiliates of Madison Dearborn continue to own a significant amount of the outstanding shares of the Company's common stock and a representative of Madison Dearborn continues to serve on its board of directors, they will continue to be able to influence the Company's decisions and may pursue corporate actions that conflict with the interests of its other stockholders. The Company's amended and restated certificate of incorporation also provides that affiliates of Madison Dearborn and their representatives are not required to offer any corporate opportunity of which they become aware to the Company and therefore they could take any such opportunity for themselves or offer it to other companies in which they have an investment.

***The Company's amended and restated certificate of incorporation, its by-laws and Delaware law contain provisions that could discourage another company from acquiring it and may prevent attempts by its stockholders to replace or remove its current management.***

Provisions of the Delaware General Corporation Law (the "DGCL"), the Company's amended and restated certificate of incorporation and its by-laws may discourage, delay or prevent a merger or acquisition that the Company's stockholders may consider favorable. In addition, these provisions may frustrate or prevent any attempts by its stockholders to replace or remove the Company's current management by making it more difficult for stockholders to replace or remove its board of directors. Such provisions in the Company's amended and restated certificate of incorporation and by-laws include:

- limitations on the ability of stockholders to amend its charter documents, including stockholder supermajority voting requirements;
- the inability of stockholders to act by written consent or to call special meetings after such time as the existing stockholders own less than a majority of its common stock;
- advance notice requirements for nominations for election to the board of directors and for stockholder proposals; and
- the authority of its board of directors to issue, without stockholder approval, up to 10,150,000 shares of preferred stock with such terms as the board of directors may determine and to issue additional shares of its common stock.

The Company is also afforded the protections of Section 203 of the DGCL, which prevents it from engaging in a business combination with a person who acquires at least 15% of its common stock for a period of three years from the date such person acquired such common stock, unless board or stockholder approval is obtained.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

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

The Company currently owns the real estate for seven operating restaurants: Metairie, Louisiana (8,000 square feet); Ft. Lauderdale (7,800 square feet), Palm Beach (7,200 square feet) and Sarasota (7,400 square feet), Florida; Houston, Texas (7,200 square feet); Columbus, Ohio (8,100 square feet); and Palm Desert, California (6,800 square feet). Additionally, the Company owns real estate for its original New Orleans, Louisiana restaurant (7,600 square feet), which is not currently in operation due to Hurricane Katrina damage.

In addition to the restaurants set forth in the table below, the Company owns an office building of approximately 75,860 square feet in Heathrow, Florida, which houses its corporate headquarters, as well as an office building in Metairie, Louisiana. In late August 2005, the Company's headquarters in Metairie, Louisiana was damaged by Hurricane Katrina. In September 2005, the Company determined that it would not be able to reoccupy its Metairie headquarters within a reasonable time, and relocated its headquarters to Heathrow, Florida. The Company also closed its two New Orleans-area restaurants, which suffered wind and flood damage. The Company reopened its restaurant in Metairie, Louisiana on December 5, 2005. Prior to Hurricane Katrina, the Company had planned to open a new restaurant located at the Biloxi, Mississippi Hard Rock Hotel & Casino in September 2005. This property also suffered damage, and its September 1, 2005 opening date was delayed until 2007. The Company has incurred and may in the future continue to incur certain unanticipated one-time expenses in connection with this move and other hurricane related items.

The following table sets forth information about the Company's existing company-owned and franchisee-owned locations as of December 31, 2006. As of December 31, 2006, the Company operated 50 company-owned restaurants and its franchisees operated 50 restaurants. Company-owned Ruth's Chris restaurants range in size from approximately 6,000 to approximately 13,000 square feet. The Company expects that future restaurants will range in size from 8,000 to 10,000 square feet with approximately 220 to 250 seats.

| Company-Owned Restaurants |                     |                          | Franchisee-Owned Restaurants |                        |  |
|---------------------------|---------------------|--------------------------|------------------------------|------------------------|--|
| Year Opened               | Locations           | Property Leased or Owned | Year Opened                  | Locations              |  |
| 1972                      | Metairie, LA        | Owned                    | 1976                         | Baton Rouge, LA        |  |
| 1977                      | Lafayette, LA       | Leased                   | 1985                         | Austin, TX             |  |
| 1977                      | Houston, TX         | Owned                    | 1985                         | Mobile, AL             |  |
| 1983                      | Washington, D.C.    | Leased                   | 1986                         | Atlanta (Buckhead), GA |  |
| 1984                      | Beverly Hills, CA   | Leased                   | 1987                         | Pittsburgh, PA         |  |
| 1985                      | Fort Lauderdale, FL | Owned                    | 1987                         | Hartford, CT           |  |
| 1986                      | Phoenix, AZ         | Leased                   | 1988                         | Philadelphia, PA       |  |
| 1986                      | Nashville, TN *     | Leased                   | 1988                         | Seattle, WA            |  |
| 1987                      | San Francisco, CA   | Leased                   | 1989                         | Honolulu, HI           |  |
| 1987                      | N. Palm Beach, FL   | Owned                    | 1989                         | Las Vegas, NV          |  |
| 1989                      | Memphis, TN *       | Leased                   | 1991                         | Richmond, VA           |  |
| 1990                      | Weehawken, NJ       | Leased                   | 1992                         | Baltimore, MD          |  |
| 1990                      | Scottsdale, AZ      | Leased                   | 1993                         | Birmingham, AL         |  |
| 1992                      | Palm Desert, CA     | Owned                    | 1993                         | San Antonio, TX        |  |
| 1992                      | Minneapolis, MN     | Leased                   | 1993                         | Taipei, Taiwan         |  |
| 1992                      | Chicago, IL *       | Leased                   | 1993                         | Cancun, Mexico         |  |
| 1993                      | Arlington, VA       | Leased                   | 1993                         | Sandy Springs, GA      |  |

| Company-Owned Restaurants |                          |                          | Franchisee-Owned Restaurants |                               |  |
|---------------------------|--------------------------|--------------------------|------------------------------|-------------------------------|--|
| Year Opened               | Locations                | Property Leased or Owned | Year Opened                  | Locations                     |  |
| 1993                      | Manhattan, NY            | Leased                   | 1994                         | Las Vegas, NV                 |  |
| 1994                      | San Juan, Puerto Rico    | Leased                   | 1994                         | Indianapolis, IN              |  |
| 1994                      | San Diego, CA            | Leased                   | 1995                         | Denver, CO                    |  |
| 1995                      | Westchester, NY          | Leased                   | 1995                         | Long Island, NY               |  |
| 1996                      | Dallas, TX               | Leased                   | 1995                         | Toronto, Canada               |  |
| 1996                      | Troy, MI *               | Leased                   | 1996                         | Taichung, Taiwan              |  |
| 1996                      | Tampa, FL                | Leased                   | 1996                         | Indianapolis, IN              |  |
| 1996                      | Bethesda, MD             | Leased                   | 1997                         | Portland, OR                  |  |
| 1997                      | Kansas City, MO          | Leased                   | 1997                         | Hong Kong                     |  |
| 1997                      | Irvine, CA               | Leased                   | 1997                         | Raleigh, NC                   |  |
| 1997                      | Jacksonville, FL *       | Leased                   | 1998                         | Annapolis, MD                 |  |
| 1998                      | Louisville, KY           | Leased                   | 1998                         | Maui, HI                      |  |
| 1998                      | Parsippany, NJ           | Leased                   | 1999                         | Atlanta (Centennial Park), GA |  |
| 1998                      | Northbrook, IL *         | Leased                   | 2000                         | Pikesville, MD                |  |
| 1999                      | Columbus, OH             | Owned                    | 2000                         | San Antonio (Sunset), TX      |  |
| 1999                      | Coral Gables, FL         | Leased                   | 2000                         | Wailea, HI                    |  |
| 1999                      | Ponte Vedra, FL *        | Leased                   | 2001                         | Kaohsiung, Taiwan             |  |
| 1999                      | Winter Park, FL          | Leased                   | 2001                         | King of Prussia, PA           |  |
| 2000                      | Sarasota, FL             | Owned                    | 2001                         | Queensway, Hong Kong          |  |
| 2000                      | Del Mar, CA              | Leased                   | 2001                         | Cabo San Lucas, Mexico        |  |
| 2000                      | Boca Raton, FL           | Leased                   | 2002                         | Bellevue, WA                  |  |
| 2001                      | Orlando, FL              | Leased                   | 2003                         | Mississauga, Canada           |  |
| 2001                      | Greensboro, NC           | Leased                   | 2005                         | Virginia Beach, VA            |  |
| 2002                      | Woodland Hills, CA       | Leased                   | 2005                         | Baltimore, MD                 |  |
| 2002                      | Fairfax, VA              | Leased                   | 2005                         | Atlantic City, NJ             |  |
| 2002                      | Washington, D.C. (Conv.) | Leased                   | 2005                         | Charlotte, NC                 |  |
| 2003                      | Walnut Creek, CA         | Leased                   | 2006                         | St. Louis, MO                 |  |
| 2005                      | Roseville, CA            | Leased                   | 2006                         | Ocean City, MD                |  |
| 2005                      | Boston, MA               | Leased                   | 2006                         | Destin, FL                    |  |
| 2005                      | Sacramento, CA           | Leased                   | 2006                         | Salt Lake City, UT            |  |
| 2006                      | Pasadena, CA             | Leased                   | 2006                         | Mauna Lani, HI                |  |
| 2006                      | Bonita Springs, FL       | Leased                   | 2006                         | Huntsville, AL                |  |
| 2006                      | Providence, RI           | Leased                   | 2006                         | Edmonton, Canada              |  |

\* These restaurants were previously franchisee-owned and were acquired by the Company in fiscal 2006.

The New Orleans location is company-owned and opened in 1965. This property is owned by the Company and is currently closed due to damage caused by Hurricane Katrina.

On July 10, 2006, October 8, 2006 and October 30, 2006, the Company acquired a total of seven franchisee-owned restaurants from Mr. Thomas J. Moran. The acquired restaurants are located in Northbrook, Illinois; Memphis, Tennessee; Nashville, Tennessee; Jacksonville, Florida; Ponte Vedra, Florida; Chicago, Illinois and Troy, Michigan. The asset purchase agreement governing this transaction also provides that an eighth restaurant, located in Baton Rouge, Louisiana, can be purchased by the Company for an agreed upon price (determined according to a formula set forth in the agreement) from the period commencing January 1, 2008 through December 31, 2012.

On February 5, 2007 the Company opened a new Company-owned restaurant in Lake Mary, Florida, and the property for this restaurant is leased. On January 15, 2007, a franchisee opened a new franchise-owned restaurant in Aspen, Colorado and on February 26, 2007 a franchisee opened a new franchise-owned restaurant in Charlotte, South Carolina.

The Company has also entered into lease commitments to develop nine additional company-owned restaurants in Biloxi, Mississippi, Naples and West Palm Beach, Florida, Tyson's Corner (Vienna), Virginia, Anaheim and Santa Barbara, California, Dedham, Massachusetts, Fort Worth, Texas and Princeton, New Jersey.

**Item 3. LEGAL PROCEEDINGS**

There are currently no material legal proceedings against the Company.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2006.

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

The Company's common stock is listed on the Nasdaq Global Select Market under the trading symbol "RUTH." As of December 31, 2006, there were 75 holders of record of its common stock. The transfer agent and registrar for its common stock is American Stock Transfer & Trust Company, 59 Maiden Lane, New York, NY 10038, telephone (800) 937-5449.

There were no repurchases of the Company's equity securities by or on behalf of it during the fourth quarter of fiscal 2006 and the Company does not have a formal or publicly announced stock repurchase program.

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

|  | <u>High</u> | <u>Low</u> |
|--|-------------|------------|
| <b>Fiscal Year ended December 25, 2005</b> |             |            |
| Third Quarter . . . . .                    | \$20.92     | \$17.23    |
| Fourth Quarter . . . . .                   | \$19.18     | \$16.37    |
| <b>Fiscal Year ended December 31, 2006</b> |             |            |
| First Quarter . . . . .                    | \$23.00     | \$17.71    |
| Second Quarter . . . . .                   | \$24.18     | \$18.25    |
| Third Quarter . . . . .                    | \$21.13     | \$17.25    |
| Fourth Quarter . . . . .                   | \$20.50     | \$17.98    |

The closing sale price for its common stock on March 14, 2007 was \$20.97.

**Dividend Policy**

The Company currently expects to retain all future earnings to finance the growth of its business. Since its acquisition by affiliates of Madison Dearborn in 1999, the Company has not paid, and has no current plans to pay in the future, cash dividends to holders of its common stock. The payment of dividends is within the discretion of the Company's board of directors and will depend on its earnings, capital requirements and operating and financial condition, among other factors. In addition, the Company's senior credit facilities limit its ability to pay dividends. The Company may not pay a dividend if there is a default (or if a default would result from such dividend payment) under its senior credit facilities, and may not pay dividends in excess of an aggregate of \$3.0 million in any fiscal year.

**Unregistered Sales of Equity Securities**

None.

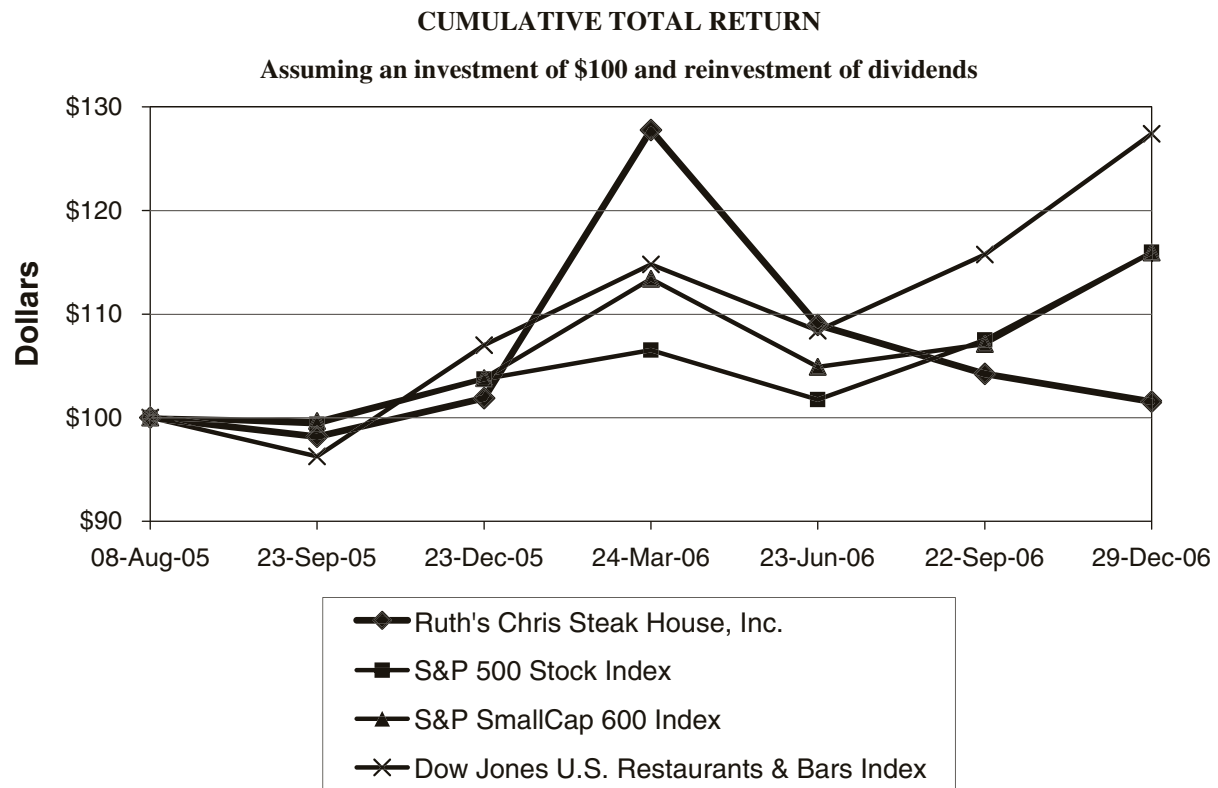


## Securities Authorized for Issuance Under Equity Compensation Plans

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

## Performance Graph

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



|  | 08-Aug-05 | 23-Sep-05 | 23-Dec-05 | 24-Mar-06 | 23-Jun-06 | 22-Sep-06 | 29-Dec-06 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Ruth's Chris Steak House, Inc. . . .                 | \$100     | \$ 98     | \$102     | \$128     | \$109     | \$104     | \$102     |
| S&P 500 Stock Index . . . . .                        | 100       | 99        | 104       | 107       | 102       | 107       | 116       |
| S&P SmallCap 600 Index . . . . .                     | 100       | 100       | 104       | 113       | 105       | 107       | 116       |
| Dow Jones U.S. Restaurants &<br>Bars Index . . . . . | 100       | 96        | 107       | 115       | 108       | 116       | 127       |

All amounts rounded to the nearest dollar.

**Item 6. SELECTED FINANCIAL DATA**

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

|   | Fiscal Year       |           |           |           |           |
|---|-------------------|-----------|-----------|-----------|-----------|
|   | 2002              | 2003      | 2004      | 2005      | 2006      |
|   | (\$ in thousands) |           |           |           |           |
| <b>Income Statement Data:</b>   |                   |           |           |           |           |
| Revenues:   |                   |           |           |           |           |
| Restaurant sales  | \$141,405         | \$155,122 | \$179,083 | \$199,621 | \$254,718 |
| Franchise income  | 8,369             | 8,829     | 9,500     | 11,432    | 12,399    |
| Other operating income  | 1,278             | 609       | 646       | 777       | 4,362     |
| Total revenues  | 151,052           | 164,560   | 189,229   | 211,830   | 271,479   |
| Costs and expenses:   |                   |           |           |           |           |
| Food and beverage costs   | 45,556            | 54,386    | 60,303    | 61,804    | 82,016    |
| Restaurant operating expenses   | 65,404            | 72,330    | 81,200    | 91,155    | 113,746   |
| Marketing and advertising   | 6,482             | 6,379     | 6,634     | 6,696     | 8,328     |
| General and administrative costs  | 9,847             | 8,792     | 10,938    | 15,208    | 22,974    |
| Depreciation and amortization expenses  | 5,938             | 6,629     | 6,345     | 6,489     | 8,690     |
| Hurricane and relocation costs  | —                 | —         | —         | 2,660     | 644       |
| Loss on impairment  | —                 | —         | —         | —         | 970       |
| Pre-opening costs   | 2,053             | 497       | 364       | 1,623     | 2,046     |
| Operating income  | 15,772            | 15,547    | 23,445    | 26,195    | 32,065    |
| Other income (expense):   |                   |           |           |           |           |
| Interest expense, net   | (9,568)           | (9,521)   | (10,320)  | (8,453)   | (2,856)   |
| Accrued dividends and accretion on mandatorily<br>redeemable senior preferred stock | —                 | (2,243)   | (5,071)   | (1,891)   | —         |
| Insurance proceeds, net   | —                 | —         | —         | —         | 4,592     |
| Other   | (10)              | 267       | (1,099)   | (39)      | 21        |
| Income from continuing operations before income tax<br>expense                      | 6,194             | 4,050     | 6,955     | 15,812    | 33,822    |
| Income tax expense  | 362               | 1,292     | 736       | 5,043     | 10,098    |
| Income from continuing operations   | 5,832             | 2,758     | 6,219     | 10,769    | 23,724    |
| Discontinued operations, net of income tax benefit                                  | 148               | 1,510     | 3,777     | (164)     | (66)      |
| Net income  | \$ 5,684          | \$ 1,248  | \$ 2,442  | \$ 10,933 | \$ 23,790 |

|   | Fiscal Year                              |                   |                   |                 |                  |
|---|--|-------------------|-------------------|-----------------|------------------|
|   | 2002                                     | 2003              | 2004              | 2005            | 2006             |
|   | (\$ in thousands, except per share data) |                   |                   |                 |                  |
| Less dividends earned on mandatorily redeemable preferred stock and accretion of discount ..... | \$ 4,777                                 | \$ 2,135          | \$ —              | \$ —            | \$ —             |
| Less dividends earned on junior preferred stock and warrant expense .....                       | 5,713                                    | 4,975             | 5,373             | 3,753           | —                |
| Net income (loss) available to common shareholders .....  | <u>\$ (4,806)</u>                        | <u>\$ (5,862)</u> | <u>\$ (2,931)</u> | <u>\$ 7,180</u> | <u>\$ 23,790</u> |
| Basic earnings (loss) per common share:   |  |                   |                   |                 |                  |
| Continuing operations .....   | \$ (0.40)                                | \$ (0.37)         | \$ 0.07           | \$ 0.39         | \$ 1.02          |
| Discontinued operations .....   | (0.01)                                   | (0.13)            | (0.32)            | 0.01            | 0.01             |
| Basic earnings (loss) per share ..  | <u>\$ (0.41)</u>                         | <u>\$ (0.50)</u>  | <u>\$ (0.25)</u>  | <u>\$ 0.40</u>  | <u>\$ 1.03</u>   |
| Diluted earnings (loss) per common share:   |  |                   |                   |                 |                  |
| Continuing operations .....   | \$ (0.40)                                | \$ (0.37)         | \$ 0.07           | \$ 0.38         | \$ 1.01          |
| Discontinued operations .....   | (0.01)                                   | (0.13)            | (0.32)            | 0.01            | 0.01             |
| Diluted earnings (loss) per share .....   | <u>\$ (0.41)</u>                         | <u>\$ (0.50)</u>  | <u>\$ (0.25)</u>  | <u>\$ 0.39</u>  | <u>\$ 1.02</u>   |
| Shares used in computing net income (loss) per common share:                                    |  |                   |                   |                 |                  |
| Basic .....   | 11,746,868                               | 11,746,868        | 11,917,093        | 17,961,198      | 23,175,323       |
| Diluted .....   | 11,746,868                               | 11,746,868        | 11,917,093        | 18,710,141      | 23,429,185       |
| <b>Balance Sheet Data (at end of fiscal year):</b>  |  |                   |                   |                 |                  |
| Cash and cash equivalents .....   | \$ 5,520                                 | \$ 5,130          | \$ 3,906          | \$ 8,985        | \$ 4,690         |
| Total assets .....  | 118,029                                  | 117,554           | 113,482           | 134,196         | 209,720          |
| Total long-term debt including current portion .....  | 104,747                                  | 97,373            | 80,931            | 38,500          | 68,000           |
| Mandatorily redeemable senior preferred stock .....   | 30,090                                   | 34,786            | 39,857            | —               | —                |
| Total shareholders' equity (deficit) ...  | (53,071)                                 | (53,958)          | (51,513)          | 40,265          | 67,978           |

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

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

### Overview

The Company believes that it is the largest upscale steakhouse company in the United States, based on total company- and franchisee-owned restaurants as published in the Technomic, Inc. 2006 Top 500 Restaurant Report. The Company's menu features a broad selection of high-quality USDA Prime grade steaks and other premium offerings served in Ruth's Chris' signature fashion—"sizzling" and topped with seasoned butter—complemented by other traditional menu items inspired by the Company's New Orleans heritage. The Company's restaurants reflect the more than 40-year commitment to the core values instilled by its founder, Ruth Fertel, of caring for its guests by delivering the highest quality food, beverages and service in a warm and inviting atmosphere. The Company believes that Ruth's Chris is currently one of the strongest brands in fine dining.

The Company caters to families and special occasion diners, in addition to the business clientele traditionally served by upscale steakhouses, by providing a dining experience designed to appeal to a wide range of guests. The Company believes its focus on creating this broad appeal provides it with opportunities to expand into a wide range of markets, including many markets not traditionally served by upscale steakhouses.

The Company offers USDA Prime grade steaks that are aged and prepared to exact company standards and cooked in 1,800-degree broilers. The Company also offers veal, lamb, poultry and seafood dishes, and a broad selection of appetizers, including New Orleans-style barbequed shrimp, mushrooms stuffed with crabmeat, shrimp remoulade, Louisiana seafood gumbo, onion soup au gratin, crabtini and seven salad variations. The Company complements its distinctive food offerings with an award-winning core wine list, typically featuring bottles priced at between \$28 and \$200 and many selections offered by the glass.

As of December 31, 2006, there were 100 Ruth's Chris restaurants, of which 50 were company-owned and 50 were franchisee-owned, including ten international franchisee-owned restaurants in Mexico, Hong Kong, Taiwan and Canada. In fiscal 2006, the Company had total revenues of \$271.5 million and operating income (excluding hurricane and relocation costs and loss on impairment) of \$33.7 million, representing increases from fiscal 2005 of 28.2% and 16.6%, respectively.

### **Key Financial Terms and Metrics**

The Company evaluates its business using a variety of key financial measures:

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

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

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

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

*Restaurant Operating Expenses.* The Company measures restaurant-operating expenses for company-owned restaurants as a percentage of restaurant sales. Restaurant operating expenses include the following:

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

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

*General and Administrative.* General and administrative costs include costs relating to all corporate and administrative functions that support development and restaurant operations and provide an infrastructure to support future company and franchisee growth. General and administrative costs are comprised of management, supervisory and staff salaries and employee benefits, travel, information systems, training, corporate rent, professional and consulting fees, technology and market research. The Company measures its general and administrative expense efficiency by tracking these costs as a percentage of total revenues. These expenses are expected to increase as a result of costs associated with being a public company as well as costs related to its anticipated growth, including substantial training costs and significant investments in infrastructure. As the Company is able to leverage these investments made in its people and systems, the Company expects these expenses to decrease as a percentage of total revenues over time.

*Depreciation and Amortization.* Depreciation and amortization includes depreciation of fixed assets. Consistent with SEC guidance, the Company depreciates capitalized leasehold improvements over the shorter of the total expected lease term or their estimated useful life. As the Company accelerates its restaurant openings, depreciation and amortization is expected to increase as a result of its increased capital expenditures.

*Pre-Opening Costs.* Pre-opening costs consist of costs incurred prior to opening a company-owned restaurant, which are comprised principally of manager salaries and relocation costs, employee payroll and related training costs for new employees, including practice and rehearsal of service activities as well as lease costs incurred prior to opening. The Company expects these costs to increase as it accelerates its company-owned restaurant openings, which may have a material impact on the Company's operating results in future periods. The Company currently budgets approximately \$0.5 million of pre-opening costs per company-owned restaurant opening.

## **Initial Public Offering**

In August 2005, the Company and selling shareholders completed an initial public offering of 9,375,000 and 5,575,000 shares of common stock, respectively, at \$18.00 per share. The Company received net proceeds of approximately \$154.3 million from the sale of shares of its common stock in the offering after deducting underwriting discounts and commissions and offering expenses payable by it. The Company used the net proceeds of the offering as follows: (1) approximately \$11.7 million was used to redeem all of its outstanding mandatorily redeemable Series A senior cumulative preferred stock (the "Senior Preferred Stock"),

(2) approximately \$76.2 million to redeem or repurchase all of its outstanding Series B junior cumulative preferred stock (the “Junior Preferred Stock”), (3) approximately \$65.5 million was used to repay a portion of the outstanding indebtedness under its senior credit facilities and (4) \$0.8 million was used for general working capital needs of the Company.

## Results of Operations

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

|  | Fiscal Year |        |        |
|--|-------------|--------|--------|
|  | 2004        | 2005   | 2006   |
| Revenues:  |             |        |        |
| Restaurant sales   | 94.7%       | 94.2%  | 93.8%  |
| Franchise income   | 5.0%        | 5.4%   | 4.6%   |
| Other operating income   | 0.3%        | 0.4%   | 1.6%   |
| Total revenues   | 100.0%      | 100.0% | 100.0% |
| Costs and expenses:  |             |        |        |
| Food and beverage costs  | 31.9%       | 29.2%  | 30.2%  |
| Restaurant operating expenses  | 42.9%       | 43.0%  | 41.9%  |
| Marketing and advertising  | 3.5%        | 3.2%   | 3.1%   |
| General and administrative costs   | 5.8%        | 7.2%   | 8.5%   |
| Depreciation and amortization expenses   | 3.4%        | 3.1%   | 3.2%   |
| Hurricane and relocation costs   | —           | 1.3%   | 0.2%   |
| Loss on impairment   | —           | —      | 0.4%   |
| Pre-opening costs  | 0.2%        | 0.8%   | 0.8%   |
| Operating income   | 12.3%       | 12.2%  | 11.7%  |
| Other income (expense):  |             |        |        |
| Interest expense, net  | (5.5)%      | (4.0)% | (1.1)% |
| Accrued dividends and accretion on mandatorily redeemable senior preferred stock | (2.7)%      | (0.9)% | —      |
| Insurance proceeds, net  | —           | —      | 1.7%   |
| Other  | (0.6)%      | —      | —      |
| Income from continuing operations before income tax expense                      | 3.5%        | 7.3%   | 12.3%  |
| Income tax expense   | 0.4%        | 2.4%   | 3.7%   |
| Income from continuing operations  | 3.1%        | 4.9%   | 8.6%   |
| Discontinued operations, net of income tax benefit                               | 2.0%        | (0.1)% | —      |
| Net income   | 1.1%        | 5.0%   | 8.6%   |

### Fiscal Year 2006 Compared to Fiscal Year 2005

**Restaurant Sales.** Restaurant sales increased \$55.1 million, or 27.6%, to \$254.7 million in fiscal 2006 from \$199.6 million in fiscal 2005. The increase was due to an additional \$16.5 million in sales from comparable restaurants, \$26.7 million in incremental sales from six new company-owned restaurants opened from September 2005 through December 2006 and the reopened Metairie, Louisiana, restaurant, as well as \$15.5 million contributed by the previously franchised restaurants acquired during 2006. All three of these categories received benefit from an addition week of operations during fiscal 2006 versus fiscal 2005. The additional week, in total,



contributed restaurant sales of \$6.7 million. These increases were partially offset by the closing of the New Orleans, Louisiana, restaurant, due to Hurricane Katrina, which represented a net decrease in restaurant sales of \$3.6 million. Comparable restaurants open throughout both fiscal years on a comparable 52-week basis achieved a sales increase of 6.2%, consisting of 0.7% in entrée growth (traffic) and 5.5% in per entrée spending. The increase in per entrée spending was driven by a shift in sales mix as well as menu price increases of approximately 1.5% and 0.7% taken in January 2006 and August 2006. These factors increased the average per entrée spending to \$71.55 in fiscal 2006.

*Franchise Income.* Franchise income increased \$1.0 million, or 8.8%, to \$12.4 million in fiscal 2006 from \$11.4 million in fiscal 2005. The increase was due primarily to an \$8.5 million increase in franchisee-owned restaurant sales from those franchisee-owned restaurants open throughout both periods, representing a comparable franchisee-owned restaurants sales growth of 5.2%, as well as the full-year impact of four new franchisee-owned restaurants that opened during fiscal 2005 and seven new franchisee-owned restaurants that opened during fiscal 2006. These increases were partially offset by the acquisition of seven franchisee-owned restaurants by the Company and the closing of one franchise location during fiscal 2006.

*Other Operating Income.* Other operating income increased \$3.6 million, or 450.0% to \$4.4 million in fiscal 2006 from \$0.8 million in fiscal 2005. The increase is due to the recognition of gift card revenues of \$3.7 million in fiscal 2006, as a result of the Company entering into an agreement with an unrelated third party that assumed the unredeemed liability for gift cards that had not yet reached the statutory term for unclaimed property. As a result of the agreement, certain third-party claims on unredeemed gift cards for certain jurisdictions have been removed, thus allowing the company to recognize additional other income in 2006.

*Food and Beverage Costs.* Food and beverage costs increased \$20.2 million, or 32.7%, to \$82.0 million in fiscal 2006 from \$61.8 million in fiscal 2005. The increase was due to higher restaurant sales and higher food costs. As a percentage of restaurant sales, food and beverage costs increased to 32.2% in fiscal 2006 from 31.0% in fiscal 2005. This increase in food and beverage costs as a percentage of restaurant sales was primarily due to higher meat costs, primarily tenderloins, and was partially offset by lower dairy costs.

*Restaurant Operating Expenses.* Restaurant operating expenses increased \$22.5 million, or 24.7%, to \$113.7 million in fiscal 2006 from \$91.2 million in fiscal 2005. The increase was due to higher restaurant sales in fiscal 2006, increased hourly labor costs, staffing related to new restaurant openings, and increased utility costs. Restaurant operating expenses, as a percentage of restaurant sales, decreased to 44.7% in fiscal 2006 from 45.7% in fiscal 2005 as a result of leveraging certain fixed occupancy and labor costs, as well as, the extra week of operations in fiscal 2006.

*Marketing and Advertising.* Marketing and advertising expenses increased \$1.6 million, or 23.9%, to \$8.3 million in fiscal 2006 from \$6.7 million in fiscal 2005. Marketing and advertising expenses, as a percentage of total revenues, decreased slightly to 3.1% in fiscal 2006 from 3.2% in fiscal 2005.

*General and Administrative.* General and administrative costs increased \$7.8 million, or 51.3%, to \$23.0 million in fiscal 2006 from \$15.2 million in fiscal 2005. General and administrative costs, as a percentage of total revenues, increased to 8.5% in fiscal 2006 from 7.2% in fiscal 2005. This increase was primarily due to the recruitment and hiring of several key management personnel and staff personnel in all functional areas in the later part of fiscal 2005 and the first half of 2006, the addition of certain public-company expenses, additional costs associated with initiating and maintaining operations at the Company's Heathrow headquarters and expenses for stock options granted under FAS 123R.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$2.2 million, or 33.8%, to \$8.7 million in fiscal 2006 from \$6.5 million in fiscal 2005. The increase was primarily due to the addition of six new company-owned restaurants and seven acquired restaurants from the second quarter of 2005 through the fourth quarter of 2006 as well as investments at the Company's existing company-owned restaurants and corporate headquarters.

*Hurricane and Relocation costs.* During the third quarter of fiscal 2005, the Company's corporate office building in Metairie, Louisiana was damaged by Hurricane Katrina and the Company subsequently relocated its corporate offices to Heathrow, Florida. The Company's restaurants in New Orleans and Metairie, Louisiana, also received damage from Hurricane Katrina. The New Orleans restaurant has not reopened and the Metairie restaurant reopened in December 2005. The Company had completed the construction and pre-opening activities for a new restaurant in Biloxi, Mississippi, which was also damaged by Hurricane Katrina. The Company incurred expenses related to these events of \$0.6 million and \$2.7 million during fiscal 2006 and fiscal 2005, respectively. These expenses include severance and relocation payments to employees and insurance deductibles for the two New Orleans, Louisiana area restaurants, severance payments and insurance deductibles and pre-opening costs associated with the Biloxi, Mississippi location, and temporary living and relocation costs related to the Company's relocation from Metairie, Louisiana to Heathrow, Florida.

*Pre-Opening Costs.* Pre-opening costs increased \$0.4 million, or 25.0%, to \$2.0 million in fiscal 2006 from \$1.6 million in fiscal 2005. This increase was due to the opening of four new company-owned restaurants in fiscal 2006 versus three locations during fiscal 2005, as well as certain expenses associated with the acquisition of the seven previously franchised restaurants.

*Interest Expense, net of Interest Income.* Interest expense, net of interest income, decreased \$5.6 million, or 65.9%, to \$2.9 million in fiscal 2006 from \$8.5 million in fiscal 2005. This decrease was primarily due to the repayment of debt in connection with the Company's initial public offering in August 2005, offset by additional borrowings related to the franchise acquisitions.

*Accrued Dividends and Accretion on Mandatorily Redeemable Senior Preferred Stock.* Dividends and accretion of issuance discount on Senior Preferred Stock are reflected as accrued dividends and accretion on mandatorily redeemable senior preferred stock in the Company's consolidated financial statements subsequent to the June 30, 2003 implementation date of SFAS No. 150. The Company used a portion of the proceeds from its initial public offering on August 8, 2005 to redeem all of its outstanding Senior Preferred Stock.

*Insurance Proceeds, net.* During fiscal 2006 the Company recognized income of approximately \$4.6 million from net insurance proceeds related to the Company's property losses in New Orleans and Metairie, Louisiana and Biloxi, Mississippi as a result of Hurricane Katrina.

*Income Tax Expense.* Income tax expense increased \$5.1 million, or 102.0%, to \$10.1 million in fiscal 2006 from \$5.0 million in fiscal 2005. This increase was due to a higher income from continuing operations before tax partially offset by a decrease in the annual effective tax rate due in part to tax credits received in fiscal 2006.

*Income from Continuing Operations.* Income from continuing operations increased \$12.9 million, or 119.4%, to \$23.7 million in fiscal 2006 from \$10.8 million fiscal 2005.

*Discontinued Operations, net of Income Tax Benefit.* Discontinued operations provided \$66,000 in fiscal 2006 compared to \$164,000 in fiscal 2005. On June 25, 2006 the company closed its Cleveland, Ohio restaurant whose lease term ended September 2006. The Company determined that the closed restaurant should be accounted for as discontinued operations because the Company does not expect any further direct or indirect cash inflows from the restaurant as it has completely ceased operation. The Company recognized a \$221,000 loss on impairment related to this location during fiscal year 2005.

On December 24, 2004, the Company closed its Manhattan-UN, New York restaurant operation, one of its two Ruth's Chris Steak House locations in Manhattan, New York. Prior to and including 2004, the Company experienced operating losses at its Manhattan-UN, New York restaurant location, which leased the property on which it operated. During August 2005, the Company entered into an agreement with the Manhattan (UN), New York landlord whereby: (1) the Company made a one-time payment of \$0.3 million to the landlord for rent, commission on a replacement lease, and attorneys fees; (2) the existing lease was terminated; (3) the Company allowed the landlord to contract with a third party replacement tenant; and (4) adjusted the remaining contingent

lease term from eleven years to six years. Under the agreement, after the third anniversary, if the replacement tenant defaults on the new lease anytime during the remaining six years, the Company will be required to enter into a new agreement with landlord for the remaining term. This agreement resulted in a reduction of previously recorded rental liability reflecting the recovery. At December 31, 2006, the Company maintained a contingent lease liability of \$0.2 million related to this property.

#### ***Fiscal Year 2005 Compared to Fiscal Year 2004***

***Restaurant Sales.*** Restaurant sales increased \$20.5 million, or 11.4%, to \$199.6 million in fiscal 2005 from \$179.1 million in fiscal 2004. The increase in restaurant sales was due primarily to a \$17.9 million increase in sales from restaurants open throughout both periods, representing comparable company-owned restaurant sales growth of 10.7%, \$4.0 million from the opening of three new company-owned restaurants, together with \$1.4 million attributable to the full-year impact of one restaurant acquired in April 2004, partially offset by the closing of two restaurants in New Orleans and Metairie, Louisiana, due to Hurricane Katrina. Approximately one-third of this increase in comparable company-owned restaurant sales was attributable to increased entrée volume driven by improvements in table utilization, management and additional marketing, with the other two-thirds caused by increased per entrée spending, driven by a shift in meal period, increased appetizer and wine sales, and a 3.0% price increase.

***Franchise Income.*** Franchise income increased \$1.9 million, or 20.3%, to \$11.4 million in fiscal 2005 from \$9.5 million in fiscal 2004. The increase was due primarily to an \$11.8 million increase in franchisee-owned restaurant sales from those franchisee-owned restaurants open throughout both periods, representing a comparable franchisee-owned restaurants sales growth of 6.4%, as well as the addition of four new franchisee-owned restaurants that opened in fiscal 2005.

***Food and Beverage Costs.*** Food and beverage costs increased \$1.5 million, or 2.5%, to \$61.8 million in fiscal 2005 from \$60.3 million in fiscal 2004. The increase was due to higher restaurant sales partially offset by lower food and beverage costs. As a percentage of restaurant sales, food and beverage costs decreased to 31.0% in fiscal 2005 from 33.7% in fiscal 2004. The decrease in food and beverage costs as a percentage of restaurant sales was primarily due to lower meat costs, accounting for approximately 63% of the reduction, and lower produce and dairy costs, accounting for approximately 26% of the reduction.

***Restaurant Operating Expenses.*** Restaurant operating expenses increased \$10.0 million, or 12.3%, to \$91.2 million in fiscal 2005 from \$81.2 million in fiscal 2004. The increase was primarily due to higher restaurant sales and additional operating weeks in fiscal 2005. Several of the operating expenses included in this category are either fixed or semi-variable. As a result, restaurant operating expenses, as a percentage of restaurant sales, increased to 45.7% in fiscal 2005 from 45.3% in fiscal 2004, primarily due to increased management staffing related to new restaurant openings, employee benefits costs and utility costs.

***Marketing and Advertising.*** Marketing and advertising expenses increased \$0.1 million, or 1.5%, to \$6.7 million in fiscal 2005 from \$6.6 million in fiscal 2004. Marketing and advertising expenses, as a percentage of total revenues, decreased to 3.2% in fiscal 2005 from 3.5% in fiscal 2004, due primarily to reduced national radio advertising during the third quarter of fiscal 2005 and increased total revenue during fiscal 2005.

***General and Administrative.*** General and administrative costs increased \$4.3 million, or 39.0%, to \$15.2 million in fiscal 2005 from \$10.9 million in fiscal 2004. General and administrative costs, as a percentage of total revenues, increased to 7.1% in fiscal 2005 from 5.7% in fiscal 2004. This increase was primarily due to the recruitment and hiring of several key management personnel and staff personnel in all functional areas and the incurrence of certain expenses associated with being a public company.

***Depreciation and Amortization.*** Depreciation and amortization expense increased \$0.1 million, or 1.6%, to \$6.5 million in fiscal 2005 from \$6.3 million in fiscal 2004. The increase was primarily due to the opening of

three new company-owned restaurants in fiscal 2005, partially offset by new purchases of furniture and equipment being lower than the amounts of previously purchased furniture and equipment that became fully depreciated.

*Hurricane and Relocation costs.* During the third quarter of fiscal 2005, the Company's corporate office building in Metairie, Louisiana was damaged by Hurricane Katrina and the Company subsequently relocated its corporate offices to Heathrow, Florida. The Company's restaurants in New Orleans and Metairie, Louisiana, also received damage from Hurricane Katrina. The New Orleans restaurant has not reopened and the Metairie restaurant reopened in December 2005. The Company had completed the construction and pre-opening activities for a new restaurant in Biloxi, Mississippi, which was also damaged by Hurricane Katrina. The Company incurred expenses related to these events of \$2.7 million during fiscal 2005. These expenses include severance and relocation payments to employees and insurance deductibles for the two New Orleans, Louisiana area restaurants, severance payments and insurance deductibles and pre-opening costs associated with the Biloxi, Mississippi location, and temporary living and relocation costs related to the Company's relocation from Metairie, Louisiana to Heathrow, Florida.

*Pre-Opening Costs.* Pre-opening costs increased \$1.2 million to \$1.6 million in fiscal 2005 from \$0.4 million in fiscal 2004. This increase was due to the opening of three new company-owned restaurants in fiscal 2005 as well as the reopening of its Metairie, Louisiana restaurant, which was temporarily closed due to Hurricane Katrina.

*Interest Expense, net of Interest Income.* Interest expense, net of interest income, decreased \$1.9 million, or 18.1%, to \$8.5 million in fiscal 2005 from \$10.3 million in fiscal 2004. The decrease was primarily due to the refinancings of the Company's credit facility in March and September 2005 that resulted in a lower weighted-average interest rate and lower average borrowings outstanding during fiscal 2005. Total debt decreased by \$42.4 million during fiscal 2005 to \$38.5 million on December 25, 2005.

*Accrued Dividends and Accretion on Mandatorily Redeemable Senior Preferred Stock.* Dividends and accretion of issuance discount on Senior Preferred Stock are reflected as accrued dividends and accretion on mandatorily redeemable senior preferred stock in the Company's consolidated financial statements subsequent to the June 30, 2003 implementation date of SFAS No. 150. The Company used a portion of the proceeds from its initial public offering on August 8, 2005 to redeem all of its outstanding Senior Preferred Stock.

*Other.* The Company had \$39,000 of other income in fiscal 2005 compared to other expense of \$1.1 million in fiscal 2004. This increase was primarily due to a \$1.3 million expense, net of insurance proceeds, to settle a labor dispute in California in fiscal 2004.

*Income Tax Expense.* Income tax expense increased \$4.3 million to \$5.0 million in fiscal 2005 from \$0.7 million in fiscal 2004. This increase was due to a higher level of income from continuing operations and the result of a higher effective tax rate resulting from an income tax benefit provided by discontinued operations that produced state net operating losses and increased use of tax credits available to the company in fiscal 2004.

*Income from Continuing Operations.* Income from continuing operations increased \$4.6 million, or 74.2%, to \$10.8 million in fiscal 2005 from \$6.2 million fiscal 2004.

*Discontinued Operations, net of Income Tax Benefit.* Discontinued operations provided a \$164,000 recovery in fiscal 2005 compared to a \$3.8 million expense in fiscal 2004. On June 25, 2006 the company closed its Cleveland, Ohio restaurant whose lease term ended September 2006. The Company determined that the closed restaurant should be accounted for as discontinued operations because the Company does not expect any further direct or indirect cash inflows from the restaurant because it has completely ceased operation. The Company recognized a \$221,000 loss on impairment related to this location during fiscal year 2005. Net operations of Cleveland have been reclassified to discontinued operations for fiscal 2004 and fiscal 2005.

The expense in fiscal 2004 was due to the write-down of property and equipment and certain other assets and the accrual of lease exit costs associated with the closings of Sugar Land, Texas and Manhattan (UN), New York company-owned restaurants. During August 2005, the Company entered into an agreement with the Manhattan (UN), New York landlord whereby: (1) the Company made a one-time payment of \$0.3 million to the landlord for rent, commission on a replacement lease, and attorneys fees; (2) the existing lease was terminated; (3) the Company allowed the landlord to contract with a third party replacement tenant; and (4) adjusted the remaining contingent lease term was adjusted from eleven years to six years. Under the agreement, after the third anniversary, if the replacement tenant defaults on the new lease anytime during the remaining six years, the Company will be required to enter into a new agreement with landlord for the remaining term. This agreement resulted in a reduction of previously recorded rental liability reflecting the recovery. At December 25, 2005, the Company maintained a contingent lease liability of \$0.2 million related to this property.

## Potential Fluctuations in Quarterly Results and Seasonality

The Company's quarterly operating results may fluctuate significantly as a result of a variety of factors. See "Risk Factors," which discloses certain material risks that could affect its quarterly operating results.

The Company's business is also subject to seasonal fluctuations. Historically, the percentages of its annual total revenues during the first and fourth fiscal quarters have been higher due, in part, to the year-end holiday season. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year, and comparable restaurant sales for any particular period may decrease. In the future, operating results may fall below the expectations of securities analysts and investors. If this occurs, the price of the Company's common stock would likely decrease. The following table presents summary quarterly results of operations for fiscal 2005 and fiscal 2006.

|  | Quarter Ended                           |                  |                       |                          | Quarter Ended     |                  |                           |                          |
|--|---|------------------|-----------------------|--------------------------|-------------------|------------------|---------------------------|--------------------------|
|  | March 27,<br>2005                       | June 26,<br>2005 | September<br>25, 2005 | Decem<br>ber 25,<br>2005 | March 26,<br>2006 | June 25,<br>2006 | Septem<br>ber 24,<br>2006 | Decem<br>ber 31,<br>2006 |
|  | (\$ in millions, except per share data) |                  |                       |                          |                   |                  |                           |                          |
| Total revenues   | \$ 55.9                                 | \$ 51.9          | \$45.8                | \$58.1                   | \$64.7            | \$60.6           | \$58.2                    | \$88.0                   |
| Cost and expenses  | 46.3                                    | 45.6             | 42.4                  | 51.3                     | 55.7              | 53.4             | 55.1                      | 75.2                     |
| Operating income   | \$ 9.6                                  | \$ 6.3           | \$ 3.4                | \$ 6.8                   | \$ 9.0            | \$ 7.2           | \$ 3.1                    | \$12.8                   |
| Interest expense, net  | (4.1)                                   | (1.6)            | (1.4)                 | (1.3)                    | (0.5)             | (0.5)            | (0.7)                     | (1.2)                    |
| Accrued dividends and accretion on mandatorily<br>redeemable preferred stock | (1.2)                                   | (0.4)            | (0.3)                 | —                        | —                 | —                | —                         | —                        |
| Insurance proceeds, net  | —                                       | —                | —                     | —                        | —                 | 0.4              | 1.0                       | 3.2                      |
| Other  | —                                       | —                | —                     | (0.1)                    | —                 | —                | —                         | —                        |
| Income from continuing operations before income<br>tax                       | 4.3                                     | 4.3              | 1.7                   | 5.4                      | 8.5               | 7.1              | 3.4                       | 14.8                     |
| Income tax expense   | 1.5                                     | 1.0              | 0.8                   | 1.7                      | 2.6               | 2.2              | 1.1                       | 4.2                      |
| Income from continuing operations  | 2.8                                     | 3.3              | 0.9                   | 3.7                      | 5.9               | 4.9              | 2.3                       | 10.6                     |
| Discontinued operations, net of income tax<br>benefit                        | 0.5                                     | 0.2              | (0.3)                 | (0.6)                    | —                 | —                | —                         | (0.1)                    |
| Net income   | \$ 2.3                                  | \$ 3.1           | \$ 1.2                | \$ 4.3                   | \$ 5.9            | \$ 4.9           | \$ 2.3                    | \$10.7                   |
| Less dividends earned on junior preferred stock and<br>warrant expense       | 1.4                                     | 1.5              | 0.8                   | —                        | —                 | —                | —                         | —                        |
| Net Income (loss) available to common<br>shareholders                        | \$ 0.9                                  | \$ 1.6           | \$ 0.4                | \$ 4.3                   | \$ 5.9            | \$ 4.9           | \$ 2.3                    | \$10.7                   |
| Basic earnings (loss) per share:   |   |                  |                       |                          |                   |                  |                           |                          |
| Continuing operations  | \$ 0.10                                 | \$ 0.14          | \$ —                  | \$0.16                   | \$0.26            | \$0.21           | \$0.10                    | \$0.45                   |
| Discontinued operations  | (0.03)                                  | (0.02)           | 0.02                  | 0.03                     | —                 | —                | —                         | 0.01                     |
| Basic earnings (loss) per share  | \$ 0.07                                 | \$ 0.12          | \$0.02                | \$0.19                   | \$0.26            | \$0.21           | \$0.10                    | \$0.46                   |
| Diluted earnings (loss) per share:   |   |                  |                       |                          |                   |                  |                           |                          |
| Continuing operations  | \$ 0.09                                 | \$ 0.13          | \$ —                  | \$0.15                   | \$0.25            | \$0.21           | \$0.10                    | \$0.45                   |
| Discontinued operations  | (0.03)                                  | (0.02)           | 0.02                  | 0.03                     | —                 | —                | —                         | 0.01                     |
| Diluted earnings (loss) per share  | \$ 0.06                                 | \$ 0.11          | \$0.02                | \$0.18                   | \$0.25            | \$0.21           | \$0.10                    | \$0.46                   |
| Shares (in millions) used in computing net income<br>per common share:       |   |                  |                       |                          |                   |                  |                           |                          |
| Basic  | 13.0                                    | 13.0             | 22.7                  | 23.0                     | 23.1              | 23.2             | 23.2                      | 23.2                     |
| Diluted  | 14.2                                    | 14.2             | 23.3                  | 23.5                     | 23.5              | 23.5             | 23.4                      | 23.4                     |
| Quarterly percentage of annual revenues                                      | 26.4%                                   | 24.5%            | 21.6%                 | 27.5%                    | 23.8%             | 22.3%            | 21.5%                     | 32.4%                    |
| Operating margin (1)   | 17.2%                                   | 12.1%            | 7.4%                  | 11.7%                    | 13.9%             | 11.9%            | 5.2%                      | 14.5%                    |

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



During the fiscal quarters ended March 27, 2005 and September 25, 2005, the Company wrote off \$1.6 million and \$0.7 million of deferred financing costs, respectively. During the quarters ended September 25, 2005 and December 25, 2005, the Company incurred hurricane and relocation costs of \$1.2 million and \$1.5 million, respectively. Hurricane and relocation costs totaled \$0.2, \$0.3 and \$0.1 million in the quarters ended March 26, 2006, June 25, 2006 and September 24, 2006, respectively.

During the fiscal quarters ended June, 25, 2006, September 24, 2006 and December 31, 2006, the Company received \$0.4 millions, \$1.0 million and \$3.2 million, respectively in net insurance proceeds associated with property damage recoveries and business interruption claims from Hurricane Katrina.

During the fiscal quarter ended December 31, 2006 the Company recorded a loss on impairment of long-lived assets in the amount of \$1.0 million. These charges were related to the partial impairment of fixtures and equipment and leasehold improvements at one company-owned restaurant. Additionally, this quarter included an additional week of operations as well as total revenue benefited from gift card breakage above normal trends.

### Liquidity and Capital Resources

The Company's principal sources of cash during fiscal 2006 were net cash provided by operating activities and borrowings under its senior credit facilities. The Company's principal uses of cash during fiscal 2006 include capital expenditures, franchise acquisitions and debt service. The Company expects that its principal uses of cash in the future will be to continue to finance capital expenditures and to service debt.

#### Cash Flows

The following table summarizes the Company's primary sources of cash in the periods presented:

|  | Fiscal Year |           |            |
|--|-------------|-----------|------------|
|  | 2004        | 2005      | 2006       |
| Net cash provided by (used in):                      |             |           |            |
| Operating activities                                 | \$ 20,970   | \$ 29,617 | \$ 47,668  |
| Investing activities                                 | (3,518)     | (17,519)  | (84,218)   |
| Financing activities                                 | (18,676)    | (7,019)   | 32,255     |
| Net increase (decrease) in cash and cash equivalents | \$ (1,224)  | \$ 5,079  | \$ (4,295) |

The Company's operations have not required significant working capital and, like many restaurant companies, it has been able to operate with negative working capital. Restaurant sales are primarily for cash or by credit card, and restaurant operations do not require significant inventories or receivables. In addition, the Company receives trade credit for the purchase of food, beverage and supplies, thereby reducing the need for incremental working capital to support growth.

*Operating Activities.* Net cash provided by operating activities was \$21.0 million and \$29.6 million in fiscal 2004 and fiscal 2005, respectively, compared to \$47.2 million in fiscal 2006. This increase was primarily due to higher net income.

*Investing Activities.* Net cash used in investing activities was \$3.5 million and \$17.5 million in fiscal 2004 and fiscal 2005, respectively, compared to \$84.2 million in fiscal 2006. The increase in fiscal 2006 was the result of increased capital expenditures which totaled \$48.7 million as well as the acquisition of seven previously franchise-owned restaurants (excluding inventory) and other lease rights which totaled \$38.9 million. These increases were partially offset by net insurance proceeds related to property losses received of \$3.4 million. Net cash used in investing activities varied in the periods presented based on the number of new company-owned restaurants opened and the maintenance of its existing restaurant base during the period.

**Financing Activities.** Net cash provided by financing activities totaled \$32.3 million in fiscal 2006 compared to net cash usage of \$7.0 million in fiscal 2005. This change was primarily driven by the net debt reductions, as noted below, in fiscal 2005 compared to \$29.5 million of net debt increases in fiscal 2006. In fiscal 2004, net cash used by financing activities was \$18.7 million. On March 11, 2005, the Company entered into a senior credit facility that allowed it to redeem \$30.0 million of Senior Preferred Stock, redeem existing senior subordinated notes and refinance existing debt. On August 12, 2005, the Company and certain selling shareholders completed an initial public offering of 9,375,000 and 5,575,000 shares of common stock, respectively, at \$18.00 per share. The Company received net proceeds of approximately \$154.3 million from the sale of shares of its common stock in the offering after deducting underwriting discounts and commissions and offering expenses payable by the Company. The Company used the net proceeds of the offering as follows: (1) approximately \$11.7 million was used to redeem all of its outstanding Senior Preferred Stock, (2) approximately \$76.2 million to redeem or repurchase all of its outstanding Junior Preferred Stock, (3) approximately \$65.5 million was used to repay a portion of the outstanding indebtedness under its senior credit facilities and (4) \$0.8 million was used for general working capital needs of the Company. On September 27, 2005, the Company entered into a new senior credit facility with Wells Fargo Bank, National Association, as administrative agent, Bank of America, N.A., as documentation agent, and JPMorgan Chase Bank, National Association and Wells Fargo Bank, National Association as co-lead arrangers and Wachovia Bank, N.A. The Company used the \$38.5 million funded at closing under the new senior credit facility to prepay and retire borrowings under its previous credit facility and to pay related fees and expenses. In conjunction with the new senior credit facility, the Company expensed approximately \$0.7 million in deferred issuance cost from the prior credit facilities. On May 17, 2006, the Company completed an amendment to its existing senior revolving credit facility to increase its availability under the facility to \$100.0 million. This amendment also provides that the revolving credit facility may be further increased by \$25.0 million upon the Company's request (for a total commitment of \$125.0 million). The financial covenants, restrictive covenants and terms of the increased revolving credit facility were not amended.

### ***Capital Expenditures***

Capital expenditures and other acquisitions totaled \$87.6 million in fiscal 2006, \$19.6 million in fiscal 2005 and \$3.5 million in fiscal 2004. The increase in fiscal 2006 resulted from approximately \$27.0 million related to new restaurant construction, \$36.9 million for the purchase of seven previously franchise-owned restaurants (excluding inventory), \$13.5 million for the purchase of an office building in Heathrow, Florida, \$2.0 million for the purchase of interests in certain leased property for future use, and \$2.7 million for remodels, and maintenance capital and technology expenditures of existing operations of \$5.5 million.

The Company anticipates capital expenditures in the future will increase to the extent it opens new company-owned restaurants and opportunistically acquires franchisee-owned restaurants and related rights. See Note (10) in the Notes to Consolidated Financial Statements regarding the completed franchise acquisition in fiscal 2006. The Company currently expects to open six to seven company-owned restaurants in fiscal 2007. The Company believes that its net investment in future openings will range between \$2.5 million and \$4.5 million depending upon underlying individual restaurant economics and the Company's ability to use its resources to obtain its fully-capitalized return-on-investment targets. These capital expenditures will primarily be funded by cash flows from operations and, if necessary, by the use of its revolving credit facility, depending upon the timing of expenditures.

### ***Senior Credit Facilities***

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

On January 17, 2006, to limit the variability of a portion of its interest payments, the Company entered into a three year interest rate swap with notional amounts totaling \$15.0 million through March 27, 2007, \$10.0 million through March 27, 2008, and \$5.0 million through the expiration on March 27, 2009 of the then outstanding debt under its senior credit facility. On July 11, 2006, to limit the variability of a portion of its interest payments, the Company entered into a two year interest rate swap with notional amounts totaling \$20.0 million through September 27, 2007, and \$15.0 million through the expiration on September 29, 2008 of the then outstanding debt under its senior credit facility. Under the terms of these interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed rate debt. The Company discontinued the use of hedge accounting for these swaps effective as of the fourth quarter of 2006.

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

The Company is required to maintain certain financial covenants and is also subject to restrictive covenants under its senior credit facility. The Company was in compliance with such covenants at December 31, 2006. At December 31, 2006, the Company had \$68.0 million outstanding under its senior credit facility and \$29.4 million of availability, net of \$2.6 million of outstanding letters of credit. The Company's total weighted-average effective interest rate at December 31, 2006, was 6.148%.

The Company believes that net cash provided by operating activities and borrowings under its senior credit facility will be sufficient to fund currently anticipated working capital, planned capital expenditures and debt service requirements for the next twenty-four months. The Company regularly reviews acquisitions and other strategic opportunities, which may require additional debt or equity financing.

### ***Contractual Obligations***

The following table summarizes the Company's contractual obligations as of December 31, 2006:

|                                       | Payments due by period |                     |               |                |                      |
|---------------------------------------|------------------------|---------------------|---------------|----------------|----------------------|
|                                       | Total                  | Less than<br>1 year | 1-2<br>years  | 3-5<br>years   | More than<br>5 years |
|                                       |                        |                     | (in millions) |                |                      |
| Long-term debt obligations . . . . .  | \$ 68.0                | \$ —                | \$ —          | \$ 68.0        | \$ —                 |
| Operating lease obligations . . . . . | 108.4                  | 11.6                | 11.6          | 32.2           | 53.0                 |
| Total . . . . .                       | <u>\$176.4</u>         | <u>\$11.6</u>       | <u>\$11.6</u> | <u>\$100.2</u> | <u>\$53.0</u>        |

### **Off-Balance Sheet Arrangements**

As of December 31, 2006, the Company does not have any off-balance sheet arrangements as defined by the SEC. On October 30, 2006, the Company acquired a franchisee-owned restaurant in Troy, Michigan. Prior to this acquisition, the Company had guaranteed the operating lease for this location, which required annual minimum lease payments of \$0.2 million through 2010 and through one subsequent renewal term. These commitments are now part of the Company's operating lease obligations as disclosed under "Contractual Obligations."

### **Critical Accounting Policies and Estimates**

The Company's discussion and analysis of results of operations and financial condition are based upon its audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements is based, in part, on its critical accounting policies that require the Company to make estimates and judgments that affect the amounts reported in those financial statements. The Company's significant accounting policies, which may be affected by its estimates and assumptions, are more fully described in Note 2 to its consolidated financial statements that appear elsewhere in Item 8. Critical accounting policies are those that the Company believes are

most important to portraying its financial condition and results of operations and also require the greatest amount of subjective or complex judgments by management. Judgments or uncertainties regarding the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. The Company considers the following policies to be the most critical in understanding the judgments that are involved in preparing the combined financial statements.

#### ***Equipment and Leasehold Improvements***

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

#### ***Impairment of Long-Lived Assets***

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

During 2005 and 2006, the Company recorded losses on impairment of long-lived assets in the amounts of \$0.2 million and \$1.0 million, respectively. These charges were related to the partial impairment of fixtures and equipment and leasehold improvements at two company-owned restaurants, one that closed in 2006 and is included in discontinued operations and one that is still in operation. The loss on impairment recognized in 2005 was related to the Cleveland operations and was reclassified to discontinued operations for comparative purposes.

#### ***Goodwill and Other Intangible Assets***

Goodwill and other indefinite lived assets resulted primarily from the Company's acquisition of franchisee-owned restaurants. The most significant acquisitions were completed in 1996, 1999 and 2006. Goodwill and other intangible assets with indefinite lives are not subject to amortization. However, such assets must be tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and at least annually. The Company completed the most recent impairment test in December 2006, and determined that there were no impairment losses related to goodwill and other indefinite lived assets. In assessing the recoverability of goodwill and other indefinite lived assets, market values and projections regarding estimated future cash flows and other factors are used to determine the fair value of the respective assets. The estimated future cash flows were projected using significant assumptions, including future revenues and expenses. If these estimates or related projections change in the future, the Company may be required to record impairment charges for these assets.

#### ***Insurance Liability***

The Company maintains various insurance policies for workers' compensation, employee health, general liability, and property damage. Pursuant to those policies, the Company is responsible for losses up to certain

limits and is required to estimate a liability that represents the Company's ultimate exposure for aggregate losses below those limits. This liability is based on management's estimates of the ultimate costs to be incurred to settle known claims and claims not reported as of the balance sheet date. The Company's estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions, and economic conditions. If actual trends differ from the Company's estimates, the Company's financial results could be impacted.

### ***Income Taxes***

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

### ***Share-Based Compensation***

FAS 123R requires the recognition of compensation expense in the Consolidated Statements of Income related to the fair value of employee share-based options. Determining the fair value of share-based awards at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise and the expected dividends. Judgment is also required in estimating the amount of share-based awards expected to be forfeited prior to vesting. If actual forfeitures differ significantly from these estimates, share-based compensation expense could be materially impacted. Prior to adopting FAS 123, the Company applied APB Opinion No. 25, and related Interpretations, in accounting for its stock-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for fixed stock option grants in 2004 or 2005.

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

### ***Recent Accounting Pronouncements For Future Application***

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. The interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. This interpretation is effective for



fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact FIN 48 will have on the consolidated financial statements and expects the adoption of this standard will not have a material impact on its consolidated balance sheet, statements of income or cash flows.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements. This statement applies under other accounting pronouncements that currently require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that SFAS 157 will have on the consolidated financial statements and expects the adoption of this standard will not have a material impact on its consolidated balance sheet, statements of income or cash flows.

Other accounting standards that have been issued or are currently proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

## **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

### ***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 its new senior credit facilities, interest rate changes generally do not affect the fair market value of such debt, but do impact future earnings and cash flows, assuming other factors are held constant. At December 31, 2006, the Company had \$68.0 million of variable rate debt of which \$35.0 million has been converted to fixed rates through the use of interest rate swaps. Holding other variables constant (such as foreign exchange rates and debt levels), a hypothetical immediate one percentage point change in interest rates would be expected to have an impact on pre-tax earnings and cash flows for fiscal 2006 of approximately \$0.3 million.

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

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

### ***Foreign Currency Risk***

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

### ***Commodity Price Risk***

The Company is exposed to market price fluctuations in beef and other food product prices. Given the historical volatility of beef and other food product prices, this exposure can impact the Company's food and beverage costs. Because the Company typically sets its menu prices in advance of its beef and other food product purchases, the Company cannot quickly take into account changing costs of beef and other food items. To the extent that the Company is unable to pass the increased costs on to its guests through price increases, the



Company's results of operations would be adversely affected. The Company currently does not use financial instruments to hedge its risk to market price fluctuations in beef or other food product prices.

### ***Effects of Inflation***

Components of the Company's operations subject to inflation include food, beverage, lease and labor costs. The Company's leases require it to pay taxes, maintenance, repairs, insurance and utilities, all of which are subject to inflationary increases. The Company believes inflation has not had a material impact on its results of operations in recent years.

## **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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

None.

## **Item 9A. CONTROLS AND PROCEDURES**

### ***Evaluation of disclosure controls and procedures***

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934), as of December 31, 2006. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006.

### ***Change in internal controls over financial reporting***

During the fiscal quarter ending December 31, 2006, there was no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### ***Management's Report on Internal Control Over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934).

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management applied the criteria based on the "Internal Control – Integrated Framework" set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's assessment included documenting, evaluating, and testing the design and operating effectiveness of the Company's internal control over financial reporting. Based upon this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2006.

KPMG LLP, the Company's independent registered public accounting firm, has audited the Company's financial statements included in the annual report and has issued an attestation report on management's assessment of the Company's internal control over financial reporting, which follows.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Ruth's Chris Steak House, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Ruth's Chris Steak House, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ruth's Chris Steak House, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Ruth's Chris Steak House, Inc.'s internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Ruth's Chris Steak House, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Ruth's Chris Steak House, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ruth's Chris Steak House, Inc. and subsidiaries as of December 25, 2005 and December 31, 2006, and the related consolidated statements of income, shareholders' equity (deficit), and cash flows for the fifty-two weeks ended December 26, 2004 and December 25, 2005, and for the fifty-three weeks ended December 31, 2006 and our report dated March 16, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Orlando, Florida  
March 16, 2007  
Certified Public Accountants

**Item 9B. Other Information**

None.

**PART III****Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information required by this Item for executive officers is set forth under “Executive Officers of the Registrant” in Part I, Item 1 of this report. The other information required by this Item is incorporated by reference to the sections entitled “Election of Directors,” “Executive Officers,” “Audit Committee Disclosure,” “Board of Directors and Corporate Governance” and “Section 16A Beneficial Ownership Reporting Compliance” in the Company’s Proxy Statement for the 2007 Annual Meeting of Stockholders.

There have been no material changes to the procedures through which stockholders may recommend nominees to our Board of Directors since April 10, 2006, which is the date of our last proxy statement. We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. The text of our Code of Ethics is posted on our website: [www.ruthschris.com](http://www.ruthschris.com)—click on “Investors”, then click on "Corporate Governance" and then click on “Code of Ethics.” Our Company intends to disclose future amendments to, or waivers from, certain provisions of the Code of Ethics on the website within four business days following the date of such amendment or waiver. Stockholders may request a free copy of the Code of Ethics from: Ruth’s Chris Steak House, Inc., Attention: Corporate Secretary, 500 International Parkway, Suite 100, Heathrow, Florida 32746.

**Item 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to the sections entitled “Executive Compensation,” “Director Compensation” and “Compensation Committee Interlocks and Insider Participation” in the Company’s Proxy Statement for the 2007 Annual Meeting of Stockholders. See also the information under the caption “Compensation Committee Report” in the Proxy Statement for the 2007 Annual Meeting of Stockholders, which is incorporated herein by reference; however, such information is only “furnished” hereunder and not deemed “soliciting material” or “filed” with the SEC or subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934.

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

The information required by this Item is incorporated by reference to the sections entitled “Principal Stockholders” and “Equity Compensation Plan Information” in the Company’s Proxy Statement for the 2007 Annual Meeting of Stockholders.

Options to purchase shares of our common stock have been granted to certain of our directors, executives and key employees under our 2005 Long-Term Equity Incentive Plan and our 2000 Stock Option Plan. The following table summarizes the number of stock options issued and shares of restricted stock granted, net of forfeitures and sales, the weighted-average exercise price of such stock options and the number of securities remaining to be issued under all outstanding equity compensation plans as of December 31, 2006:

| <u>Plan Category</u>  | <u>Number of Securities to<br/>be Issued Upon Exercise<br/>of Outstanding Options,<br/>Warrants and Rights</u> | <u>Weighted-Average<br/>Exercise Price of<br/>Outstanding Options,<br/>Warrants and Rights</u> | <u>Number of Securities<br/>Remaining Available for<br/>Future Issuance Under<br/>Equity Compensation Plan<br/>(Excluding Securities<br/>Reflected in Column (a))</u> |
|---|--|--|---|
|   | (a)  | (b)  | (c)   |
| Equity compensation plans approved by<br>stockholders:              |  |  |   |
| 2000 Stock Option Plan . . . . .                                    | 331,216  | \$ 0.48  | 613,258   |
| 2004 Restricted Stock Plan(1) . . . . .                             | 1,167,487  | —  | —   |
| 2005 Long-Term Equity Incentive<br>Plan . . . . .                   | 792,153  | \$18.33  | 1,566,613   |
| Equity compensation plans not approved by<br>stockholders . . . . . | —  | —  | —   |
| Total . . . . .   | <u>2,290,856</u>   | <u>\$13.07</u>   | <u>2,179,871</u>  |

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

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

The information required by this Item is incorporated by reference to the sections entitled “Certain Relationships and Related Transactions” and “Director Independence” in the Company’s Proxy Statement for the 2007 Annual Meeting of Stockholders.

### **Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item is incorporated by reference to the sections entitled “Principal Accountant Fees and Services” in its Proxy Statement for the 2007 Annual Meeting of Stockholders.

## **PART IV**

### **Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements and Financial Statement Schedules.

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

(b) Exhibits.

See Exhibit Index appearing on page E-1 for a list of exhibits filed with or incorporated by reference as part of this Annual Report on Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 16, 2007

RUTH'S CHRIS STEAK HOUSE, INC.

By: /s/ CRAIG S. MILLER  
**Chairman of the Board, Chief Executive Officer and President**

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

| <u>Signatures</u>                                      | <u>Title</u>  | <u>Dates</u>   |
|--|---|----------------|
| /s/ CRAIG S. MILLER<br>Craig S. Miller                 | Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)                          | March 16, 2007 |
| /s/ THOMAS J. PENNISON, JR.<br>Thomas J. Pennison, Jr. | Senior Vice President, Chief Financial Officer and Assistant Secretary (Principal Financial and Accounting Officer) | March 16, 2007 |
| /s/ ROBIN P. SELATI<br>Robin P. Selati                 | Director  | March 16, 2007 |
| /s/ CARLA R. COOPER<br>Carla R. Cooper                 | Director  | March 16, 2007 |
| /s/ BANNUS B. HUDSON<br>Bannus B. Hudson               | Director  | March 16, 2007 |
| /s/ ALAN VITULI<br>Alan Vituli                         | Director  | March 16, 2007 |

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**RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

|   | <u>Page</u> |
|---|-------------|
| Report of Independent Registered Public Accounting Firm .....   | F-2         |
| Consolidated Balance Sheets .....                               | F-3         |
| Consolidated Statements of Income .....                         | F-4         |
| Consolidated Statements of Shareholders' Equity (Deficit) ..... | F-5         |
| Consolidated Statements of Cash Flows .....                     | F-6         |
| Notes to Consolidated Financial Statements .....                | F-7         |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Ruth's Chris Steak House, Inc.:

We have audited the accompanying consolidated balance sheets of Ruth's Chris Steak House, Inc. and subsidiaries as of December 25, 2005 and December 31, 2006, and the related consolidated statements of income, shareholders' equity (deficit) and cash flows for the fifty-two weeks ended December 26, 2004 and December 25, 2005, and for the fifty-three weeks ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ruth's Chris Steak House, Inc. and subsidiaries as of December 25, 2005 and December 31, 2006, and the results of their operations and their cash flows for the fifty-two weeks ended December 26, 2004 and December 25, 2005, and for the fifty-three weeks ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standard No. 123(R), *Share-Based Payment*, in fiscal year 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Orlando, Florida  
March 16, 2007  
Certified Public Accountants

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

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

|  | December 25,<br>2005 | December 31,<br>2006 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents .....  | \$ 8,985             | \$ 4,690             |
| Accounts receivable, net .....   | 12,820               | 11,120               |
| Inventory .....  | 4,592                | 6,453                |
| Prepaid expenses and other .....   | 2,156                | 3,184                |
| Deferred income taxes .....  | 262                  | 906                  |
| Total current assets .....   | 28,815               | 26,353               |
| Property and equipment, net .....  | 63,850               | 105,092              |
| Goodwill and other intangibles .....   | 30,533               | 67,188               |
| Deferred income taxes .....  | 9,192                | 8,987                |
| Other assets .....   | 1,806                | 2,100                |
| Total assets .....   | <u>\$ 134,196</u>    | <u>\$209,720</u>     |
| <b>Liabilities and Shareholders' Equity</b>  |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable and accrued expenses .....  | \$ 23,752            | \$ 33,188            |
| Deferred revenue .....   | 18,639               | 24,676               |
| Other current liabilities .....  | 1,029                | 1,440                |
| Total current liabilities .....  | 43,420               | 59,304               |
| Long-term debt .....   | 38,500               | 68,000               |
| Deferred rent .....  | 11,730               | 14,007               |
| Other liabilities .....  | 281                  | 431                  |
| Total liabilities .....  | 93,931               | 141,742              |
| Commitments and contingencies (Note 13)  |                      |                      |
| Shareholders' equity (deficit):  |                      |                      |
| Preferred stock, par value \$.01 per share; 10,150,000 shares authorized, no shares issued and outstanding .....   | —                    | —                    |
| Common stock, par value \$.01 per share; 100,000,000 shares authorized, 23,074,496 shares issued and outstanding at December 25, 2005, 23,237,630 shares issued and outstanding at December 31, 2006 ... | 231                  | 232                  |
| Class B common stock, par value \$.01 per share; 1,000,000 shares authorized, no shares issued and outstanding .....   | —                    | —                    |
| Additional paid-in capital .....   | 162,567              | 166,489              |
| Accumulated deficit .....  | (122,533)            | (98,743)             |
| Total shareholders' equity .....   | 40,265               | 67,978               |
| Total liabilities and shareholders' equity .....   | <u>\$ 134,196</u>    | <u>\$209,720</u>     |

See accompanying notes to consolidated financial statements.

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

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

|  | Fiscal Year Ended    |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | December 26,<br>2004 | December 25,<br>2005 | December 31,<br>2006 |
| Revenues:  |                      |                      |                      |
| Restaurant sales .....   | \$179,083            | \$199,621            | \$254,718            |
| Franchise income .....   | 9,500                | 11,432               | 12,399               |
| Other operating income .....   | 646                  | 777                  | 4,362                |
| Total revenues .....   | 189,229              | 211,830              | 271,479              |
| Costs and expenses:  |                      |                      |                      |
| Food and beverage costs .....  | 60,303               | 61,804               | 82,016               |
| Restaurant operating expenses .....  | 81,200               | 91,155               | 113,746              |
| Marketing and advertising .....  | 6,634                | 6,696                | 8,328                |
| General and administrative costs .....   | 10,938               | 15,208               | 22,974               |
| Depreciation and amortization expenses .....   | 6,345                | 6,489                | 8,690                |
| Hurricane and relocation costs .....   | —                    | 2,660                | 644                  |
| Loss on impairment .....   | —                    | —                    | 970                  |
| Pre-opening costs .....  | 364                  | 1,623                | 2,046                |
| Operating income .....   | 23,445               | 26,195               | 32,065               |
| Other income (expense):  |                      |                      |                      |
| Interest expense, net .....  | (10,320)             | (8,453)              | (2,856)              |
| Accrued dividends and accretion on mandatorily redeemable senior preferred<br>stock .....  | (5,071)              | (1,891)              | —                    |
| Insurance proceeds, net .....  | —                    | —                    | 4,592                |
| Other .....  | (1,099)              | (39)                 | 21                   |
| Income from continuing operations before income tax expense .....  | 6,955                | 15,812               | 33,822               |
| Income tax expense .....   | 736                  | 5,043                | 10,098               |
| Income from continuing operations .....  | 6,219                | 10,769               | 23,724               |
| Discontinued operations:   |                      |                      |                      |
| Loss (gain) from operations of discontinued restaurants, net of income tax<br>benefit:2004—\$2,810; 2005—\$1,059; 2006—\$150 ..... | 3,777                | (164)                | (66)                 |
| Net income .....   | \$ 2,442             | \$ 10,933            | \$ 23,790            |
| Less dividends earned on junior preferred stock and warrant expense .....  | 5,373                | 3,753                | —                    |
| Net income (loss) available to common shareholders .....   | \$ (2,931)           | \$ 7,180             | \$ 23,790            |
| Basic earnings (loss) per share:   |                      |                      |                      |
| Continuing operations .....  | \$ 0.07              | \$ 0.39              | \$ 1.02              |
| Discontinued operations .....  | (0.32)               | 0.01                 | 0.01                 |
| Basic earnings per share .....   | \$ (0.25)            | \$ 0.40              | \$ 1.03              |
| Diluted earnings (loss) per share:   |                      |                      |                      |
| Continuing operations .....  | \$ 0.07              | \$ 0.38              | \$ 1.01              |
| Discontinued operations .....  | (0.32)               | 0.01                 | 0.01                 |
| Diluted earnings per share .....   | \$ (0.25)            | \$ 0.39              | \$ 1.02              |

See accompanying notes to consolidated financial statements.

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Consolidated Statements of Shareholders' Equity (Deficit) (dollar and share amounts in thousands)

|   | Junior Preferred Stock |           | Common Stock |       | Additional         | Accumulated | Shareholders'       |
|---|------------------------|-----------|--------------|-------|--------------------|-------------|---------------------|
|   | Shares                 | Value     | Shares       | Value | paid-in<br>capital | Deficit     | Equity<br>(Deficit) |
| Balance at December 28, 2003 .....  | 67                     | \$ 67,164 | 10,376       | \$104 | \$ 5,556           | \$(126,782) | \$ (53,958)         |
| Net income .....  | —                      | —         | —            | —     | —                  | 2,442       | 2,442               |
| Dividends .....   | —                      | —         | —            | —     | —                  | (5,373)     | (5,373)             |
| Issuance of junior preferred shares .....   | 5                      | 5,373     | —            | —     | —                  | —           | 5,373               |
| Issuance of restricted common stock .....   | —                      | —         | 1,168        | 11    | (8)                | —           | 3                   |
| Balance at December 26, 2004 .....  | 72                     | 72,537    | 11,544       | 115   | 5,548              | (129,713)   | (51,513)            |
| Net income .....  | —                      | —         | —            | —     | —                  | 10,933      | 10,933              |
| Dividends .....   | —                      | —         | —            | —     | —                  | (3,707)     | (3,707)             |
| Issuance of junior preferred shares .....   | 4                      | 3,707     | —            | —     | —                  | —           | 3,707               |
| Warrant expense .....   | —                      | —         | —            | —     | 46                 | (46)        | —                   |
| Exercise of warrants .....  | —                      | —         | 1,494        | 15    | (6)                | —           | 9                   |
| Redemption of junior preferred shares .....   | (76)                   | (76,244)  | —            | —     | —                  | —           | (76,244)            |
| Shares issued under stock option plan including<br>tax effects .....                | —                      | —         | 661          | 7     | 2,626              | —           | 2,633               |
| Compensation expense and other .....  | —                      | —         | —            | —     | 110                | —           | 110                 |
| Issuance of common stock in initial public<br>offering, net of offering costs ..... | —                      | —         | 9,375        | 94    | 154,243            | —           | 154,337             |
| Balance at December 25, 2005 .....  | —                      | —         | 23,074       | 231   | 162,567            | (122,533)   | 40,265              |
| Net income .....  | —                      | —         | —            | —     | —                  | 23,790      | 23,790              |
| Shares issued under stock option plan including<br>tax effects .....                | —                      | —         | 163          | 1     | 2,873              | —           | 2,874               |
| Compensation expense and other .....  | —                      | —         | —            | —     | 1,049              | —           | 1,049               |
| Balance at December 31, 2006 .....  | —                      | \$ —      | 23,237       | \$232 | \$166,489          | \$ (98,743) | \$ 67,978           |

See accompanying notes to consolidated financial statements.

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows (dollar amounts in thousands)

|   | Fiscal Year Ended    |                      |                      |
|---|----------------------|----------------------|----------------------|
|   | December 26,<br>2004 | December 25,<br>2005 | December 31,<br>2006 |
| Cash flows from operating activities:   |                      |                      |                      |
| Net income  | \$ 2,442             | \$ 10,933            | \$ 23,790            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                      |                      |
| Depreciation and amortization   | 6,469                | 6,617                | 8,690                |
| Deferred income taxes   | (4,020)              | 595                  | (439)                |
| Non-cash interest expense   | 1,824                | 2,980                | 88                   |
| Loss on sale or disposition of assets   | 21                   | 89                   | 81                   |
| Loss on impairment  | 5,594                | 221                  | 970                  |
| Accrued dividends and accretion on mandatorily redeemable preferred stock         | 5,071                | 1,891                | —                    |
| Income tax benefits credited to equity upon exercise of stock options             | —                    | 2,314                | —                    |
| Restricted stock compensation   | —                    | 110                  | 733                  |
| Changes in operating assets and liabilities:                                      |                      |                      |                      |
| Accounts receivables  | 150                  | (6,210)              | (1,720)              |
| Inventories   | (493)                | (927)                | (1,861)              |
| Prepaid expenses and other  | (470)                | 23                   | (1,028)              |
| Other assets  | (472)                | (243)                | (254)                |
| Accounts payable and accrued expenses   | 2,464                | 5,175                | 9,672                |
| Deferred revenue  | 2,696                | 3,947                | 6,037                |
| Deferred rent   | (1,086)              | 1,963                | 2,277                |
| Other liabilities   | 780                  | 139                  | 632                  |
| Net cash provided by operating activities   | 20,970               | 29,617               | 47,668               |
| Cash flows from investing activities:   |                      |                      |                      |
| Acquisition of property and equipment   | (3,518)              | (19,627)             | (48,771)             |
| Acquisition of franchises and lease right   | —                    | —                    | (38,868)             |
| Proceeds on sale or disposition of fixed assets                                   | —                    | 2,108                | —                    |
| Insurance proceeds related to hurricane damage                                    | —                    | —                    | 3,421                |
| Net cash used in investing activities   | (3,518)              | (17,519)             | (84,218)             |
| Cash flows from financing activities:   |                      |                      |                      |
| Principal repayments on long-term debt  | (87,190)             | (198,000)            | (22,500)             |
| Proceeds from long-term financing   | 70,707               | 155,500              | 52,000               |
| Proceeds from sale of restricted common stock                                     | 3                    | —                    | —                    |
| Redemption of senior preferred stock  | —                    | (41,748)             | —                    |
| Redemption of junior preferred stock  | —                    | (76,243)             | —                    |
| Income tax benefits credited to equity upon exercise of stock options             | —                    | —                    | 2,738                |
| Proceeds from exercise of stock options and warrants                              | —                    | 328                  | 144                  |
| Proceeds from issuance of common stock  | —                    | 154,337              | —                    |
| Deferred financing costs  | (2,196)              | (1,193)              | (127)                |
| Net cash (used in) provided by financing activities                               | (18,676)             | (7,019)              | 32,255               |
| Net increase (decrease) in cash and cash equivalents                              | (1,224)              | 5,079                | (4,295)              |
| Cash and cash equivalents at beginning of period                                  | 5,130                | 3,906                | 8,985                |
| Cash and cash equivalents at end of period  | \$ 3,906             | \$ 8,985             | \$ 4,690             |
| Supplemental disclosures of cash flow information:                                |                      |                      |                      |
| Cash paid during the year for:  |                      |                      |                      |
| Interest  | \$ 9,467             | \$ 6,099             | \$ 2,851             |
| Income taxes  | 824                  | 3,144                | 6,301                |
| Supplemental disclosures of non-cash equity information:                          |                      |                      |                      |
| Issuance of junior preferred stock in payment of dividends                        | 5,373                | 3,707                | —                    |

See accompanying notes to consolidated financial statements.



## **RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements (dollar amounts in thousands)**

#### **(1) Organization and Description of Business**

Ruth's Chris Steak House, Inc. and its subsidiaries (the "Company") operate 50 restaurants and a wholesale restaurant equipment company, and sell franchise rights to franchisees giving them the exclusive right to operate similar restaurants in a particular location designated in the franchise agreement. At December 31, 2006 and December 25, 2005, there were 100 and 92 restaurants operating, respectively. Of the 100 restaurants operating at December 31, 2006, 50 were wholly-owned Company restaurants and 50 were franchise restaurants. Of the 92 restaurants operating at December 25, 2005, 41 were wholly-owned Company restaurants and 51 were franchise restaurants. During 2006, one company-owned restaurant was closed, three company-owned restaurants were opened, seven previously franchised restaurants were acquired, seven franchise-owned restaurants were opened and one franchise-owned restaurant closed. During 2005, one company-owned restaurant was closed, three company-owned restaurants were opened, and four franchised restaurants were opened.

In August 2005, the Company and selling shareholders completed an initial public offering of 9,375,000 and 5,575,000 share of common stock, respectively, at \$18.00 per share. The Company received net proceeds of approximately \$154.3 million from the sale of shares of its common stock in the offering after deducting underwriting discounts and commissions and offering expenses payable by it. The Company used the net proceeds of the offering as follows: (1) approximately \$11.7 million was used to redeem all of its outstanding mandatorily redeemable Series A senior cumulative preferred stock (the "Senior Preferred Stock"), (2) approximately \$76.2 million to redeem or repurchase all of its outstanding Series B junior cumulative preferred stock (the "Junior Preferred Stock"), (3) approximately \$65.5 million was used to repay a portion of the outstanding indebtedness under its senior credit facilities and (4) \$0.8 million was used for general working capital needs of the Company.

The Company manages its operations by restaurant. The Company has aggregated its operations to one reportable segment.

#### **(2) Summary of Significant Accounting Policies**

##### ***(a) Reporting Period***

The Company utilizes a 52- or 53-week reporting period ending on the last Sunday of December. The periods ended December 26, 2004 (fiscal 2004) and December 25, 2005 (fiscal 2005) each had a 52-week reporting period. The period ended December 31, 2006 (fiscal 2006) had a 53-week reporting period.

##### ***(b) Principles of Consolidation***

The consolidated financial statements include the financial statements of Ruth's Chris Steak House, Inc. and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

##### ***(c) Cash Equivalents***

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

##### ***(d) Accounts Receivable***

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

## **RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements—(Continued)**

#### ***(e) Allowance for Doubtful Accounts***

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

#### ***(f) Inventories***

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

#### ***(g) Property and Equipment***

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

#### ***(h) Goodwill and Other Intangibles***

Goodwill represents franchise rights reacquired from franchisees. Goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Goodwill is tested annually on a reporting unit (which we define as an individual restaurant) basis for impairment, and is tested more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Based upon the Company's review, no goodwill impairment charge was required in 2004, 2005, or 2006.

In fiscal 2006 the Company also acquired non-compete covenants as a result of the purchase of seven restaurants that were previously franchise-owned. These assets are amortizable intangible assets with a two year life. As of December 31, 2006, the gross carrying amount of the assets was \$35 and the accumulated amortization recognized was \$3. Additionally, in December of 2006, the Company entered into an Asset Purchase Agreement which assigned all rights, title and interest in certain leased property to the Company for a purchase price of \$2.0 million. The lease right that was purchased will be amortized over the combined lease term of approximately 24 years beginning in 2007. Over the next five years the Company will recognize approximately \$91 per year in amortization expense related to these items.

#### ***(i) Deferred Financing Costs***

Deferred financing costs represent fees paid in connection with obtaining bank and other long-term financing. These fees are amortized using a method that approximates the interest method over the term of the related financing. Amortization expense of deferred financing cost was \$1,784, \$2,911, and \$88 in fiscal 2004, 2005, and 2006, respectively.

#### ***(j) Impairment of Long-Lived Assets***

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization are

## **RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements—(Continued)**

reviewed for impairment on a restaurant-by-restaurant basis whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or the fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

#### ***(k) Rent***

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

Additionally, certain of the Company's operating leases contain clauses that provide additional contingent rent based on a percentage of sales greater than certain specified target amounts. The Company recognizes contingent rent expense prior to the achievement of the specified target that triggers the contingent rent, provided achievement of that target is considered probable.

#### ***(l) Marketing and Advertising***

Marketing and advertising costs are recorded as expense in the period incurred.

#### ***(m) Insurance Liability***

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

#### ***(n) Pre-Opening Costs***

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

#### ***(o) Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary

## **RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements—(Continued)**

differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### ***(p) Revenue Recognition***

Revenue from restaurant sales is recognized when food and beverage products are sold. Deferred revenue primarily represents the Company's liability for gift cards that have been sold, but not yet redeemed, and is recorded at the expected redemption value. When the gift cards are redeemed, the Company recognizes restaurant sales and reduces the deferred revenue. Company gift cards redeemed at franchisee-owned locations reduce the deferred revenue but do not result in restaurant sales. The expected redemption value of the gift cards represents the full value of all gift cards issued less the amount the company has recognized as other operating income for gift cards that are not expected to be redeemed. The Company recognizes as other operating income the remaining value of gift cards that have not been redeemed 18 months following the last date of card activity, subject to limitations in some jurisdictions in which we operate.

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

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

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

#### ***(q) Foreign Revenues***

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

#### ***(r) Stock-Based Compensation***

On December 26, 2005, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123(R), *Share-Based Payment*, ("FAS 123R"). Prior to December 26,

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

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

The Company adopted FAS 123R using the modified prospective transition method. Under that transition method, compensation cost recognized during fiscal 2006 includes: a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 26, 2005, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and b) compensation cost for all share-based payments granted subsequent to December 26, 2005, based on the grant date fair value estimated in accordance with the provisions of FAS 123R. Compensation cost is recognized on a straight-line basis, net of estimated forfeitures, over the requisite service period of each award. The results for the prior periods have not been restated.

As a result of the adoption of FAS 123R on December 26, 2005, the fiscal 2006 consolidated statement of income was impacted as follows:

|  | <u>2006</u> |
|--|-------------|
| Reduction in operating income from continuing operations ..... | \$ 667      |
| Reduction in income before taxes .....                         | 667         |
| Reduction in operating net income .....                        | 468         |
| Reduction in earnings per share:                               |             |
| Basic .....  | \$0.02      |
| Diluted .....  | \$0.02      |

The following table illustrates the effect on net income adjusted for pro forma provision for income taxes if the fair-value-based method had been applied to all outstanding and unvested awards in each period. For purposes of pro forma disclosures, the value of options is estimated using a Black-Scholes option pricing formula and amortized to expense over the options' vesting periods; using the graded vesting method. The following pro forma information sets forth net income assuming that the Company had used the FAS 123 fair value method in accounting for employee stock options during each of the following fiscal years.

|   | <u>2004</u>      | <u>2005</u>    |
|---|------------------|----------------|
| Net income (loss), as reported .....            | \$(2,931)        | \$7,180        |
| Stock-based employee compensation expense ..... | (12)             | (80)           |
| Pro-forma net income .....                      | <u>\$(2,943)</u> | <u>\$7,100</u> |
| Net income (loss) per share:                    |                  |                |
| Basic—as reported .....                         | \$ (0.25)        | \$ 0.40        |
| Basic—pro forma .....                           | \$ (0.25)        | \$ 0.40        |
| Diluted—as reported .....                       | \$ (0.25)        | \$ 0.39        |
| Diluted—proforma .....                          | \$ (0.25)        | \$ 0.38        |

### (s) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the

## **RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements—(Continued)**

consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***(t) Fair Value of Financial Instruments***

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

- The carrying amount of cash and cash equivalents, receivables, prepaid expenses, accounts payable and accrued expenses and other current and long-term liabilities are a reasonable estimate of their fair values.
- Borrowings under the senior credit facility as of December 31, 2006 and the term loan and revolving credit facility as of December 25, 2005 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.

#### ***(u) Contingencies***

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

#### ***(v) Recent Accounting Pronouncements***

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. The interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact FIN 48 will have on the consolidated financial statements and expects the adoption of this standard will not have a material impact on its consolidated balance sheet, statements of income or cash flows.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements. This statement applies under other accounting pronouncements that currently require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that SFAS 157 will have on the consolidated financial statements and expects the adoption of this standard will not have a material impact on its consolidated balance sheet, statements of income or cash flows.

Other accounting standards that have been issued or are currently proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

#### ***(w) Reclassifications***

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



# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

### (3) Property and Equipment

Property and equipment consists of the following:

|  | December 25,<br>2005 | December 31,<br>2006 |
|--|----------------------|----------------------|
| Land .....                               | \$ 6,596             | \$ 7,778             |
| Building and building improvements ..... | 18,529               | 30,830               |
| Equipment .....                          | 19,045               | 20,590               |
| Computer equipment .....                 | 2,835                | 4,341                |
| Furniture and fixtures .....             | 6,877                | 8,934                |
| Leasehold improvements .....             | 48,582               | 64,387               |
| Construction-in-progress .....           | 3,726                | 16,543               |
|  | 106,190              | 153,403              |
| Less accumulated depreciation .....      | (42,340)             | (48,311)             |
|  | <u>\$ 63,850</u>     | <u>\$105,092</u>     |

The Company capitalizes interest as a component of the cost of construction in progress. In connection with assets under construction in 2004, 2005 and 2006, the Company has capitalized \$55, \$123 and \$203 of interest costs, respectively, in accordance with SFAS No. 34, *Capitalization of Interest Cost*.

### (4) Long-term Debt

Long-term debt consists of the following:

|                                 | December 25,<br>2005 | December 31,<br>2006 |
|---------------------------------|----------------------|----------------------|
| <b>Senior Credit Facility:</b>  |                      |                      |
| Revolving credit facility ..... | \$38,500             | \$68,000             |
| Less current maturities .....   | —                    | —                    |
|                                 | <u>\$38,500</u>      | <u>\$68,000</u>      |

#### (a) 2005 Senior Credit Facilities

On September 27, 2005, the Company entered into a senior credit facility with Wells Fargo Bank, National Association, as administrative agent, Bank of America, N.A., as documentation agent, and JPMorgan Chase Bank, National Association, Wells Fargo Bank, National Association as co-lead arrangers and Wachovia Bank, N.A. The senior credit facility provides for a five-year revolving credit facility (including letters of credit) of up to \$55.0 million, up to \$5.0 million of which may be funded through swing line loans. The senior credit facility also provides that the revolving credit facility may be increased by up to \$25.0 million at the Company's request (for a total commitment of \$80.0 million.) The Company used the \$38.5 million funded at closing under the Credit Agreement to prepay and retire borrowings under its previous credit facility and to pay related fees and expenses.

On January 17, 2006, the Company entered into a three year interest rate swap with notional amounts totaling \$15.0 million through March 27, 2007, \$10.0 million through March 27, 2008, and \$5.0 million through its expiration on March 27, 2009 of the then outstanding debt under its senior credit facility, to limit the variability of a portion of its interest payments. On July 11, 2006, the Company entered into a two year interest rate swap with notional amounts totaling \$20.0 million through September 27, 2007, and \$15.0 million through

## **RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements—(Continued)**

its expiration on September 29, 2008 of the then outstanding debt under its senior credit facility, to limit the variability of a portion of its interest payments. Under the terms of this interest rate swap, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed rate debt. The Company discontinued the use of hedge accounting for these swaps effective the fourth quarter of 2006.

On May 17, 2006, the Company completed an amendment to its existing senior revolving credit facility to increase its availability under the facility to \$100.0 million. This amendment also provides that the revolving credit facility may be further increased by \$25.0 million upon the Company's request (for a total commitment of \$125.0 million). The financial covenants, restrictive covenants and terms of the increased revolving credit facility are the same as those in our existing revolving credit facility.

As of December 25, 2005 and December 31, 2006 the Company had an aggregate of \$38.5 million and \$68.0 million, respectively of outstanding indebtedness under its senior credit facility at weighted-average interest rates of 4.875% and 6.148%, respectively. The Company had approximately \$29.4 million of borrowings available at December 31, 2006 under its revolving credit facility, net of outstanding letters of credit of approximately \$2.6 million.

Borrowings under the Company's senior credit facility bear interest at either (1) the sum of the base rate plus a margin based on its consolidated leverage ratio, ranging from 0.000% to 0.250%, or (2) the sum of the Eurodollar rate plus a margin based on its consolidated leverage ratio, ranging from 0.625% to 1.500%. The base rate equals the higher of the prime rate and the overnight federal funds rate plus 0.500%. The Company's obligations under the senior credit facility are guaranteed by each of its existing and future subsidiaries and are secured by substantially all of its assets and a pledge of the capital stock of its subsidiaries.

The Company's senior credit facility contains various financial covenants, including a maximum ratio of total indebtedness to EBITDA, as defined in the senior credit facility, a minimum ratio of EBITDA plus certain rental expenses to fixed charges (including consolidated maintenance capital expenditures) and a minimum ratio of EBITDA plus certain rental expenses to fixed charges (including consolidated capital expenses). The senior credit facility also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, the payment of dividends, changes of control, the incurrence of indebtedness, providing financing and investments and transactions with affiliates. The senior credit facility also contains customary events of default. The Company was in compliance with all covenants at December 31, 2006.

On March 11, 2005, the Company entered into a financing agreement with a syndicate of commercial banks and other institutional lenders. The financing consisted of a \$105 million term loan facility and a \$15 million revolving credit facility with no amounts drawn at closing. The term loan facility was to bear interest at either the base rate plus 2.00% or the Eurodollar rate plus 3.00%. The revolving credit facility was to bear interest at either the base rate plus a margin of 1.25%–2.25% or the Eurodollar rate plus a margin of 2.25%–3.25%. The base rate was defined as the higher of the prime rate or the Federal Funds effective rate plus .50%. The interest rate margins applicable to the revolving credit facility were based on the Company's consolidated pricing leverage ratio. The term loan interest and fees were payable monthly and the principal was payable in quarterly payments ranging from \$829 to \$2,579 commencing June 30, 2005, with the remaining unpaid balance due on March 11, 2011. The revolving credit facility interest and fees are payable monthly and all outstanding amounts are due upon maturity at March 11, 2010. The proceeds from the financing agreement were used to pay amounts outstanding under the Company's existing balances of the term loan, revolving credit facility and the senior subordinated notes. In addition, \$21.1 million of the proceeds were used to pay all outstanding dividends payable on the Senior Preferred Stock and to redeem approximately 8,907 shares of the Senior Preferred Stock valued at

## RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements—(Continued)

\$8,907. In connection with this refinancing, the Company wrote off deferred financing costs relating to the 2004 Senior Credit Facility and senior subordinated debt in the amount of \$1,639 and capitalized financing costs relating to the new debt in the amount of \$786. All outstanding borrowings under this senior credit facility were repaid on September 27, 2005.

#### *(b) 2004 Senior Credit Facility*

On April 1, 2004, the Company entered into a financing agreement with a commercial lender. The financing consisted of a \$20 million term loan facility and a \$50 million revolving credit facility. The term loan facility was to bear interest at the commercial lender's prime rate plus 4.25% (9.50% at December 26, 2004) and the revolving credit facility was to bear interest at LIBOR plus 3.50% (5.90% at December 26, 2004). Interest and fees were to be paid monthly and the principal was due upon maturity of the financing agreement on June 30, 2006. The proceeds from the refinancing agreement were used to pay the existing balances of the Tranche A and B term loans, the original revolving credit facility, and \$13 million of the Senior Subordinated Notes. At December 26, 2004, the Company had \$1.7 million of outstanding letters of credit, reducing the amount available on the revolving credit facility to \$7.3 million. The Company incurred commitment fees equal to 1/2 of 1% on the unused portion of the revolving credit facility. The Company was allowed under the financing agreement to make voluntary prepayments of term principal. In addition, the Company was required to make additional principal payments if there was excess operating cash flow, as defined in the financing agreement, and in the event of any capital contributions, sale or issuance of equity, asset sales, or receipt of proceeds from any recovery event, as defined in the financing agreement. The financing agreement contained certain restrictive covenants, which, among other things, required the Company to comply with certain financial covenants (as defined in the agreement), including a minimum interest coverage, a minimum consolidated EBITDA, a minimum fixed charge coverage ratio, and a maximum leverage ratio, and places limitations on dividends, indebtedness, capital expenditures, and certain transactions with affiliates. The Company was in compliance with all covenants at December 26, 2004. In connection with this financing agreement, the Company wrote off deferred financing costs relating to the old debt in the amount of \$774 and capitalized financing costs relating to the new debt in the amount of \$2,196. All outstanding borrowings under this senior credit facility were repaid on March 11, 2005.

#### *(c) Senior Subordinated Notes*

The Senior Subordinated Notes were to bear interest at 13.0% and were due September 30, 2006. These notes were subordinated to any amounts outstanding under the Senior Credit Facility. Interest was payable semi-annually on March 31 and September 30. Beginning after September 30, 2002, the Senior Subordinated Notes were subject to redemption at the option of the Company in whole or in part, at the redemption prices set forth below, plus accrued interest.

| <u>Twelve Month Period Beginning September 30</u> | <u>Percentage of<br/>Principal<br/>Amount</u> |
|---|---|
| 2002 .....  | 106.25%                                       |
| 2003 .....  | 103.25%                                       |
| 2004 .....  | 101.63%                                       |
| 2005 .....  | 100.00%                                       |
| 2006 .....  | 100.00%                                       |

On April 1, 2004, the Company entered into a financing agreement with a commercial lender and used a portion of its borrowings there under to redeem \$13,000 of the Senior Subordinated Notes. In addition, the

## **RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements—(Continued)**

Company redeemed \$6,000 of the Senior Subordinated Notes in each of June 2004 and December 2004, for a total redemption in 2004 of \$25,000. The Company was required to pay a total of \$715 in excess of the principal amount of the Senior Subordinated Notes redeemed in 2004 as a result of its payment of the required redemption premiums as set forth above. As of March 11, 2005, all borrowings under the Senior Subordinated Notes then outstanding were repaid.

The Senior Subordinated Notes contained certain restrictive covenants which, among other things, limited the Company's ability to incur additional indebtedness, pay dividends, consummate certain asset sales, and enter into certain transactions with affiliates.

In conjunction with the issuance of the Senior Subordinated Notes, a warrant exercisable for 28,302 shares of the Company's Class A common stock was issued. The difference between the carrying value of the Senior Subordinated Notes and the liquidation value of the Senior Subordinated Notes was being accreted by periodic charges to operations over the 7-year term of the Senior Subordinated Notes. The remaining value was recognized during 2005 upon retirement of the Senior Subordinated Notes.

#### **(5) Mandatorily Redeemable Senior Preferred Stock**

The Company was authorized to issue 58,000 shares of the 14% Senior Preferred Stock with a par value of \$.01 per share. The Senior Preferred Stock had a \$1,000.00 per share liquidation value, plus accrued and unpaid dividends and had limited voting rights as discussed below. In the event of liquidation or dissolution, all shares of Senior Preferred Stock, including accrued and unpaid dividends, ranked senior to all other classes of stock. In September 1999, the Company issued 20,000 shares of Senior Preferred Stock for \$19,623.

Holders of the Senior Preferred Stock were entitled to receive, when and if declared, dividends at a rate equal to 14% per annum, which were cumulative and accrued from date of issuance and were compounded annually. Dividends were payable in cash or additional shares of fully paid and non-assessable Senior Preferred Stock. All accrued dividends on the Senior Redeemable Preferred Stock were paid in cash prior to the payment of any cash dividends on any other series or class of capital stock. The Company is not permitted to pay cash dividends or make other cash distributions pursuant to certain debt agreements.

On March 23, 2005, the Company amended its Articles of Incorporation to extend the scheduled redemption date for the Senior Preferred Stock to September 17, 2011, from a previous scheduled redemption date of September 17, 2007, in each case to be redeemed at a price per share equal to the liquidation value thereof, plus all accrued and unpaid dividends on the Senior Preferred Stock. The Company could at any time, at its option and if permitted by debt agreements, redeem all or a portion of the Senior Preferred Stock then outstanding at a price per share equal to the liquidation value thereof, plus all accrued and unpaid dividends on the Senior Preferred Stock outstanding. In addition, the Company could redeem all the outstanding shares of Senior Preferred Stock at a price equal to liquidation value, plus all accrued and unpaid dividends on such shares, in the event of (i) a change in control, (ii) an initial public offering of the Company's common stock, (iii) default under Articles of Incorporation and the Securities Purchase Agreement, (iv) default and acceleration under credit facilities, or (v) default on redemption of the Senior Preferred Stock.

Holders of the Senior Preferred Stock had voting rights with respect to certain matters that could adversely affect their rights. The Senior Preferred Stock did not include any rights for conversion to common stock.

As discussed above, the Company issued 20,000 shares of Senior Preferred Stock with a mandatory redemption value of \$20 million for total proceeds of \$19,623. Such price was determined to be the fair value of this financial instrument (see also Note 6). Deferred financing costs of \$600 were netted against the Senior

## RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements—(Continued)

Preferred Stock at issuance. These deferred financing costs were reclassified to Other Assets in the consolidated financial statements in connection with the implementation of SFAS No. 150. The corresponding reduction in redemption value of the preferred stock is recorded as an issuance discount and was being accreted through the preferred stock mandatory redemption date as follows:

|  | Number of<br>Shares | Mandatory<br>Redemption<br>Value | Unamortized<br>Issuance<br>Discount | Unamortized<br>Deferred<br>Financing Cost | Net Book<br>Value |
|--|---------------------|----------------------------------|-------------------------------------|---|-------------------|
| Balance at December 26, 2004 .....                               | 39,986              | \$ 39,986                        | \$(129)                             | \$—                                       | \$ 39,857         |
| Redemption of senior preferred stock .....                       | (41,748)            | (41,748)                         | —                                   | —   | (41,748)          |
| Accrual of dividends and accretion of issuance<br>discount ..... | 1,762               | 1,762                            | 129                                 | —   | 1,891             |
| Balance at December 25, 2005 .....                               | <u>—</u>            | <u>\$ —</u>                      | <u>\$ —</u>                         | <u>\$—</u>                                | <u>\$ —</u>       |

All mandatorily redeemable preferred stock shares were redeemed in full in conjunction with the initial public offering.

#### (6) Shareholders' Equity

The Junior Preferred Stock earned cumulative dividends of 8% annually, payable in cash or in additional shares of fully paid and non-assessable Junior Preferred Stock. All accrued dividends on the Junior Preferred Stock were paid in cash prior to the payment of any cash dividends on any other series or class of capital stock other than the Senior Preferred Stock. Holders of the Junior Preferred Stock had voting rights with respect to certain matters that could adversely affect their rights. The Company or the holders of the Junior Preferred Stock could elect to convert the Junior Preferred Stock to Class A common stock in the event of an initial public offering. The amount of Class A common stock issued upon conversion was determined as the liquidation value of the Junior Preferred Stock (plus all accrued and unpaid dividends) as of the date of the consummation of the initial public offering divided by the selling price per share of the common stock to the public in the initial public offering.

The holders of the Class A common stock are entitled to one vote per share on all matters to be voted on by the Company's shareholders. Holders of Class A common stock are entitled to convert, at any time and from time to time, any or all of the shares of Class A common stock held by such holder into the same number of shares of Class B common stock.

The holders of the Class B common stock do not have voting rights. Holders of Class B common stock are entitled to convert, at any time and from time to time, any or all of the shares of Class B common stock held by such holder into the same number of shares of Class A common stock.

In conjunction with the issuance of the Senior Preferred Stock, a warrant exercisable for 783,125 shares of the Company's Class B common stock was issued. The warrant was exercisable at a price of \$.01 per share in whole at any time and in part from time to time for a period of 10 years after issuance. The warrants were valued at an amount equal to the Class A common stock sold at the time of the warrant issue, because the rights and privileges of the Class B common stock to be received upon the exercise of the warrants was substantially the same as the Class A common stock sold at the same time. The value attributable to the warrants resulting from the allocation of the aggregate proceeds from the Senior Preferred Stock was \$377 and is included in additional paid-in capital on the consolidated balance sheets. In November 2004, an additional warrant exercisable for 70,508 shares of Class B common stock was issued pursuant to the anti-dilution provisions of the initial warrant agreement. These warrants were valued in accordance with the third party valuation of a share of common stock

## **RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements—(Continued)**

(\$0.37 per share) and the issuance of the warrants was treated for accounting purposes as a distribution to the warrant holders. These warrants were exercised and sold by selling shareholders in conjunction with the Company's Initial Public Offering.

In conjunction with the issuance of the Senior Subordinated Notes, a warrant exercisable for 587,346 shares of the Company's Class A common stock was issued. The warrant was exercisable at a price of \$.01 per share in whole at any time and in part from time to time for a period of 10 years after issuance. The warrants were valued at an amount equal to the Class A common stock sold at the time of the warrant issue, because the rights and privileges of the Class B common stock to be received upon the exercise of the warrants, was substantially the same as the Class A common stock sold at the same time. The value attributable to the warrants resulting from the allocation of the aggregate proceeds from the Senior Subordinated Notes was \$283 and is included in additional paid-in capital on the consolidated balance sheets. The warrants contain certain anti-dilution provisions. During fiscal 2004, an additional warrant exercisable for 52,878 shares of Class A common stock was issued pursuant to the anti-dilution provisions of the initial warrant agreement. These warrants were valued in accordance with the third party valuation of a share of common stock (\$0.37 per share) and the issuance of the warrants was treated for accounting purposes as a distribution to the warrant holders. These warrants were exercised and sold by selling shareholders in conjunction with the Company's Initial Public Offering.

#### **(7) Employee Benefit Plan**

In 2000, the Company established a 401(k) plan. Eligible employees may contribute up to 15% of their annual compensation. At the discretion of the Company's management and Board of Directors, the Company can match the employees' contributions at year end. Employees vest in the Company's contributions based upon their years of service. The Company's expenses relating to matching contributions were approximately \$141, \$112, and \$173 for fiscal 2004, 2005 and 2006, respectively. During 2005, the Company added a profit sharing component to the 401(k) plan that provided for a payment to all employees if the Company achieved certain predetermined financial targets. The Company's expense related to the profit sharing was approximately \$398 and \$348 for fiscal 2005 and fiscal 2006, respectively.

#### **(8) Incentive and Stock Option Plans**

As of December 31, 2006, the Company had the following share-based compensation plans:

##### ***2000 Stock Option Plan***

The Company established a stock option plan (the 2000 Stock Option Plan) which allows the Company's Board of Directors to grant stock options to directors, officers, key employees, and other key individuals performing services for the Company. The 2000 Stock Option Plan authorizes grants of options to purchase up to 1,765,981 shares of authorized but unissued Class A common stock. The Plan provides for granting of options to purchase shares of common stock at an exercise price not less than the fair value of the stock on the date of grant. Options are exercisable at various periods ranging from one to ten years from date of grant. Under the Company's 2000 Stock Option Plan there are 331,216 shares of common stock issuable upon exercise of currently outstanding options at December 31, 2006 and 613,258 shares available for future grants. No future grants are expected to be made under the 2000 Stock Option Plan.

##### ***2004 Restricted Stock Plan***

The Company established a restricted stock plan (the 2004 Restricted Stock Plan), which allows the Company's Board of Directors to grant restricted stock to directors, officers and other key employees. The 2004



# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

Restricted Stock Plan authorizes restricted stock grants of up to 1,167,487 shares of authorized but unissued Class A common stock. Under the Company's 2004 Restricted Stock Plan, there are 1,167,487 shares of Class A common stock reserved for issue at December 25, 2005 and no shares available for future grants.

### 2005 Long-Term Equity Incentive Plan

In connection with the initial public offering, the Company adopted the Ruth's Chris Steak House, Inc. 2005 Long-Term Equity Incentive Plan (the 2005 Equity Incentive Plan), which allows the Company's Board of Directors to grant stock options, restricted stock, restricted stock units, deferred stock units and other equity-based awards to directors, officers, key employees, and other key individuals performing services for the Company. The 2005 Equity Incentive Plan provides for granting of options to purchase shares of common stock at an exercise price not less than the fair value of the stock on the date of grant. In 2005, in conjunction with the initial public offering, the Company issued 350,000 stock options with an exercise price of \$18.00 per share under the 2005 Equity Incentive Plan. Under the Company's 2005 Long-Term Equity Incentive Plan, there are 792,153 shares of common stock reserved for issue at December 31, 2006 and 1,566,613 shares available for future grants.

The following table summarizes stock option activity for fiscal 2006 under all plans:

|  | December 31, 2006 |                                 |   |                                     |
|--|-------------------|---------------------------------|---|-------------------------------------|
|  | Shares            | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value (\$000's) |
| Outstanding at beginning of year . . . . . | 861,583           | \$ 7.47                         |   |                                     |
| Granted . . . . .                          | 491,100           | 18.56                           |   |                                     |
| Exercised . . . . .                        | (163,136)         | 0.88                            |   |                                     |
| Forfeited . . . . .                        | (66,178)          | 9.89                            |   |                                     |
| Outstanding at end of year . . . . .       | <u>1,123,369</u>  | <u>\$13.07</u>                  | <u>8.04</u>                                 | <u>\$6,027</u>                      |
| Options exercisable at year end . . . . .  | <u>342,028</u>    | <u>\$ 5.32</u>                  | <u>5.68</u>                                 | <u>\$4,466</u>                      |

As of December 31, 2006, there was \$4.7 million of total unrecognized compensation costs related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately 4.3 years. There were no options exercised in 2004. The total intrinsic value of options exercised in fiscal 2005 and 2006 was \$11.6 and \$3.2 million, respectively. The Company recorded \$0.7 million in total compensation cost during fiscal 2006 that was expensed in general and administrative costs.

During fiscal 2005 and fiscal 2006 the Company received \$319 and \$144, respectively, in cash related to the exercise of options and tax benefits of \$3.4 and \$2.7 million, respectively. The exercise of shares were fulfilled from shares reserved for issue under the stock option plans and resulted in an increase in issued shares outstanding.

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

A summary of the status of non-vested shares as of December 31, 2006 and changes during fiscal 2006 is presented below.

|  | December 31, 2006 |   |
|--|-------------------|---|
|  | Shares            | Weighted-Average<br>Grant-Date Fair Value |
| Non-vested shares at beginning of year . . . . . | 475,689           | \$3.29                                    |
| Granted . . . . .                                | 491,100           | 7.82                                      |
| Vested . . . . .                                 | (129,214)         | 3.25                                      |
| Canceled . . . . .                               | (56,234)          | 3.76                                      |
| Non-vested shares at end of period . . . . .     | <u>781,341</u>    | <u>\$6.11</u>                             |

The weighted-average grant-date per share fair value of options granted fiscal 2006 was \$7.82. The weighted-average grant-date per share fair value of options granted in fiscal 2004 and 2005 was \$0 and \$4.91, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model with the weighted-average assumptions noted in the following table. The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award. The assumptions listed below represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. In addition, the Company is required to estimate the expected forfeiture rate and only recognizes expense for those shares expected to vest. If the actual forfeiture rate is materially different from the Company's estimate, the share-based compensation expense could be materially different.

The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury constant maturities rate in effect at the time of grant. The Company utilized a blended rate for expected volatility during 2006 based on the historical volatility of our stock and a representative peer group with a similar expected term of options granted. The following weighted-average assumptions were used for stock option grants in each year:

|                                   | 2004    | 2005    | 2006    |
|-----------------------------------|---------|---------|---------|
| Expected life . . . . .           | 5.0 yrs | 5.0 yrs | 6.3 yrs |
| Risk-free interest rate . . . . . | 3.48%   | 4.28%   | 4.84%   |
| Volatility . . . . .              | 0.0%    | 20.0%   | 32.1%   |
| Expected dividend yield . . . . . | 0.0%    | 0.0%    | 0.0%    |

### (9) Earnings per share

Basic earnings per common share were computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding during the fiscal year. Basic and diluted earnings per common share for fiscal 2004, 2005, and 2006 were determined on the assumption that all outstanding warrants were exercised as of the beginning of each fiscal year. There were no warrants issued in fiscal 2006. Diluted earnings per share for fiscal years 2004 and 2006 excludes 1,250,135 stock options at a weighted-average price of \$0.48 and 44,500 stock options at a weighted-average price of \$20.25, respectively, which were outstanding during the period but were anti-dilutive. There were no stock options outstanding that were anti-dilutive for fiscal 2005.

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

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

|  | December 26,<br>2004 | December 25,<br>2005 | December 31,<br>2006 |
|--|----------------------|----------------------|----------------------|
| Income (loss) available to common stockholders . . . . . | \$ (2,931)           | \$ 7,180             | \$ 23,790            |
| Shares:  |                      |                      |                      |
| Weighted average number of common shares                 |                      |                      |                      |
| outstanding . . . . .                                    | 11,917,093           | 17,961,198           | 23,175,323           |
| Dilutive stock options . . . . .                         | —                    | 748,943              | 253,862              |
| Weighted-average number of common shares                 |                      |                      |                      |
| outstanding . . . . .                                    | 11,917,093           | 18,710,141           | 23,429,185           |
| Basic earnings (loss) per common share:                  |                      |                      |                      |
| Continuing operations . . . . .                          | \$ 0.07              | \$ 0.39              | \$ 1.02              |
| Discontinued operations . . . . .                        | (0.32)               | 0.01                 | 0.01                 |
| Basic earnings (loss) per common share . . . . .         | \$ (0.25)            | \$ 0.40              | \$ 1.03              |
| Diluted earnings (loss) per common share:                |                      |                      |                      |
| Continuing operations . . . . .                          | \$ 0.07              | \$ 0.38              | \$ 1.01              |
| Discontinued operations . . . . .                        | (0.32)               | 0.01                 | 0.01                 |
| Diluted earnings (loss) per common share . . . . .       | \$ (0.25)            | \$ 0.39              | \$ 1.02              |

On August 1, 2005, the Company completed a 20.75281-for-1 stock split of its common stock. Accordingly, basic and diluted shares for all periods presented have been adjusted for the stock split.

### (10) Acquisitions

During fiscal 2006, the Company completed the acquisition of seven previously franchised restaurants from Mr. Thomas J. Moran pursuant to the asset purchase agreement dated April 24, 2006. The restaurants acquired are located in Northbrook and Chicago, Illinois; Memphis and Nashville, Tennessee; Jacksonville and Ponte Vedra, Florida; and Troy, Michigan. The asset purchase agreement also grants the Company an option to acquire an eighth restaurant in Baton Rouge, Louisiana. In connection with the acquisition, the Company acquired all of the Seller's interests in the seven aforementioned Ruth's Chris Steak House restaurants for approximately \$37.0 million in cash. The acquisition was financed with borrowings under the Company's revolving credit facility.

The results of the operations of the seven purchased franchisees have been included in the Company's consolidated statements of operations for fiscal 2006. The below table summarizes the allocation of proceeds paid to the seller. Approximately \$335 associated with legal and closing costs are included in goodwill.

|   |                 |
|---|-----------------|
| Inventory . . . . .                                     | \$ 463          |
| Property, Plant and Equipment . . . . .                 | 2,213           |
| Goodwill and other intangibles . . . . .                | 34,659          |
| Total assets acquired as of December 31, 2006 . . . . . | <u>\$37,335</u> |

In December of 2006 the Company entered into an Asset Purchase Agreement, which assigned all rights, title and interest in certain leased property to the Company for a purchase price of \$2.0 million. This property is located in Tyson's Corner (Vienna), Virginia and the lease for the building space was assumed on December 27, 2006. The Company anticipates the opening of this location to occur in fiscal 2007. The lease right that was purchased is recorded in goodwill and other intangibles and will be amortized over the combined lease term of approximately 24 years beginning in 2007.

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

### (11) Income Taxes

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

|                               | <u>Current</u>  | <u>Deferred</u>   | <u>Total</u>    |
|-------------------------------|-----------------|-------------------|-----------------|
| Year ended December 26, 2004: |                 |                   |                 |
| U.S. Federal .....            | \$ 2,563        | \$ (946)          | \$ 1,617        |
| State .....                   | 453             | (1,585)           | (1,132)         |
| Foreign .....                 | 251             | —                 | 251             |
|                               | <u>\$ 3,267</u> | <u>\$ (2,531)</u> | <u>\$ 736</u>   |
| Year ended December 25, 2005: |                 |                   |                 |
| U.S. Federal .....            | \$ 4,563        | \$ (476)          | \$ 4,087        |
| State .....                   | 576             | 180               | 756             |
| Foreign .....                 | 200             | —                 | 200             |
|                               | <u>\$ 5,339</u> | <u>\$ (296)</u>   | <u>\$ 5,043</u> |
| Year ended December 31, 2006: |                 |                   |                 |
| U.S. Federal .....            | \$ 8,907        | \$ (296)          | \$ 8,611        |
| State .....                   | 1,259           | (128)             | 1,131           |
| Foreign .....                 | 356             | —                 | 356             |
|                               | <u>\$10,522</u> | <u>\$ (424)</u>   | <u>\$10,098</u> |

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

|  | <u>2004</u>   | <u>2005</u>     | <u>2006</u>     |
|--|---------------|-----------------|-----------------|
| Income tax expense at statutory rates .....  | \$ 2,366      | \$ 5,376        | \$11,838        |
| Increase (decrease) in income taxes resulting from:  |               |                 |                 |
| State income taxes, net of federal benefit .....   | (747)         | 499             | 735             |
| FICA tax credit .....  | (1,555)       | (1,671)         | (2,057)         |
| Nondeductible accrued dividends and accretion of mandatorily<br>redeemable preferred stock ..... | 1,724         | 643             | —               |
| Other .....  | (1,052)       | 196             | (418)           |
|  | <u>\$ 736</u> | <u>\$ 5,043</u> | <u>\$10,098</u> |

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

|  | <u>December 25,<br/>2005</u> | <u>December 31,<br/>2006</u> |
|--|------------------------------|------------------------------|
| Deferred tax assets:                         |                              |                              |
| Accounts payable and accrued expenses .....  | \$ 240                       | \$ 895                       |
| Deferred rent .....                          | 1,387                        | 2,985                        |
| Net state operating loss carryforwards ..... | 4,876                        | 4,903                        |
| Tax credit carryforwards .....               | 3,457                        | 3,992                        |
| Property and equipment .....                 | 2,307                        | 4,226                        |
| Other .....                                  | 55                           | 215                          |
| Gross deferred tax assets .....              | <u>12,322</u>                | <u>17,216</u>                |
| Deferred tax liabilities:                    |                              |                              |
| Intangible assets .....                      | (2,831)                      | (7,241)                      |
| Other .....                                  | (37)                         | (82)                         |
| Net deferred tax assets .....                | <u>\$ 9,454</u>              | <u>\$ 9,893</u>              |

## RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements—(Continued)

There was a valuation allowance for deferred tax assets at December 25, 2005 and December 31, 2006 of \$61 and \$999, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

As of December 31, 2006, the Company has state net operating loss carry-forwards and tax credit carry-forwards of \$77.2 million and \$4.0 million, respectively, which are available to offset federal and state taxable income through 2026.

#### (12) Leases

All of the Company's owned restaurants operate in leased premises, with the exception of the locations in Metairie, Houston, Columbus, Palm Desert, Palm Beach, Ft. Lauderdale and Sarasota, which are owned properties. Remaining lease terms range from approximately 4 to 30 years, including anticipated renewal options. The leases generally provide for minimum annual rental payments and are subject to escalations based, in some cases, upon increases in the Consumer Price Index, real estate taxes, and other costs. In addition, certain leases contain contingent rental provisions based upon the sales of the underlying restaurants. Certain leases also provide for rent deferral during the initial term of such lease and/or scheduled minimum rent increases during the terms of the leases. For financial reporting purposes, rent expense is recorded on a straight-line basis over the life of the lease. Accordingly, included in long-term liabilities in the accompanying consolidated balance sheets at December 26, 2004, December 25, 2005 and December 31, 2006 are accruals related to such rent deferrals and the pro rata portion of scheduled rent increases of approximately \$9.8 million, \$11.7 million, and \$14.0 million respectively, net of the current portion included in other current liabilities of \$0.3 million, \$1.0 million, and \$1.4 million, respectively.

Future minimum annual rental commitments under leases as of December 31, 2006 are as follows:

| <b>Lessee</b>    |  |                  |
|------------------|--|------------------|
| 2007 .....       |  | \$ 11,615        |
| 2008 .....       |  | 11,566           |
| 2009 .....       |  | 10,887           |
| 2010 .....       |  | 10,858           |
| 2011 .....       |  | 10,403           |
| Thereafter ..... |  | 53,036           |
|                  |  | <u>\$108,365</u> |

Rental expense consists of the following:

|                          | <b>Fiscal Year</b> |                |                 |
|--------------------------|--------------------|----------------|-----------------|
|                          | <b>2004</b>        | <b>2005</b>    | <b>2006</b>     |
| Minimum rentals .....    | \$7,651            | \$7,379        | \$ 8,894        |
| Contingent rentals ..... | 2,138              | 2,614          | 3,566           |
|                          | <u>\$9,789</u>     | <u>\$9,993</u> | <u>\$12,460</u> |

## RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements—(Continued)

In December 2006, the Company purchased the building in Heathrow, Florida that houses its corporate headquarters. As a result, the Company assumed two tenant leases that were in the building. Rent revenue of \$42 was included in other income in fiscal 2006. The minimum rents expected to be received under these leases are as follows:

| <b>Lessor</b>    |                 |
|------------------|-----------------|
| 2007 .....       | \$ 987          |
| 2008 .....       | 701             |
| 2009 .....       | 535             |
| 2010 .....       | 548             |
| 2011 .....       | 277             |
| Thereafter ..... | —               |
|                  | <u>\$ 3,048</u> |

### (13) Commitments and Contingencies

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

During 2004, the Company was a defendant in a labor code class action lawsuit filed in the Superior Court of California, Orange County. In April 2005, the Company resolved this matter in principle by agreeing to pay \$1,625. The Company has accrued \$1,625 in other accrued liabilities as of December 26, 2004. Related to this case, the Company's insurance carrier agreed to reimburse certain legal expenses totaling \$288, which is included in other current assets as of December 26, 2004. The Company paid the \$1,625 during 2005 and as of December 31, 2006 there are no outstanding liabilities or receivables associated with this lawsuit.

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

### (14) Related Party Transactions

During fiscal 2004, the Company was required to pay an annual monitoring fee to Madison Dearborn of \$150.

### (15) Discontinued Operations

On June 25, 2006 the company closed its Cleveland, Ohio restaurant whose lease term ended September 2006. The Company determined that the closed restaurant should be accounted for as discontinued operations because the Company does not expect any further direct or indirect cash inflows from the restaurant because it has completely ceased operation. The Company recognized a \$221 loss on impairment related to this location during fiscal year 2005.

During August 2005, the Company entered into an agreement with the Manhattan (UN), New York landlord whereby: (1) the Company made a one-time payment of \$0.3 million to the landlord for rent, commission on replacement lease, and attorneys fees; (2) the existing lease was terminated; (3) the Company allowed the



## RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements—(Continued)

landlord to contract with a third party replacement tenant; and (4) adjusted the remaining contingent lease term from eleven years to six years. Under the agreement, after the third anniversary, if the replacement tenant defaults on the new lease anytime during the remaining six years, the Company will be required to enter into a new agreement with landlord for the remaining term. This agreement resulted in a reduction of previously recorded rental liability. At December 31, 2006, the Company maintained a contingent lease liability of \$0.2 million related to this property.

On December 24, 2004, the Company decided to close one of the two Ruth's Chris Steak House locations in Manhattan, NY. Prior to and including 2004, the Company experienced operating losses at its Manhattan-UN restaurant location, which operates in leased premises. As a result of the underperforming operation, the Company determined the discontinuance of the Manhattan-UN operation was in its best interest. This closure was evaluated for lease liability and asset impairment in accordance with the Company's policy. In connection with its exit activity from Manhattan-UN, the Company incurred a pretax loss of approximately \$5.5 million, including impairment losses related to assets abandoned of \$4.9 million, and contract termination costs associated with lease obligations of \$600, which were accrued in other liabilities in the accompanying consolidated balance sheets. The Company accounted for its exit costs in accordance with the provisions of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which required that such costs be expensed in the periods such costs are incurred. All of the losses incurred are included in discontinued operations in the accompanying consolidated income statements. The Company determined that the closed restaurant should be accounted for as discontinued operations because the Company does not expect any further direct or indirect cash inflows from the discontinued restaurant, since the restaurant has completely ceased operation. The Company does not expect any cash inflows from migration to its remaining Manhattan, New York location as the remaining location is in a different geographic market within Manhattan, New York and has a different customer base than the closed restaurant. The Company continued direct cash outflows associated with the fixed portion of rent at the closed restaurant in the amount of approximately \$45 per month until the August 2005 agreement. The Company has determined that these cash outflows are not significant continuing direct cash outflows.

In October of 2004, the Company announced its plan to close its Ruth's Chris Steak House location in Sugar Land, TX. Prior to and including 2004, the Company experienced operating losses at its Sugar Land restaurant location, which is an owned property. As a result of the underperforming operation, the Company determined the discontinuance of the Sugar Land operation was in its best interest. On October 31, 2004, the Company closed the Sugar Land location and recorded the related assets as "Assets held for sale" in the Company's consolidated balance sheets. Assets held for sale, which include land, building, equipment and furniture, are recorded at their estimated net realizable value of \$2.1 million. The Company recorded a pre-tax charge of \$80 as a loss due to impairment on the income statement in order to reduce the assets to net realizable value. Subsequent to year end, the Company entered into a real estate purchase and sale agreement to sell the assets for \$2.1 million.

As discussed in Note 2 to the consolidated financial statements, the Company accounts for its closed restaurants in accordance with the provisions of SFAS No. 144. Therefore, when a restaurant is closed, and the restaurant is either held for sale or abandoned, the restaurant's operations are eliminated from the ongoing operations. Accordingly, the operations of such restaurants, net of applicable income taxes, are presented as discontinued operations and prior period operations of such restaurants, net of applicable income taxes, are reclassified. Discontinued operations consist of the following:

|  | Fiscal Year |         |         |
|--|-------------|---------|---------|
|  | 2004        | 2005    | 2006    |
| Revenues .....   | \$ 8,910    | \$2,707 | \$1,569 |
| Income (loss) before income tax .....  | (6,587)     | (895)   | (84)    |
| Income (loss) from operations of discontinued restaurants, net of income tax benefit ..... | \$(3,777)   | \$ 164  | \$ 66   |

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

### (16) Supplemental Consolidated Financial Statement Information

#### (a) *Accounts Receivable*

Accounts receivable consist of the following:

|                                       | December 25,<br>2005 | December 31,<br>2006 |
|---------------------------------------|----------------------|----------------------|
| Bank credit card receivables .....    | \$ 4,813             | \$ 5,384             |
| Landlord contributions .....          | 2,668                | 4,003                |
| Franchise fees .....                  | 1,375                | 1,366                |
| Trade .....                           | 572                  | 238                  |
| Other .....                           | 3,777                | 245                  |
| Allowance for doubtful accounts ..... | (385)                | (116)                |
|                                       | <u>\$12,820</u>      | <u>\$11,120</u>      |

#### (b) *Other Assets*

Other assets consist of the following:

|                                | December 25,<br>2005 | December 31,<br>2006 |
|--------------------------------|----------------------|----------------------|
| Deposits .....                 | \$ 830               | \$1,022              |
| Liquor licenses .....          | 446                  | 477                  |
| Deferred financing costs ..... | 332                  | 373                  |
| Other .....                    | 198                  | 228                  |
|                                | <u>\$1,806</u>       | <u>\$2,100</u>       |

#### (c) *Accounts Payable and Accrued Expenses*

Accounts payable and accrued expenses consist of the following:

|   | December 25,<br>2005 | December 31,<br>2006 |
|---|----------------------|----------------------|
| Accounts payable & other accrued expenses ..... | \$14,315             | \$21,330             |
| Accrued payroll & related benefits .....        | 6,625                | 8,808                |
| Sales & use tax payable .....                   | 2,443                | 2,642                |
| Accrued interest payable .....                  | 369                  | 408                  |
|   | <u>\$23,752</u>      | <u>\$33,188</u>      |

# RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements—(Continued)

### (17) Quarterly Financial Data (Unaudited)

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

|  | Quarter Ended     |                  |                       |                      | Total          |
|--|-------------------|------------------|-----------------------|----------------------|----------------|
|  | March 27,<br>2005 | June 26,<br>2005 | September 25,<br>2005 | December 25,<br>2005 |                |
| Revenues .....                                       | \$55,912          | \$51,958         | \$45,815              | \$58,145             | \$211,830      |
| Operating income .....                               | 9,613             | 6,359            | 3,413                 | 6,810                | 26,195         |
| Net income .....                                     | 2,291             | 3,081            | 1,229                 | 4,332                | 10,933         |
| Net income available to common<br>shareholders ..... | \$ 869            | \$ 1,613         | \$ 368                | \$ 4,330             | \$ 7,180       |
| Basic earnings (loss) per share:                     |                   |                  |                       |                      |                |
| Continuing operations .....                          | \$ 0.10           | \$ 0.14          | \$ —                  | \$ 0.16              | \$ 0.39        |
| Discontinued operations .....                        | (0.03)            | (0.02)           | 0.02                  | 0.03                 | 0.01           |
| Basic earnings per share .....                       | <u>\$ 0.07</u>    | <u>\$ 0.12</u>   | <u>\$ 0.02</u>        | <u>\$ 0.19</u>       | <u>\$ 0.40</u> |
| Diluted earnings (loss) per share:                   |                   |                  |                       |                      |                |
| Continuing operations .....                          | \$ 0.09           | \$ 0.13          | \$ —                  | \$ 0.15              | \$ 0.38        |
| Discontinued operations .....                        | (0.03)            | (0.02)           | 0.02                  | 0.03                 | 0.01           |
| Diluted earnings per share ...                       | <u>\$ 0.06</u>    | <u>\$ 0.11</u>   | <u>\$ 0.02</u>        | <u>\$ 0.18</u>       | <u>\$ 0.39</u> |

|  | Quarter Ended     |                  |                       |                      | Total          |
|--|-------------------|------------------|-----------------------|----------------------|----------------|
|  | March 26,<br>2006 | June 25,<br>2006 | September 24,<br>2006 | December 31,<br>2006 |                |
| Revenues .....                                       | \$64,660          | \$60,548         | \$58,255              | \$88,016             | \$271,479      |
| Operating income .....                               | 9,008             | 7,146            | 3,151                 | 12,760               | 32,065         |
| Net income .....                                     | 5,915             | 4,868            | 2,331                 | 10,676               | 23,790         |
| Net income available to common<br>shareholders ..... | \$ 5,915          | \$ 4,868         | \$ 2,331              | \$10,676             | \$ 23,790      |
| Basic earnings (loss) per share:                     |                   |                  |                       |                      |                |
| Continuing operations .....                          | \$ 0.26           | \$ 0.21          | \$ 0.10               | \$ 0.45              | \$ 1.02        |
| Discontinued operations .....                        | —                 | —                | —                     | 0.01                 | 0.01           |
| Basic earnings per share .....                       | <u>\$ 0.26</u>    | <u>\$ 0.21</u>   | <u>\$ 0.10</u>        | <u>\$ 0.46</u>       | <u>\$ 1.03</u> |
| Diluted earnings (loss) per share:                   |                   |                  |                       |                      |                |
| Continuing operations .....                          | \$ 0.25           | \$ 0.21          | \$ 0.10               | \$ 0.45              | \$ 1.01        |
| Discontinued operations .....                        | —                 | —                | —                     | 0.01                 | 0.01           |
| Diluted earnings per share ...                       | <u>\$ 0.25</u>    | <u>\$ 0.21</u>   | <u>\$ 0.10</u>        | <u>\$ 0.46</u>       | <u>\$ 1.02</u> |

During the fiscal quarters ended March 27, 2005 and September 25, 2005, the Company wrote off \$1.6 million and \$0.7 millions of deferred financing costs and in the fiscal quarters ended, respectively. During the quarters ended September 25, 2005 and December 25, 2005, the Company incurred hurricane and relocation costs of \$1.2 million and \$1.5 million, respectively. Hurricane and relocation costs totaled \$0.2, \$0.3 and \$0.1 million in the quarters ended March 26, 2006, June 25, 2006, and September 24, 2006, respectively.

During the fiscal quarters ended June, 25, 2006, September 24, 2006 and December 31, 2006, the Company received \$0.4 millions, \$1.0 million and \$3.2 million, respectively in net insurance proceeds from Hurricane Katrina claims.

## **RUTH'S CHRIS STEAK HOUSE, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements—(Continued)**

During the fiscal quarter ended December 31, 2006 the Company recorded a loss on impairment of long-lived assets in the amount of \$1.0 million. These charges were related to the partial impairment of fixtures and equipment and leasehold improvements at one company-owned restaurants. Additionally, this quarter included an additional week of operations as well as total revenue benefited from gift card breakage above normal trends.

# THE RUTH'S CHRIS MENU

## APPETIZERS AND SOUPS

|                                 |                                    |
|---------------------------------|------------------------------------|
| Crabtini                        | Louisiana Seafood Gumbo            |
| Veal Osso Buco Ravioli          | Seared Ahi Tuna                    |
| Barbecued Shrimp                | Calamari                           |
| Mushrooms Stuffed with Crabmeat | Sizzlin' Blue Crab Cakes           |
| Lobster Bisque                  | Shrimp Remoulade / Shrimp Cocktail |
| Onion Soup Au Gratin            | Sizzlin' Jumbo Scallops            |

## SALADS

|                         |                            |
|-------------------------|----------------------------|
| Steak House Salad       | Caesar                     |
| Lettuce Wedge           | Vine Ripe Tomato & Buffalo |
| Sliced Tomato and Onion | Mozzarella Salad           |
| Baby Arugula Salad      | Ruth's Chop Salad          |

## ENTRÉES

|                              |                                      |
|------------------------------|--------------------------------------|
| Filet / Petite Filet         | Stuffed Chicken Breast               |
| Petite Filet and Shrimp      | Veal Chop with Sweet and Hot Peppers |
| Ribeye / Cowboy Ribeye       | Lamb Chops                           |
| Porterhouse for Two          | Cold Water Lobster Tail              |
| New York Strip               | Fresh Lobster                        |
| Ahi-Tuna Stack               | Market Fresh Seafood Selection       |
| Grilled Portobello Mushrooms |                                      |

## POTATOES AND VEGETABLE

|                        |                                  |
|------------------------|----------------------------------|
| Mashed                 | Fresh Broccoli                   |
| Lyonnaise              | Fresh Asparagus with Hollandaise |
| Baked                  | Sautéed Mushrooms                |
| Steak Fries            | Fresh Spinach                    |
| Shoestring             | Broiled Tomatoes                 |
| Potatoes Au Gratin     | French Fried Onion Rings         |
| Sweet Potato Casserole |                                  |

## DESSERTS

|                              |                                  |
|------------------------------|----------------------------------|
| Caramelized Banana Cream Pie | Bread Pudding with Whiskey Sauce |
| Chocolate Sin Cake           | Cheesecake                       |
| Crème Brûlée                 | Fresh Seasonal Berries           |
| Warm Apple Crumb Tart        | with Sweet Cream Sauce           |
|                              | Ice Cream or Sorbet              |





## BOARD OF DIRECTORS

**Craig S. Miller**  
*Chairman, Chief Executive Officer and President*  
Ruth's Chris Steak House, Inc.

**Carla R. Cooper**  
*Senior Vice-President, OTG Sales*  
PepsiCo-QTG Division

**Bannus B. Hudson**  
*Director*

**Robin P. Selati**  
*Managing Director*  
Madison Dearborn Partners

**Alan Vituli**  
*Chief Executive Officer*  
Carrols Corporation

## SENIOR OFFICERS

**Craig S. Miller**  
*Chairman, Chief Executive Officer and President*

**Geoffrey D. K. Stiles**  
*Executive Vice-President and*  
*Chief Operating Officer*

**David L. Cattell**  
*Senior Vice-President, Construction*  
*and Development*

**Sarah Jackson**  
*Senior Vice-President, Human Resources*

**Thomas E. O'Keefe**  
*Senior Vice-President, General Counsel*  
*and Secretary*

**Thomas J. Pennison, Jr.**  
*Senior Vice-President, Chief Financial Officer,*  
*Treasurer and Assistant Secretary*

## STOCK LISTING

Ruth's Chris Steak House, Inc. Common Stock is listed on  
the NASDAQ Stock Exchange under the symbol "RUTH"

## TRANSFER AGENT

**American Stock Transfer  
& Trust Company**  
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## INDEPENDENT AUDITORS

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For additional financial documents and information, please visit our web site at [www.ruthschris.com](http://www.ruthschris.com).

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