Ruths Hospitality Group, Inc.
Form 10-K
March 11, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 29, 2013

OR

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

For the transition period from to

Commission File Number 000-51485

RUTH'S HOSPITALITY GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**72-1060618**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1030 W. Canton Avenue, Suite 100 Winter Park, Florida	**32789**
(Address of Principal Executive Offices)	**(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	**The NASDAQ Stock Market LLC**
(Title of class)	**(Name of exchange on which registered)**

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

None

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

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

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

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

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

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

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

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

As of June 30, 2013, the last day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock, par value $0.01 per share, held by non-affiliates was approximately $421,488,854.

The number of shares outstanding of the registrant's common stock as of March 5, 2014 was 35,971,565, which includes 600,945 unvested restricted stock shares.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of Form 10-K, to the extent not set forth herein, is incorporated herein by reference to the registrant's Proxy Statement for the 2014 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the registrant's fiscal year.

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FORWARD-LOOKING STATEMENTS

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

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

PART I

Item 1. BUSINESS

Introduction

Ruth’s Hospitality Group, Inc. is a leading restaurant company focused on the upscale dining segment. The Company owns the Ruth’s Chris Steak House, Mitchell’s Fish Market, Columbus Fish Market, Mitchell’s Steakhouse and Cameron’s Steakhouse concepts. As of December 29, 2013, there were 139 Ruth’s Chris Steak House restaurants, including 63 Company-owned restaurants, one restaurant operating under a management agreement and 75 franchisee-owned restaurants, including eighteen international franchisee-owned restaurants in Aruba, Canada, China, Hong Kong, El Salvador, Japan, Mexico, Singapore, Taiwan and the United Arab Emirates. The Company also operates 19 Mitchell’s Fish Markets and three Cameron’s Steakhouse restaurants, located primarily in the Midwest and Florida.

We have a 52/53-week fiscal year ending the last Sunday in December. Our 2013 fiscal year ended December 29, 2013, our 2012 fiscal year ended December 30, 2012, and our 2011 fiscal year ended December 25, 2011. Fiscal years 2013 and 2011 each had 52 weeks and fiscal year 2012 had 53 weeks.

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

Background

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

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

On February 19, 2008, the Company acquired all of the operating assets and intellectual property of Columbus, Ohio-based Mitchell's Fish Market, which at the time of acquisition operated nineteen restaurants operating under the names Mitchell's Fish Market and Columbus Fish Market, and Cameron's Steakhouse, which operated three restaurants operating under the names Cameron's Steakhouse and Mitchell's Steakhouse, from Cameron Mitchell Restaurants, LLC. Since the acquisition in 2008, the Company has opened one additional Mitchell's Fish Market restaurant and closed one Mitchell's Fish Market restaurant.

After the acquisition, the Company changed its name from Ruth's Chris Steak House, Inc. to Ruth's Hospitality Group, Inc. in order for the Company to have a name that would better represent the business after the acquisition, as the Company began operating some restaurants that are not considered steak houses.

Recent Developments

In 2013, Ruth's Chris Steak House was again the #1 Consumer Pick in the Nation's Restaurant News annual survey for the fine dining category. Additionally, many of our restaurants continue to be ranked best steakhouse by local publications in the areas in which they operate. The Company has also been recognized for its award-winning core wine list, for which a majority of its Company-owned restaurants received "Awards of Excellence" from *Wine Spectator* magazine in 2013.

In the fourth quarter of fiscal year 2013, Ruth's Chris Steak House achieved its 15th consecutive quarter of same-store sales growth and 16th consecutive quarter of traffic growth.

In December 2013, Ruth's Chris Steak House began offering e-gift cards to purchasers on its e-commerce gift card website. The e-gift card is emailed directly to the recipient and is redeemable in the same manner as a plastic gift card. In November 2013, Mitchell's Fish Markets began offering their gift cards through a third-party distributor. Mitchell's Fish Market gift cards are now available in many grocery store locations throughout Mitchell's Fish Market territory.

In January 2013, the Company signed an agreement with the Ko China Hospitality Limited (Ko Group) for the development of four new franchised Ruth's Chris Steak House restaurants to be opened in the People's Republic of China over the next three years.

Four new Ruth's Chris Steak House locations opened during fiscal year 2013, including a second franchise restaurant located in San Juan, PR in April 2013, a franchise restaurant located in Chattanooga, TN in July 2013, a franchise restaurant in Shanghai, China in December 2013, and a franchise restaurant in early 2013 in Las Vegas, NV under a licensing agreement with Harrah's Casino.

We are currently targeting to open four new Company-owned Ruth's Chris Steak House restaurants during the next twelve months – one each in Denver, CO, Dallas, TX, Gaithersburg, MD and Los Angeles, CA. We expect that franchisees will open three to four new Ruth's Chris Steak House restaurants during 2014.

We commenced paying quarterly cash dividends during 2013. We paid quarterly cash dividends of $0.04 per share, or $1.4 million in aggregate, during each of the second, third and fourth quarters of fiscal year 2013. On February 21, 2014, we announced that our Board of Directors declared a quarterly cash dividend of $0.05 per share, or $1.8 million in aggregate, to be paid on March 27, 2014 to stockholders of record as of the close of business on March 13, 2014. This dividend represents a 25% increase from the previous quarterly dividend paid to shareholders on November 26, 2013. Future dividends will be subject to the approval of our Board of Directors.

On May 3, 2013, we announced that our Board of Directors approved a common stock repurchase program. Under the program, we may from time to time purchase up to $30 million of our outstanding common stock. The share repurchases will be made at our discretion in the open market or in negotiated transactions depending on share price, market conditions or other factors. The share repurchase program does not obligate us to repurchase any dollar amount or number of shares. As of December 29, 2013, no shares have been repurchased under the common stock repurchase program.

Restaurant Concepts

Ruth's Chris Steak House

With 139 restaurants as of December 29, 2013, Ruth's Chris Steak House is one of the largest upscale steakhouse companies in the world. The menu features a broad selection of high-quality USDA Prime- and Choice-grade steaks and other premium offerings served in Ruth's Chris' signature fashion—"sizzling"—complemented by other traditional menu items inspired by its New Orleans heritage. Ruth's Chris complements its distinctive food offerings with an award-winning wine list.

The Ruth's Chris brand reflects its almost 50-year commitment to the core values instilled by its founder, Ruth Fertel, of caring for guests by delivering the highest quality food, beverages and genuine hospitality in a warm and inviting atmosphere.

Mitchell's Fish Market

Acquired by the Company in 2008, Mitchell's Fish Market is a nineteen-restaurant upscale seafood concept whose success has been built on a reputation for excellent guest service and a superior menu featuring the freshest seafood from around the world. Mitchell's Fish Market is open for both lunch and dinner, offering a menu of more than 60 seafood dishes that changes frequently based on availability and season.

Mitchell's/Cameron's Steakhouse

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

Our Strengths

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

Premier Upscale Steakhouse Brand

The Company believes that Ruth's Chris is one of the strongest brands in the upscale steakhouse segment of the restaurant industry. The Company's Ruth's Chris restaurants continue to receive numerous awards at the local and national level. In 2013, Ruth's Chris Steak House was again the #1 Consumer Pick in the Nation's Restaurant News annual survey for the fine dining category. Additionally, many of our restaurants continue to be ranked best steakhouse by local publications in the areas in which they operate. In addition, the Company has been recognized for its award-winning core wine list, for which a majority of its Company-owned restaurants received "Awards of Excellence" from *Wine Spectator* magazine in 2013.

Premier Polished Casual Seafood Concept

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

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Appealing Dining Experience

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

Mitchell's Fish Market polished casual restaurants, with their sophisticated yet comfortable atmosphere and emphasis on fresh seafood, complement our Ruth's Chris restaurants. The Company believes that Mitchell's Fish Market shares many characteristics of the Ruth's Chris model, including high-quality food and broad guest appeal.

Our Strategy

The Company believes that there continue to be opportunities to grow its business, strengthen its competitive position and enhance its brand through maintaining a healthy core business, disciplined growth and returning excess capital to shareholders. We strive to maintain a healthy core business by growing our sales through traffic, managing our operating margins and leveraging our infrastructure. We are committed to disciplined growth in markets with attractive sales attributes and solid financial returns. We believe that our franchisee program is a point of competitive differentiation and look to grow our franchisee owned restaurant locations as well. We also will consider acquiring franchisee owned restaurants at terms that we believe are beneficial to both us and the franchisee. In fiscal year 2013 we commenced returning capital to shareholders via the payment of quarterly dividends.

Improve Sales/Profitability

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

- Ensuring consistency of food quality through more streamlined preparation and presentation;

- Increasing brand awareness through enhanced media advertising at the national and local levels;

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- Enhancing and/or developing innovative marketing programs through its websites (www.ruthschris.com, www.mitchellsfishmarket.com, www.mitchellssteakhouse.com, and www.camerons-steakhouse.com), social media, digital media and email communication; and

- Creating and/or growing our revenue opportunities via Ruth's Catering, Private Dining, HD Satellite Programs and Gift Cards.

Expand Relationships with New and Existing Franchisees and Others

The Company intends to grow its franchising business by developing relationships with a limited number of new franchisees and by expanding the rights of existing franchisees to open new restaurants. The Company believes that building relationships with quality franchisees is a cost-effective way to strengthen the Ruth's Chris brand and generate additional revenues.

Franchisees opened 52 Ruth's Chris restaurants from 1999 through the end of 2013. In fiscal year 2013, three franchisees opened three new restaurants in San Juan, Chattanooga and Shanghai. In addition, a franchise restaurant opened in 2013 in Las Vegas, NV under a licensing agreement with Harrah's Casino under which we receive a fee based on a percentage of sales. A franchise restaurant located in Dubai was closed in July 2013. In February 2014, we acquired the franchisee-owned restaurant located in Austin, Texas. In fiscal year 2012, four franchisees opened new restaurants in Dubai, Singapore, San Salvador and Niagara Falls, Ontario. As of February 2014, franchisees have entered into franchise development agreements committing these franchisees to open fourteen new domestic and international franchise restaurants by 2017. The Company intends to continue to focus on providing operational guidance to its franchisees, including the sharing of "best practices" from Company-owned Ruth's Chris restaurants.

In January 2013, we announced that the Company has signed an agreement with the Ko Group for the development of four new franchised Ruth's Chris Steak House restaurants to be opened in the People's Republic of China over the next three years. The first of these restaurants opened in Shanghai in December 2013 and another restaurant is planned for Beijing in 2014. The Ko Group has had success as an existing franchisee, with eight restaurants in Hong Kong, Japan, Taiwan, Singapore and the People's Republic of China.

By mid-2014, we and our franchise and licensing partners will have opened or relocated twelve new Ruth's Chris Steak Houses worldwide in a two-year period.

Menu

Ruth's Chris Steak House

The Ruth's Chris menu features a broad selection of high-quality USDA Prime-grade steaks and other premium offerings served in Ruth's Chris signature fashion—"sizzling" and topped with butter—complemented by other traditional menu items inspired by its New Orleans heritage. USDA Prime is the highest meat grade label, which refers to the superior quality and evenly distributed marbling that enhances the flavor of the steak. The Ruth's Chris menu also includes premium quality lamb chops, fish, shrimp, crab, chicken and lobster. Dinner entrées are generally priced from $21.00 to $52.00. While Ruth's Chris is predominantly open dinner hours only, a limited number of restaurants are open for lunch. The lunch menu offers entrées generally ranging in price from $12.00 to $27.00. The blended guest check average at Ruth's Chris was approximately $73.00 during fiscal year 2013. The Ruth's Chris core menu is similar at all of its restaurants. The Company seasonally introduces new items such as specials and prix fixe offerings that allow it to give its guests additional choices while taking advantage of fresh sourcing and advantageous cost opportunities. In 2013, Ruth's Chris continued Ruth's Classics, a three-course prix fixe meal designed to offer great value, certainty of price and unique, seasonal offerings.

The Company's Ruth's Chris restaurants offer ten to thirteen standard appetizer items, including New Orleans-style barbequed shrimp, mushrooms stuffed with crabmeat, shrimp remoulade, lobster bisque and osso bucco ravioli, as well as seven different salads. They also offer seven to nine types of potatoes and eight to ten types of vegetables as side dishes. For dessert, crème brûlée, bread pudding with whiskey sauce, cheesecake, fresh seasonal berries with sweet cream sauce and other selections are available.

The Company's wine list features bottles typically ranging in price from $30 to over $1,000. Individual restaurants supplement their 200-bottle core wine list with approximately 20 additional selections that reflect local market tastes. Most of the Company's Ruth's Chris restaurants also offer approximately 34 wines-by-the-glass and numerous beers, liquors and alcoholic dessert drinks. Wine sales account for approximately 61% of the total beverage sales.

Mitchell's Fish Market

Although the menu changes frequently based on availability and season, it includes more than 8 to 10 types of fresh fish prepared in a variety of styles. Popular menu items include the Mitchell's Fish Market Eight Species of Fresh Catch, top quality fish selected daily to ensure the best quality available. The Mitchell's Fish Market menu offers traditional seafood favorites such as Chesapeake Bay Crab Cakes and Fish and Chips, as well as more innovative offerings such as Cedar-Planked Salmon and the Shang Hai Sampler. Menu offerings also include non-seafood items such as steak and chicken. Mitchell's Fish Market also offers an award-winning dessert menu that features desserts such as Seven-Layer Carrot Cake, Sharkfin Pie and other selections.

Mitchell's Fish Markets are open for lunch and dinner daily. Lunch entrées are priced from $8 to $12, while dinner entrées are priced from $13 to $35. The Mitchell's Fish Market blended check average was approximately $36.50 during fiscal year 2013. Although the Mitchell's Fish Market core menu is similar at all nineteen Company-owned restaurants, the chefs have latitude to offer unique species and preparations to their individual markets. Mitchell's Fish Markets continued several limited-time offer opportunities, including three-course prix fixe meals to deliver guests great value.

The Mitchell's Fish Market core wine list features bottles typically ranging in price from $22 to $120. Individual restaurants supplement their approximate 60 bottle core wine list with 10 to 15 additional selections that reflect local market tastes. Restaurants also offer approximately 24 types of wine-by-the-glass. Wine sales account for approximately 49% of the total beverage sales.

Restaurant Operations and Management

Ruth's Chris Steak House

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

The Company's typical Company-owned restaurant employs five managers, including a general manager, two front-of-the-house managers, an executive chef and a sous chef. The Company-owned restaurants also typically have approximately 70 hourly employees.

Mitchell's Fish Market

The Mitchell's Fish Market President and Chief Operating Officer has primary responsibility for managing the Mitchell's Fish Market restaurants and participates in analyzing restaurant-level performance and strategic planning.

The Company has three regional vice presidents that oversee restaurant operations at five to seven restaurants. There is also a restaurant education and training department responsible for the ongoing training and development of our restaurant employees.

The typical Mitchell's Fish Market restaurant employs five to six managers based on sales volume, including a general manager, two operations managers, an executive chef and one or two sous chefs. The restaurants also typically have approximately 70 hourly employees.

Purchasing

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

During fiscal year 2013, the Company purchased substantially all of the beef it used in Company-owned Ruth's Chris restaurants from two vendors, Sysco Food Services and Stock Yards Packing (a subsidiary of US Foods). Each vendor supplied about half of the Company's beef requirements. In addition, the Company has a distribution arrangement with a national food and restaurant supply distributor, Distribution Market Advantage, Inc. (DMA), which purchases products for the Company from various suppliers and through which currently all of the Company-owned Ruth's Chris Steak House restaurants receive a significant portion of their food supplies. The Company purchased more than 75% of the fresh seafood served in its Mitchell's Fish Market from two vendors, Michael's Finer Meats and Seafood and Save On Seafood Company.

Quality Control

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

The Ruth's Chris Steak House restaurants employ an independent third-party food safety firm to ensure proper training, food safety and the achievement of the highest standards for cleanliness throughout the restaurant through routine quarterly unannounced inspections. The Company instructs chefs and assistants on safety, sanitation, housekeeping, repair and maintenance, product and service specifications, ordering and receiving food products and quality assurance.

The Company also employs an independent third-party food safety firm which developed a program exclusively for Mitchell's Fish Markets to ensure proper training, food safety and achieving the highest standards for cleanliness throughout the restaurant through routine unannounced audits. General managers and certified coaches provide all other employee training at the restaurants. The Company requires that all restaurant-level employees be able to demonstrate knowledge of its systems, standards and operating philosophy.

Throughout each day at our Ruth's Chris restaurants, the executive chef, together with the restaurant managers, oversees a line check system of quality control and must complete a quality assurance checklist verifying the flavor, presentation and proper temperature of the food and beverages. At our Mitchell's Fish Markets, quality checks are performed twice daily by the chef and management team to verify stringent specifications for flavor, presentation and that proper temperature of food and beverages are met. In addition, the Company's regional vice presidents and directors perform system-wide quality assessments of all aspects of restaurant operations, with a focus on back-of-the-house functions, on a regular basis.

Marketing and Promotions

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

Advertising

In fiscal year 2013, the Company spent $11.7 million, or 2.9% of its revenues, in total marketing and advertising expenditures. In fiscal year 2013, the Company spent approximately $5.4 million, or 46.2% of total marketing and advertising expenditures, on national media for Ruth's Hospitality Group, consisting primarily of national cable television advertisements, online initiatives and consumer research.

In fiscal year 2013, the Company continued to optimize its online marketing efforts for all brands. A variety of tactics are used to maintain a presence on key websites. The Company's online strategy also included an emphasis on targeted emails with special offers and announcements, as well as emails regarding seasonal specials, holiday offers and personalized birthday and anniversary invitations.

In the second and fourth quarters of fiscal year 2013, the Company ran national television advertising across a targeted selection of cable channels and invested in online advertising. In fiscal year 2013, Ruth's Chris Steak House participated in co-branded campaigns with American Express Membership Rewards program and participated in direct marketing initiatives. Many of the Company's restaurants also schedule events to strengthen community ties and increase local market presence. The Company's franchisees also conduct their own local media and advertising plans.

In 2013, Mitchell's Fish Market launched a new website to support the brand and facilitate customer reservations. The marketing focus was on limited-time offer promotions that offered both value and unique seafood options, supported by digital advertising and radio. Local public relations efforts were used to keep the concept top of mind with consumers.

Mitchell's and Cameron's Steakhouses receive marketing support via digital media, as well as targeted sponsorship opportunities in their communities.

Gift Cards

The Company sells Ruth's Chris gift cards at most of its Ruth's Chris Steak House restaurants, including franchises, through its toll-free number 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. In December 2013, Ruth's Chris began offering e-gift cards to purchasers on its e-commerce gift card website. The e-gift card is emailed directly to the recipient and is redeemable in the same manner as a plastic gift card. E-gift cards give Ruth's Chris the opportunity to maximize last-minute gift-giving and address its patrons' requests for convenient, immediate purchases. In fiscal year 2013, system-wide gift card Company and franchise sales were approximately $52.9 million. Ruth's Chris gift cards are redeemable at both Company- and franchisee-owned Ruth's Chris restaurants.

The Company sells Mitchell's gift cards at its Mitchell's Steak House and Mitchell's Fish Market restaurants and on its website. In November 2013, Mitchell's Fish Markets began offering their gift cards through a third-party distributor. Mitchell's Fish Market gift cards are now available in grocery store locations in the Mitchell's Fish Market territory. In fiscal year 2013, system-wide gift card sales were approximately $2.0 million. Mitchells' gift cards are redeemable at Mitchell's Fish Market, Mitchell's Steakhouse, Columbus Fish Market and Cameron's Steakhouse restaurants.

Franchise Program and Relationship

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

As of December 29, 2013, the Company’s 75 franchisee-owned Ruth’s Chris restaurants are owned by 31 franchisees with the three largest franchisees owning 25 restaurants in total. Currently, franchisees have agreed to open fourteen additional Ruth’s Chris restaurants.

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

Under the Company’s current form of development agreement, and unless agreed otherwise, the Company collects a $50,000 development fee, which is credited toward the $150,000 franchise fee, for each restaurant the franchisee has rights to develop. Under the Company’s current form of the franchise agreement, it collects up to $150,000 of the full franchise fee at the time of executing the franchise agreement for each restaurant. If one restaurant is to be developed, a single unit franchise agreement is executed and the $150,000 franchise fee is collected at signing.

Information Systems and Restaurant Reporting

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

The Company's corporate systems provide management with operating reports that show Company-owned restaurant performance comparisons with budget and prior year results. These systems allow the Company to monitor Company-owned restaurant sales, food and beverage costs, labor expense and other restaurant trends on a regular basis. During 2013, the Company converted all of our restaurants to one common platform for point-of-sale systems, inventory, labor and gift cards.

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, including "Mitchell's Fish Market" and the common law service marks "Mitchell's Steakhouse," "Columbus Fish Market" and "Cameron's Steakhouse," with the United States Patent and Trademark Office and in the foreign countries in which its restaurants operate. The Company has also registered in other foreign countries in anticipation of new store openings within those countries. The Company is not aware of any infringing uses that could materially affect its business. The Company believes that its service marks are valuable to the operation of its restaurants and are important to its marketing strategy.

Seasonality

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

Employees

As of December 29, 2013, the Company employed 5,571 persons, of whom 546 were salaried and 5,025 were hourly personnel, who were employed in the positions set forth in the table below. None of the Company's employees are covered by a collective bargaining agreement**.**

Functional Area	**Number of Employees**
Senior Officers / Corporate VPs / Operations VPs	31
General Managers	88
Managers	211
Regional Corporate Chefs / Executive Chefs	93
Sous Chefs	68
Non-Salaried Restaurant Staff	5,017
Corporate Salaried	55
Corporate Non-salaried	8
Total number of employees	5,571

Financial Information about Segments

The Ruth's Chris Steak House, Mitchell's Fish Market and Cameron's Steakhouse restaurant concepts in North America are managed as operating segments. The concepts operate within the full-service dining industry, providing similar products to similar customers. For financial reporting purposes, the Ruth's Chris Steak House and Cameron's Steakhouse restaurants are both included in the Company-owned steakhouse restaurant segment. The Company-owned fish market restaurant segment consists entirely of Mitchell's Fish Market restaurants. The franchise operations are also considered to be a separate operating segment. Financial information concerning the Company's segments for financial reporting purposes appears in Note 4 of the consolidated financial statements.

Government Regulation

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

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

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

The ACA also requires employers to offer health care coverage that is qualified and affordable to all full-time employees. Although the employer mandate provisions have been delayed until 2015, the Company undertook a review of its health benefit plans in 2013 to assure conformity with the ACA and maintains an employee benefits program that provides self-insured and insured coverage to employees and their dependents that meet eligibility criteria. Coverage includes health, dental, vision, short- and long-term disability, life insurance and other voluntary ancillary benefits. The hours of service eligibility criteria for health benefits are lower than required under the ACA. Employees share in the cost of other coverage at varying levels. Approximately 55% of eligible employees elect to participate in the Company's health benefit plans. The Company has historically funded a majority of the cost of health benefits.

Competition

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

Available Information

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

Item 1A. RISK FACTORS

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

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

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

Economic downturns may adversely impact consumer spending patterns.

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

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

We purchase large quantities of beef, particularly USDA Prime-grade beef, which is subject to significant price fluctuations due to seasonal shifts, climate conditions, industry demand and other factors. Our beef costs represented approximately 40% of our food and beverage costs during fiscal year 2013. During fiscal year 2013, we entered into contracts with beef suppliers to establish set pricing on a portion of anticipated beef purchases. As of December 29, 2013, we have not negotiated set pricing for any beef requirements in 2014. The market for USDA Prime-grade beef is particularly volatile. If prices increase, or the supply of beef is reduced, our operating margins could be materially adversely affected.

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

In the recent past, certain types of seafood have experienced fluctuations in availability. Seafood is also subject to fluctuations in price based on availability, which is often seasonal. If certain types of seafood are unavailable, or if our costs increase, our results of operations could be adversely affected.

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

Food safety is a top priority, and we dedicate substantial resources to ensuring that our customers enjoy safe, quality food products. However, food safety issues could be caused by food suppliers or distributors and, as a result, be out of our control. In addition, regardless of the source or cause, any report of food-borne illnesses such as E. coli, hepatitis A, trichinosis or salmonella, and other food safety issues including food tampering or contamination, at one of our restaurants could adversely affect the reputation of our brands and have a negative impact on our sales. With respect to certain types of seafood, reports of contamination at their source can affect the reputation of our brands and have a negative impact on our sales. Even instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the food service industry generally and adversely impact our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

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

Our success depends, in large part, upon the popularity of our menu offerings. Negative publicity resulting from poor food quality, illness, injury or other health concerns, or operating problems related to one or more restaurants, could make our menu offerings less appealing to consumers and reduce demand in our restaurants. In addition, any other shifts in consumer preferences away from the kinds of food we offer, particularly beef and seafood, whether because of dietary or other health concerns or otherwise, would make our restaurants less appealing and adversely affect revenues. In addition, the ACA requires our restaurants to disclose calorie information on their menus. While we cannot predict the changes in guest behavior resulting from the implementation of this portion of the ACA, it could have an adverse effect on our revenues and results of operations.

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

Our ability to maintain consistent quality throughout Company-owned restaurants depends in part upon our ability to purchase USDA Prime- and Choice-grade beef, seafood and other food products in accordance with our rigid specifications. During fiscal year 2013, the Company purchased substantially all of the beef used in Company-owned Ruth's Chris restaurants from two vendors, Sysco Food Services and Stock Yards Packing (a subsidiary of US Foods). Each vendor supplied about half of the Company's beef requirements.

In addition, we currently have a long-term distribution arrangement with a national food and restaurant supply distributor, DMA, which purchases products for us from various suppliers, and through which all of our Company-owned Ruth's Chris Steak House restaurants receive a significant portion of their food supplies. We also purchased more than 75% of the fresh seafood served in our Mitchell's Fish Market restaurants from two vendors, Michael's Finer Meats and Seafood and Save On Seafood Company.

Additionally, consolidation in our supply chain due to mergers and acquisitions may change the relationships we have with our existing vendors and distributors and/or result in fewer alternative supply sources for purchasing our food supplies which could result in an increase in prices. For example, one of our primary vendors, Sysco Food Services, has entered into an agreement, subject to regulatory approval, to acquire US Foods, the parent of another primary vendor, Stock Yards Packing. If for any reason the aforementioned or other vendors or distributors cease doing business with us, we could experience supply shortages in certain Company-owned restaurants and could be required to purchase supplies at higher prices until we are able to secure an alternative supply source. Any delay we experience in replacing vendors or distributors on acceptable terms could increase food costs or, in extreme cases, require us to temporarily remove items from the menu of one or more restaurants.

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

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

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

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

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

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

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

We maintain an employee benefits program that provides self-insured and insured coverage to full- and part-time employees and their dependents who meet eligibility criteria. Coverage includes health insurance benefits. Our hours of service eligibility criteria are lower than required under the ACA. Approximately 55% of eligible employees elect to participate in our health benefit plans. In the future, proportionately more employees may elect to participate in our health benefit plans because the ACA includes financial penalties for people who do not have health insurance. We are unable to reliably predict to what extent, if any, the percentage of eligible employees who elect health care coverage will increase in the future. Because we fund a majority of the cost of health benefits, our financial accounting expense will increase to the extent that additional employees elect to participate in the Company’s health benefit plans.

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

Also, so-called “medical inflation” has historically tended to outpace general inflation. While medical inflation has been somewhat muted in recent years, we are unable to reliably predict the extent to which future medical inflation will outpace general inflation. Additionally, because our medical benefit program is self-insured, an unusual incidence of large claims may cause our costs to unexpectedly increase.

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

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

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

We do not exercise control over the day-to-day operations of our franchisee-owned restaurants. While we attempt to ensure that franchisee-owned restaurants maintain the same high operating standards that we demand of Company-owned restaurants, one or more of these restaurants may fail to maintain these standards. Any operational shortcomings of the franchisee-owned restaurants are likely to be attributed to our system-wide operations and could adversely affect our reputation and damage our brand as well as have a direct negative impact on the royalty income we receive from those restaurants.

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

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

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

We rely on information systems across our operations, including for marketing programs, point-of-sale processing systems in our restaurants, online purchases of gift cards and various other processes and transactions. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, a material network breach in the security of these systems as a result of a cyber-attack, or any other failure to maintain a continuous and secure network could adversely affect our reputation, negatively affect our results of operations and result in substantial harm to us or an individual.

We accept electronic payment cards from our guests for payment in our restaurants and on our websites. We also receive and maintain certain personal information about our customers and employees. A number of retailers and restaurant operators have recently experienced security breaches in which credit and debit card information may have been stolen. If we experienced a security breach, we could become subject to claims, lawsuits or other proceedings for purportedly fraudulent transactions arising out of the theft of credit or debit card information, compromised security and information systems, failure of our employees to comply with applicable laws, the unauthorized acquisition or use of such information by third parties, or other similar claims. Any such incidents or proceedings could negatively affect our reputation and our results of operations, cause delays in guest service, require significant capital investments to remediate the problem, and could result in the imposition of penalties or cause us to incur significant unplanned losses and expenditures, including those necessary to remediate any damage to persons whose personal information may have been compromised. Furthermore, as a result of legislative and regulatory rules, we may be required to notify the owners of the credit and debit card information of any data breaches, which could harm our reputation and financial results, as well as subject us to litigation or other proceedings by regulatory authorities.

A lack of availability of suitable locations for new restaurants or a decline in the quality of the locations of our current restaurants may adversely affect our sales and results of operations.

The success of our restaurants depends in large part on their locations. Possible declines in neighborhoods where our restaurants are located or adverse economic conditions in areas surrounding those neighborhoods could result in reduced sales in those restaurants. In addition, desirable locations for new restaurant openings or for the relocation of existing restaurants may not be available at an acceptable cost when we identify a particular opportunity for a new restaurant or relocation. The occurrence of one or more of these events could have a significant adverse effect on our sales and results of operations.

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

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

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

Occasionally, our guests file complaints or lawsuits against us alleging that we are responsible for some illness or injury they suffered at or after a visit to our restaurants. We are also subject to a variety of other claims arising in the ordinary course of our business, including personal injury claims, contract claims, claims from franchisees, claims alleging violations of federal and state law regarding workplace and employment matters and discrimination and similar matters. In addition, we could become subject to class action lawsuits related to these matters in the future. For example, in fiscal year 2005, we 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, we are subject to “dram shop” statutes. These statutes generally permit a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Recent dram shop litigation against restaurant chains has resulted in significant judgments, including punitive damages. Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our performance. A judgment significantly in excess of our insurance coverage for any claims would materially adversely affect our financial condition and results of operations. Adverse publicity resulting from these claims may negatively impact revenues at one or more of our restaurants.

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

Our senior credit agreement contains, and any agreements governing future indebtedness would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on us. Our senior credit agreement, as amended in February 2012 and March 2013, limits our ability, among other things, to:

- pay dividends or purchase stock in excess of the limits permitted under the senior credit agreement;
- borrow money or issue guarantees;
- make investments;
- use assets as security in other transactions;
- sell assets or merge with or into other companies;
- enter into transactions with affiliates; and

- create or permit restrictions on our subsidiaries' ability to make payments to us.

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

We cannot assure our stockholders that we will continue to pay quarterly cash dividends on our common stock. Failure to continue to pay quarterly cash dividends to our stockholders could cause the market price for our common stock to decline.

During fiscal year 2013, we commenced paying quarterly cash dividends to holders of our common stock. Our ability to pay future quarterly cash dividends will be subject to, among other things, our results of operations, financial condition, business prospects, capital requirements, contractual restrictions, any indebtedness we may incur, restrictions imposed by applicable law, tax considerations and other factors that our Board of Directors deems relevant. There can be no assurance that we will continue to pay a quarterly cash dividend in the future. Any reduction or discontinuance by us of the payment of quarterly cash dividends could cause the market price of our common stock to decline. Moreover, in the event our payment of quarterly cash dividends is reduced or discontinued, our failure or inability to resume paying quarterly cash dividends at historical levels could result in a lower market valuation of our common stock.

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

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

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

Tax assessments by governmental authorities could adversely impact our operating results.

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

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

Goodwill represents the difference between the purchase price of acquired companies and the related fair values of net assets acquired. We test goodwill for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. We compare the carrying value of a reporting unit, including goodwill, to the fair value of the unit. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit. If the carrying value is less than the fair value, no impairment exists. If the carrying value is higher than the fair value, there is an indication of impairment. A significant amount of judgment is involved in determining if an indication of impairment exists. Factors may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and slower growth rates. Any adverse change in these factors would have a significant impact on the recoverability of goodwill and negatively affect our financial condition and consolidated results of operations. We compute the amount of impairment by comparing the implied fair value of reporting unit goodwill with the financial statement carrying amount of that goodwill. We are required to record a non-cash impairment charge if the testing performed indicates that goodwill has been impaired.

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

As with goodwill, we test our indefinite-lived intangible assets (primarily trade names) for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We estimate the fair value of the trademarks based on an income valuation model using the relief from royalty method, which requires assumptions related to projected revenues from our annual strategic plan, assumed royalty rates that could be payable if we did not own the trademarks and a discount rate.

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

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

Market volatility could adversely affect our stock price.

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Company-owned restaurants are generally located in spaces leased by wholly-owned direct or indirect subsidiaries. Sixty-one of the Company-owned Ruth's Chris restaurants operate in leased space, of which fifty-four provide for an option to renew for terms ranging from approximately five years to twenty years. All of the Company's Mitchell's Fish Market, Mitchell's Steakhouse and Cameron's Steakhouse restaurants are in leased spaces and each lease provides for at least one option to renew, with the exception of the lease for one Mitchell's Steakhouse. 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's corporate headquarters was relocated in 2011 from Heathrow, Florida. The corporate headquarters now resides in leased space (21,211 square feet) in Winter Park, Florida, with a term set to expire on August 31, 2021.

The Company owns the real estate for two Ruth's Chris operating restaurants: Ft. Lauderdale, FL (7,800 square feet) and Columbus, OH (8,100 square feet). We sold our Houston, TX property in 2013. The Houston restaurant operation was relocated to a nearby leased facility in the summer of 2013.

The following table sets forth information about the Company's existing Company-owned and franchisee-owned restaurants as of December 29, 2013. As of December 29, 2013, the Company operated 63 Ruth's Chris restaurants and 22 Mitchell's Fish Market, Mitchell's Steakhouse and Cameron Steakhouse restaurants. In addition, franchisees operated 75 restaurants and one restaurant operated under a management agreement. Company-owned Ruth's Chris restaurants range in size from approximately 6,000 to approximately 13,000 square feet with approximately 180 to 375 seats. The Company expects that future restaurants will range in size from 8,000 to 10,000 square feet with approximately 230 to 250 seats. Company-owned Mitchell's restaurants range in size from approximately 6,000 to 11,000 square feet with approximately 225 to 250 seats.

Company-Owned Ruth's Chris Restaurants			Franchisee-Owned Ruth's Chris Restaurants	
Year Opened	Locations	Property Leased or Owned	Year Opened	Locations
1972	Metairie, LA	Leased	1976	Baton Rouge, LA
1977	Lafayette, LA	Leased	1985	Austin, TX
1983	Washington, D.C.	Leased	1985	Mobile, AL
1984	Beverly Hills, CA	Leased	1986	Atlanta, GA
1985	Ft. Lauderdale, FL	Owned	1987	Pittsburgh, PA
1986	Nashville, TN	Leased	1987	Hartford, CT
1987	San Francisco, CA	Leased	1988	Philadelphia, PA
1987	N. Palm Beach, FL	Leased	1989	Honolulu, HI
1988	Seattle, WA	Leased	1991	Richmond, VA
1989	Memphis, TN	Leased	1992	Baltimore, MD
1990	Weehawken, NJ	Leased	1993	Birmingham, AL
1990	Scottsdale, AZ	Leased	1993	San Antonio, TX
1992	Palm Desert, CA	Leased	1993	Taipei, Taiwan
1992	Minneapolis, MN	Leased	1993	Cancun, Mexico
1992	Chicago, IL	Leased	1993	Sandy Springs, GA
1993	Arlington, VA	Leased	1994	Indianapolis, IN
1993	Manhattan, NY	Leased	1995	Long Island, NY
1994	San Diego, CA	Leased	1995	Toronto, CA
1995	Westchester, NY	Leased	1996	Taichung, Taiwan
1996	Dallas, TX	Leased	1996	Indianapolis, IN
1996	Troy, MI	Leased	1997	Hong Kong
1996	Tampa, FL	Leased	1997	Raleigh (Cary), NC
1996	Bethesda, MD	Leased	1998	Annapolis, MD
1997	Kansas City, MO	Leased	1998	Maui, HI
1997	Irvine, CA	Leased	1999	Atlanta, GA
1997	Jacksonville, FL	Leased	2000	Pikesville, MD
1998	Louisville, KY	Leased	2000	San Antonio, TX
1998	Parsippany, NJ	Leased	2000	Wailea, HI
1998	Northbrook, IL	Leased	2001	Kaohsiung, Taiwan
1999	Columbus, OH	Owned	2001	King of Prussia, PA
1999	Coral Gables, FL	Leased	2001	Queensway, Hong Kong
1999	Ponte Vedra, FL	Leased	2001	Cabo San Lucas, Mexico
1999	Winter Park, FL	Leased	2003	Mississauga, Canada
2000	Sarasota, FL	Leased	2005	Virginia Beach, VA
2000	Del Mar, CA	Leased	2005	Baltimore, MD
2000	Boca Raton, FL	Leased	2005	Atlantic City, NJ
2001	Orlando, FL	Leased	2005	Charlotte, NC
2001	Greensboro, NC	Leased	2006	St. Louis, MO
2002	Woodland Hills, CA	Leased	2006	Ocean City, MD
2002	Fairfax, VA	Leased	2006	Destin, FL
2002	Bellevue, WA	Leased	2006	Mauna Lani, HI
2002	Washington, D.C.	Leased	2006	Huntsville, AL
2003	Walnut Creek, CA	Leased	2006	Edmonton, Canada

2005	Roseville, CA	Leased	2007	Charlotte, NC

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Company-Owned Ruth's Chris Restaurants

Year Opened	Locations	Property Leased or Owned
2005	Boston, MA	Leased
2005	Sacramento, CA	Leased
2006	Pasadena, CA	Leased
2006	Bonita Springs, FL	Leased
2006	Providence, RI	Leased
2007	Lake Mary, FL*	Land Leased
2007	Anaheim, CA*	Land Leased
2007	Biloxi, MS	Leased
2007	Knoxville, TN	Leased
2007	Tyson's Corner, VA	Leased
2007	West Palm Beach, FL	Leased
2008	Ft. Worth, TX	Leased
2008	New Orleans, LA	Leased
2008	Princeton, NJ*	Land Leased
2008	Fresno, CA	Leased
2008	South Barrington, IL*	Land Leased
2011	Portland, OR	Leased
2012	Cincinnati, OH	Leased
2013	Houston, TX	Leased

Franchisee-Owned Ruth's Chris Restaurants

Year Opened	Locations
2007	Waikiki, HI
2007	Columbia, SC
2007	Mishawaka, IN
2007	Tokyo, Japan
2007	Madison, WI
2007	Calgary, Canada
2007	Rogers, AR
2007	Park City, UT
2008	Aruba
2008	Myrtle Beach, SC
2008	Wilmington, NC
2008	Ridgeland, MS
2008	Wilkes-Barre, PA
2008	Raleigh, NC
2008	Savannah, GA
2009	Greenville, SC
2009	St. Louis, MO
2009	Durham, NC
2009	Kennesaw, GA
2009	Carolina, Puerto Rico
2010	Salt Lake City, UT
2011	Grand Rapids, MI
2011	Asheville, NC
2012	Dubai
2012	Singapore
2012	San Salvador, El Salvador
2012	Niagara Falls, Canada
2013	Las Vegas, NV
2013	San Juan, Puerto Rico
2013	Chattanooga, TN
2013	Shanghai, China

Ruth's Chris Restaurants Under Management Agreement

Year Opened	Locations
2012	Cherokee, NC

Company-Owned Mitchell's Fish Market Restaurants

Year Acquired or Opened	Locations	Property Leased or Owned
2008	Grandview, OH	Leased
2008	Crosswoods, OH	Leased
2008	Pittsburgh, PA	Leased
2008	Newport, KY	Leased
2008	Louisville, KY	Leased
2008	Lansing, MI	Leased
2008	Birmingham, MI	Leased
2008	Cleveland, OH	Leased
2008	West Chester, OH	Leased
2008	Carmel, IN	Leased
2008	Livonia, MI	Leased
2008	Pittsburgh, PA	Leased
2008	Tampa, FL	Leased
2008	Rochester Hills, MI	Leased
2008	Brookfield, WI	Leased
2008	Sandestin, FL	Leased
2008	Jacksonville, FL	Leased
2008	Stamford, CT	Leased
2010	Winter Park, FL	Leased

Company-Owned Cameron's Steakhouse Restaurants

Year Acquired	Locations	Property Leased or Owned
2008	Columbus, OH	Leased
2008	Birmingham, MI	Leased
2008	Polaris, OH	Leased

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

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

None.

PART II

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

The Company’s common stock is listed on the Nasdaq Global Select Market under the trading symbol “RUTH.” As of March 5, 2014, there were 137 holders of record of its common stock.

The following table sets forth, for the period indicated, the highest and lowest sale price for its common stock for fiscal years 2013 and 2012, as reported by the Nasdaq Global Select Market:

	High	Low
Fiscal Year ended December 29, 2013		
First Quarter	$9.60	$7.20
Second Quarter	$12.51	$9.02
Third Quarter	$13.57	$11.42
Fourth Quarter	$15.06	$11.34
Fiscal Year ended December 30, 2012		
First Quarter	$7.32	$4.97
Second Quarter	$7.63	$6.11
Third Quarter	$6.90	$5.75
Fourth Quarter	$7.69	$6.18

Dividends and Common Stock Repurchase Program

Between 1999 and April 2013, we had not paid dividends to holders of our common stock. We commenced paying quarterly cash dividends to holders of our common stock in May 2013. The payment of dividends is within the discretion of our Board of Directors and will depend upon our earnings, capital requirements and operating and financial condition, among other factors. In addition, we may not pay a dividend if there is a default (or if a default would result from such dividend payment) under our senior credit agreement. Our senior credit agreement was amended in May 2013 to reset the limit applicable to junior stock payments, which include both cash dividend payments and repurchases of common and preferred stock. Junior stock payments made subsequent to December 30, 2012 through the end of the agreement are limited to $100 million; $4.3 million of such payments had been made as of December 29, 2013.

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

Declaration Date	Dividend per Share	Record Date	Total Amount	Payment Date
Fiscal Year 2013:				
May 3, 2013	$ 0.04	May 16, 2013	$ 1,430	May 30, 2013
July 24, 2013	$ 0.04	August 15, 2013	$ 1,424	August 29, 2013
October 22, 2013	$ 0.04	November 14, 2013	$ 1,424	November 26, 2013

Subsequent to the end of fiscal year 2013, the Company's Board of Directors declared a $0.05 per share cash dividend ($1.8 million in total) payable on March 27, 2014. Dividends are paid to holders of common stock and restricted stock.

On May 3, 2013, the Company announced that the Board of Directors approved a common stock repurchase program. Under the program the Company may from time to time purchase up to $30 million of its outstanding common stock. The share repurchases will be made at the Company's discretion, within pricing parameters set by the Board of Directors, in the open market or in negotiated transactions depending on share price, market conditions or other factors. As of December 29, 2013, no shares have been repurchased under the common stock repurchase program.

Unregistered Recent Sales of Securities

None.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Performance Graph

The following table and graph shows the cumulative total stockholder return on the Company's Common Stock with the S&P 500 Stock Index, the S&P Small Cap 600 Index and the Dow Jones U.S. Restaurants & Bars Index, in each case assuming an initial investment of $100 on December 26, 2008 and full dividend reinvestment.

CUMULATIVE TOTAL RETURN

Assuming an investment of $100 and reinvestment of dividends

	12/26/08	12/24/09	12/23/10	12/23/11	12/28/12	12/27/13
Ruth's Hospitality Group, Inc.	$ 100	$ 155	$ 337	$ 371	$ 489	$ 1,014
S&P 500 Stock Index	$ 100	$ 129	$ 144	$ 145	$ 161	$ 211
S&P SmallCap 600 Index	$ 100	$ 132	$ 163	$ 163	$ 181	$ 258
Dow Jones U.S. Restaurants & Bars Index	$ 100	$ 119	$ 155	$ 197	$ 194	$ 246

All amounts rounded to the nearest dollar.

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

Item 6.SELECTED FINANCIAL DATA

The following table sets forth the Company's selected financial data for the year indicated and should be read in conjunction with the disclosures in Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition and Item 8, Financial Statements and Supplementary Data, of this report. Certain amounts have been revised to reclassify certain operating revenues and expenses to income (loss) from discontinued operations.

	Fiscal Year				
	2013	2012	2011	2010	2009
	($ in thousands)				
Income Statement Data:					
Revenues:					
Restaurant sales	$388,083	$378,445	$351,380	$335,502	$323,634
Franchise income	15,012	13,836	12,464	11,532	10,533
Other operating income	3,554	3,774	3,493	3,713	3,550
Total revenues	406,649	396,055	367,337	350,747	337,717
Costs and expenses:					
Food and beverage costs	120,612	120,215	108,880	99,825	94,844
Restaurant operating expenses	194,515	190,742	181,683	175,948	171,854
Marketing and advertising	11,673	11,178	11,748	11,404	11,504
General and administrative costs	30,404	28,299	22,803	22,800	23,777
Depreciation and amortization expenses	13,060	14,556	14,859	15,311	16,220
Pre-opening costs	692	540	192	387	16
Loss on impairment and asset disposals, net	3,262	4,955	3,478	483	9,936
Restructuring expense (benefit)	-	-	(502)	(1,683)	40
Gain on settlements	(2,156)	(683)	-	-	-
Operating income (loss)	34,587	26,253	24,196	26,272	9,526
Other income (expense):					
Interest expense	(1,640)	(3,172)	(2,892)	(4,244)	(7,756)
Other	(50)	4	(488)	(3)	534
Income from continuing operations before income tax expense	32,897	23,085	20,816	22,025	2,304
Income tax expense	9,102	6,687	1,663	4,827	140
Income from continuing operations	23,795	16,398	19,153	17,198	2,164
Income (loss) from discontinued operations, net of income taxes	(1,306)	(19)	396	(1,241)	255
Net income	22,489	16,379	19,549	15,957	2,419

Preferred stock dividends	-	514	2,493	2,178	-
Accretion of preferred stock redemption value	-	73	353	309	-
Excess of redemption value over carrying value of preferred shares redeemed	-	35,776	-	-	-
Net income (loss) applicable to preferred and common shareholders	$22,489	(19,984)	$16,703	$13,470	$2,419

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	Fiscal Year 2013	2012	2011	2010	2009
	($ in thousands, except per share data)				
Basic earnings (loss) per share:					
Continuing operations	$0.69	$(0.58)	$0.38	$0.36	$0.15
Discontinued operations	(0.04)	-	0.01	(0.02)	(0.05)
Basic earnings (loss) per share	$0.65	$(0.58)	$0.39	$0.34	$0.10
Diluted earnings (loss) per share:					
Continuing operations	$0.67	$(0.58)	$0.38	$0.36	$0.15
Discontinued operations	(0.04)	-	0.01	(0.02)	(0.05)
Diluted earnings (loss) per share	$0.63	$(0.58)	$0.39	$0.34	$0.10
Shares used in computing earnings (loss) per common share:					
Basic	34,761,160	34,313,636	34,093,104	32,513,867	23,566,358
Diluted	35,784,430	34,313,636	43,252,101	40,239,854	23,733,260
Dividends declared per common share	$0.12	$-	$-	$-	$-
Balance Sheet Data (at end of fiscal year):					
Cash and cash equivalents	$10,586	$7,909	$3,925	$5,018	$1,681
Total assets	228,081	229,702	238,567	247,416	252,762
Total long-term debt including current portion	19,000	45,000	22,000	51,000	125,500
Total shareholders' equity	100,653	80,733	97,987	78,708	40,112

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

This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes to financial statements. We report our financial results on a 52/53-week fiscal year, which ends on the last Sunday in December. Fiscal years 2013 and 2011 each consisted of 52 weeks of operations. Fiscal year 2012 consisted of 53 weeks of operations.

Overview

Ruth’s Hospitality Group, Inc. is a leading restaurant company focused on the upscale dining segment. Ruth’s Hospitality Group, Inc. and its subsidiaries (the Company) operate Ruth’s Chris Steak House, Mitchell’s Fish Market and Cameron’s Steakhouse restaurants and sell franchise rights to Ruth’s Chris Steak House franchisees giving the franchisees the exclusive right to operate similar restaurants in a particular location designated in the franchise agreement. As December 29, 2013, there were 161 restaurants operating, including 85 Company owned restaurants, 75 franchisee-owned restaurants and one restaurant operating under a management agreement.

The Ruth’s Chris menu features a broad selection of high-quality USDA Prime- and Choice-grade steaks and other premium offerings served in Ruth’s Chris’ signature fashion—“sizzling” and topped with butter—complemented by other traditional menu items inspired by our New Orleans heritage. The Ruth’s Chris restaurants reflect the almost 50-year commitment to the core values instilled by our founder, Ruth Fertel, of caring for our guests by delivering the highest quality food, beverages and service in a warm and inviting atmosphere. We believe that Ruth’s Chris is one of the strongest brands in the upscale steakhouse category.

Our Ruth’s Chris restaurants cater to special occasion diners and frequent customers, in addition to the business clientele traditionally served by upscale steakhouses, by providing a dining experience designed to appeal to a wide range of guests. We believe our focus on creating this broad appeal provides us with opportunities to expand into a wide range of markets, including many markets not traditionally served by upscale steakhouses. We offer USDA Prime- and Choice-grade steaks that are aged and prepared to exact company standards and cooked in 1,800-degree broilers. We also offer veal, lamb, poultry and seafood dishes and a broad selection of appetizers. We complement our distinctive food offerings with an award-winning wine list. During the fiscal year ended December 29, 2013, the average check was $73.00 per person.

All Company-owned restaurants are located in the United States. The franchisee-owned restaurants include eighteen international franchisee-owned restaurants in Aruba, Canada, China (Hong Kong and Shanghai), El Salvador, Japan, Mexico, Singapore, Taiwan and the United Arab Emirates. Four new Ruth’s Chris Steak House locations opened in fiscal year 2013, including a second franchise restaurant located in San Juan in April 2013, a franchise restaurant located in Chattanooga, TN in July 2013, a franchise restaurant in Shanghai in December 2013 and a franchise restaurant in early 2013 in Las Vegas, NV under a licensing agreement with Harrah’s Casino under which we receive a fee based on a percentage of sales. Due to an expiring lease term, we closed our Company-owned Ruth’s Chris Steak House restaurant in Phoenix, AZ on March 31, 2013. Our Ruth’s Chris Steak House in Houston, TX was relocated in July 2013. A franchise restaurant located in Dubai was closed in July 2013. We are currently targeting to open four new Company-owned Ruth’s Chris Steak House restaurants during the next twelve months – one each in Denver, CO, Dallas, TX, Gaithersburg, MD and Los Angeles, CA. We expect that franchisees will open three to four new restaurants during 2014. In February 2014, we acquired the franchisee-owned restaurant located in Austin, Texas. Due to an expiring lease term, in March 2014 we are closing the Ruth’s Chris Steak House in Kansas City, MO after 17 years of operation. Kansas City will remain one of the areas that we will evaluate for opportunities for future Ruth's Chris Steak House restaurants. Due to local market conditions and disappointing financial results, we have negotiated an early termination of the Stamford, CT Mitchell’s Fish Market facility lease. The Stamford restaurant, which opened in 2007, is closing in March 2014.

In January 2013, we signed an agreement with the Ko Group for the development of four new franchised Ruth’s Chris Steak House restaurants to be opened in the People’s Republic of China over the next three years. The Shanghai restaurant which opened in December 2013 was the first restaurant opened under this agreement. The Ko Group has had success as an existing franchisee, with seven restaurants in Hong Kong, Japan, Taiwan and Singapore.

The Company operates nineteen Mitchell’s Fish Markets and three Cameron’s Steakhouse restaurants, located primarily in the Midwest and Florida.

On February 19, 2008, we completed the acquisition of the operating assets and intellectual property of Mitchell’s Fish Market, operating under the names Mitchell’s Fish Market and Columbus Fish Market, and Cameron’s Steakhouse, operating under the names Cameron’s Steakhouse and Mitchell’s Steakhouse from Cameron Mitchell Restaurants, LLC. There are currently nineteen Mitchell’s Fish Markets and three Cameron’s Steakhouse’s with restaurants in the Midwest, Northeast and Florida. Mitchell’s Fish Market is an award-winning, upscale yet comfortable, seafood restaurant and bar recognized for its high-quality food, contemporary dining atmosphere, and excellent service. We believe that Mitchells’ focus on upscale casual dining complements the Ruth’s Chris brand. Mitchell’s Fish Market is committed to serving the freshest seafood. Although the menu changes frequently based on availability and season, it includes more than 60 seafood dishes, including fish from all over the world. During the fiscal year ended December 29, 2013, the average check was $36.50 per person.

Accounting Change

The portion of gift cards sold to customers which are never redeemed is commonly referred to as gift card breakage. Prior to the fourth quarter of fiscal 2013, we recognized breakage revenue using the Delayed Method of accounting. Gift card breakage revenue was recognized for cards which remained unredeemed eighteen months after the date of last activity. Gift card breakage revenue is classified as a component of other operating revenue.

At the end of the fourth quarter of fiscal year 2013, we elected to change the policy for recognizing gift card breakage revenue by changing from the Delayed Method to the Redemption Method of accounting. Under the Redemption Method, breakage revenue is recognized and the gift card liability is derecognized for unredeemed gift cards in proportion to actual gift card redemptions. We believe that the Redemption Method is preferable to the Delayed Method. This accounting change represented a change in accounting estimate effected by a change in accounting principle and included a revision in expected redemptions based on consumer redemption patterns. Accordingly, we accounted for the change as a change in estimate utilizing the cumulative catch-up method. The impact of the cumulative catch-up adjustment recorded at the end of the fourth quarter of fiscal 2013 was to reduce gift card breakage revenue by $2.0 million. Inclusive of this adjustment, we recognized $1.3 million of gift card breakage revenue in fiscal year 2013. Gift card breakage revenue recognized in fiscal years 2012 and 2011 was $2.3 million and $2.1 million, respectively. Consistent with the cumulative catch-up method of accounting for a change in accounting estimate effected by a change in accounting principle, previously issued financial statements will not be revised.

Recap of Fiscal Year 2013 and Fiscal Year 2012 Operating Results

Operating income for fiscal year 2013 increased from fiscal year 2012 by $8.3 million to $34.6 million. Operating income for fiscal year 2013 was favorably impacted by a $9.6 million increase in restaurant sales, which was somewhat offset by increased restaurant operating expenses. Higher restaurant sales were attributable both to an increase in the number of customers, as measured by an increase in entrées, and an increase in average check. It is noteworthy that because fiscal year 2013 included 52 weeks whereas fiscal year 2012 included 53 weeks, fiscal year 2012 benefited from one more week of sales; fiscal year 2012 sales included approximately $9.3 million of sales attributable to the 53rd week. Also, other operating income for fiscal year 2013 was impacted by the following: an unfavorable $2.0 million gift card accounting change adjustment; $3.3 million loss on impairment and disposal of long-lived assets (compared to a fiscal year 2012 loss of $5.0 million); and an aggregate gain of $2.2 million from the settlement of two loss claims which previously arose (compared to a fiscal year 2012 gain of $683 thousand). After tax income from continuing operations during fiscal year 2013 increased from fiscal year 2012 by $7.4 million to $23.8 million. Net income for fiscal year 2013 was adversely impacted by a $1.3 million loss from discontinued operations. Fiscal year 2013 net income increased from fiscal year 2012 by $6.1 million to $22.5 million.

Preferred stock requirements are deducted from net income to arrive at net income (loss) applicable to preferred and common shareholders. During fiscal year 2012, we reported a $20.0 million loss applicable to shareholders due to the repurchase of all of the Company's preferred stock. We recorded a reduction of net income applicable to shareholders of $35.8 million during fiscal year 2012 to reflect the excess of the redemption value over the carrying value of the preferred shares redeemed.

Operating income for fiscal year 2012 increased from fiscal year 2011 by $2.1 million to $26.3 million. Operating income for fiscal year 2012 was positively impacted by a $27.0 million increase in restaurant sales, which was somewhat offset by higher food and restaurant operating expenses. Higher restaurant sales were attributable both to an increase in the number of customers as measured by an increase in entrées, and an increase in average check. Also, fiscal year 2012 sales included approximately $9.3 million of sales attributable to the 53rd week. We recognized a net loss on the impairment and disposal of long-lived assets of $5.0 million in fiscal year 2012 compared to a net loss of $3.5 million in fiscal year 2011. Due in large part to an increase in income tax expense, net income for fiscal year 2012 decreased by $3.1 million to $16.4 million as compared to fiscal year 2011. Income tax expense for fiscal year 2011 was abnormally low due to a $4.0 million benefit for the reduction of a deferred tax asset valuation allowance.

Key Financial Terms and Metrics

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

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

Franchise Income. Franchise income includes (1) franchise and development option fees charged to franchisees and (2) royalty income. Franchise royalties consist of 5.0% of adjusted gross sales from each franchisee-owned restaurant. In addition, our more recent franchise agreements require up to a 1% advertising fee to be paid by the franchisee, which is applied to national advertising expenditures. Under our prior franchise agreements, the Company would pay 1% out of the 5% royalty toward national advertising. We evaluate the performance of our franchisees by measuring franchisee-owned restaurant operating weeks, which is impacted by franchisee-owned restaurant openings and closings, and comparable franchisee-owned restaurant sales growth, which together with operating weeks, drives royalty income.

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

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

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

- Labor costs, consisting of restaurant management salaries, hourly staff payroll and other payroll-related items, including taxes and fringe benefits. We measure our labor cost efficiency by tracking hourly and total labor costs as a percentage of restaurant sales;

- Operating costs, consisting of maintenance, utilities, bank and credit card charges, and any other restaurant-level expenses; and

- Occupancy costs, consisting of both fixed and variable portions of rent, common area maintenance charges, insurance premiums and real property taxes.

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

General and Administrative. General and administrative costs include costs relating to all corporate and administrative functions that support development and restaurant operations and provide an infrastructure to support future Company and franchisee growth. General and administrative costs are comprised of management, supervisory and staff salaries and employee benefits, travel, performance-based compensation, information systems, training, corporate rent, professional and consulting fees, technology and market research. We measure our general and administrative expense efficiency by tracking these costs as a percentage of total revenues.

Depreciation and Amortization. Depreciation and amortization includes depreciation of fixed assets and certain definite life intangible assets. We depreciate capitalized leasehold improvements over the shorter of the total expected lease term or their estimated useful life.

Pre-Opening Costs. Pre-opening costs consist of costs incurred prior to opening a Company-owned restaurant, which are comprised principally of manager salaries and relocation costs, employee payroll and related training costs for new employees, including practice and rehearsal of service activities as well as lease costs incurred prior to opening.

Results of Operations

The table below sets forth certain operating data expressed as a percentage of restaurant sales and total revenues for the periods indicated. Our historical results are not necessarily indicative of the operating results that may be expected in the future. Certain prior year amounts have been reclassified to conform to the current year presentation of discontinued operations.

	Fiscal Year		
	2013	**2012**	**2011**
Revenues:			
Restaurant sales	95.4%	95.6%	95.7%
Franchise income	3.7%	3.5%	3.4%
Other operating income	0.9%	1.0%	1.0%
Total revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Food and beverage costs (percentage of restaurant sales)	31.1%	31.8%	31.0%
Restaurant operating expenses (percentage of restaurant sales)	50.1%	50.4%	51.7%
Marketing and advertising	2.9%	2.8%	3.2%
General and administrative costs	7.5%	7.1%	6.2%
Depreciation and amortization expenses	3.2%	3.7%	4.0%
Pre-opening costs	0.2%	0.1%	0.1%
Loss on impairment and asset disposals, net	0.8%	1.3%	0.9%
Restructuring benefit	-	-	(0.1%)
Gain on settlements	(0.5%)	(0.2%)	-
Operating income	8.5%	6.6%	6.6%
Other income (expense):			
Interest expense	(0.4%)	(0.8%)	(0.8%)
Other	(0.0%)	0.0%	(0.1%)
Income from continuing operations before income tax expense	8.1%	5.8%	5.7%
Income tax expense	2.2%	1.7%	0.5%
Income from continuing operations	5.9%	4.1%	5.2%
Income (loss) from discontinued operations, net of income taxes	(0.4%)	(0.0%)	0.1%
Net income	5.5%	4.1%	5.3%
Preferred stock dividends	-	0.1%	0.7%

Accretion of preferred stock redemption value	-	0.0%	0.1%
Excess of redemption value over carrying value of preferred shares redeemed	-	9.0%	-
Net income (loss) applicable to preferred and common shareholders	5.5%	(5.0%)	4.5%

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Segment Profitability

		Fiscal Year Ended December 29, 2013	December 30, 2012	December 25, 2011
		(Dollar amounts in thousands)		
Revenues:				
	Company-owned steakhouse restaurants	$ 322,833	$ 310,985	$ 286,867
	Company-owned fish market restaurants	68,943	70,304	67,043
	Franchise operations	15,012	13,836	12,464
	Unallocated other revenue and revenue discounts	(139)	930	963
	Total revenues	$ 406,649	$ 396,055	$ 367,337
Segment profits:				
	Company-owned steakhouse restaurants	$ 68,578	$ 62,899	$ 57,379
	Company-owned fish market restaurants	6,423	6,900	7,029
	Franchise operations	15,012	13,836	12,464
	Total segment profit	90,013	83,635	76,872
	Unallocated operating income	1,509	1,463	(98)
	Marketing and advertising expenses	(11,673)	(11,178)	(11,748)
	General and administrative costs	(30,404)	(28,299)	(22,803)
	Depreciation and amortization expenses	(13,060)	(14,556)	(14,859)
	Pre-opening costs	(692)	(540)	(192)
	Loss on impairment and asset disposals, net	(3,262)	(4,955)	(3,478)
	Restructuring benefit	-	-	502
	Gain on settlements	2,156	683	-
	Interest expense, net	(1,640)	(2,365)	(2,892)
	Debt issuance costs written off	-	(807)	-
	Other income (expense)	(50)	4	(488)
	Income from continuing operations before income tax expense	$ 32,897	$ 23,085	$ 20,816

Segment profitability information is presented in Note 4 of the consolidated financial statements. Not all operating expenses are allocated to operating segments. The Ruth's Chris Steak House, Mitchell's Fish Market and Cameron's Steakhouse restaurant concepts in North America are managed as operating segments. The concepts operate within the full-service dining industry, providing similar products to similar customers. For financial reporting purposes, the Ruth's Chris Steak House and Cameron's Steakhouse restaurants are both included in the Company-owned steakhouse restaurant segment. The Company-owned fish market restaurant segment consists entirely of Mitchell's Fish Market restaurants. The franchise operations are reported as a separate operating segment. No costs are allocated to the franchise operations segment.

Fiscal year 2013 segment profits for the Company-owned steakhouse restaurant segment increased by $5.7 million to $68.6 million from fiscal year 2012. The increase was driven by increased revenues. Fiscal year 2013 segment profits for the Company-owned fish market restaurant segment decreased by $477 thousand to $6.4 million from fiscal year 2012 due to a decrease in revenues. It is noteworthy that because fiscal year 2013 included 52 weeks whereas fiscal year 2012 included 53 weeks, fiscal year 2012 benefited from one more week of sales. The $1.2 million increase in franchise operations segment profitability to $15.0 million is attributable to eight new locations which opened in 2013 and 2012 and an increase in comparable franchise restaurant sales.

Fiscal year 2012 segment profits for the Company-owned steakhouse restaurant segment increased by $5.5 million to $62.9 million from fiscal year 2011. The increase was driven by increased revenues. Fiscal year 2012 segment profits for the Company-owned fish market restaurant segment were relatively flat compared to fiscal year 2011. The $1.4 million increase in franchise operations segment profitability to $13.8 million is attributable to six new locations which opened in 2012 and 2011 and an increase in comparable franchise restaurant sales.

Fiscal Year 2013 Compared to Fiscal Year 2012

Restaurant Sales. Restaurant sales increased $9.6 million, or 2.5%, to $388.1 million during fiscal year 2013 from fiscal year 2012. The increase was attributable to a $15.1 million increase in Company-owned comparable sales for all brands, which was somewhat offset by the impact of decreased operating weeks due to fiscal year 2012 having 53 operating weeks. Excluding discontinued operations, total operating weeks for all brands during fiscal year 2013 decreased to 4,417 from 4,463 during fiscal year 2012. Because fiscal year 2013 included 52 weeks whereas fiscal year 2012 included 53 weeks, fiscal year 2012 benefited from one more week of sales; fiscal year 2012 sales included approximately $9.3 million of sales attributable to the 53rd week. Company-owned comparable restaurant sales for Ruth's Chris Steak House increased 5.3% on a 52-week basis, which consisted of a traffic increase of 3.2% and an average check increase of 2.1%. Company-owned comparable restaurant sales at Mitchell's Fish Market increased 0.3% on a 52-week basis, which consisted of a traffic decrease of 1.6% and an average check increase of 2.0%.

Franchise Income. Franchise income increased $1.2 million, or 8.5%, to $15.0 million during fiscal year 2013 from fiscal year 2012. The increase was driven primarily by a $1.1 million increase from eight new locations which opened during fiscal years 2013 and 2012. The remaining increase is from an increase in comparable franchisee-owned restaurant sales of 1.8% (which included a 1.6% increase in domestic comparable franchisee-owned restaurant sales and a 2.6% increase in international comparable franchisee-owned restaurant sales).

Other Operating Income. Other operating income decreased by $220 thousand to $3.6 million during fiscal year 2013 from fiscal year 2012. Other operating income includes gift card breakage revenue, our share of income from a managed restaurant and miscellaneous restaurant income. Fiscal year 2013 gift card breakage revenue decreased $1.0 million due to the unfavorable impact of the $2.0 million adjustment for the change in accounting for gift card breakage revenue, which included a revision in expected redemptions based on consumer redemption patterns. Our management fee and our share of income from the Cherokee location was $706 thousand during fiscal year 2013 and $162 thousand during fiscal year 2012.

Food and Beverage Costs. Food and beverage costs increased $397 thousand, or 0.3%, to $120.6 million during fiscal year 2013 from fiscal year 2012. Food and beverage costs, as a percentage of restaurant sales, decreased 69 basis points to 31.1% compared to fiscal year 2012 due to a cumulative menu pricing increase of 2.0%, partially offset by higher beef costs.

Restaurant Operating Expenses. Restaurant operating expenses increased $3.8 million, or 2.0%, to $194.5 million during fiscal year 2013 from fiscal year 2012. Restaurant operating expenses, as a percentage of restaurant sales, decreased 28 basis points to 50.1% largely due to leveraging higher sales on fixed costs.

Marketing and Advertising. Marketing and advertising expenses increased $495 thousand to $11.7 million during fiscal year 2013 from fiscal year 2012. The increase in marketing and advertising expenses during fiscal year 2013 was attributable to planned advertising spending.

General and Administrative. General and administrative expenses increased $2.1 million to $ 30.4 million during fiscal year 2013 from fiscal year 2012, primarily due to a $2.2 million increase in performance-based compensation.

Depreciation and Amortization Expenses. Depreciation and amortization expense decreased $1.5 million to $13.1 million during fiscal year 2013, primarily due to certain property and equipment becoming fully depreciated.

Loss on impairment and asset disposals. We recognized losses on impairment and asset disposals aggregating $3.3 million in fiscal year 2013 compared to $5.0 million in fiscal year 2012 The fiscal year 2013 aggregate loss was primarily attributable to a $400 thousand impairment of an ancillary trademark, a $2.1 million impairment loss due to a decline in the estimated fair value of one restaurant's assets (primarily leasehold improvements) and a $750 thousand lease termination penalty. The decline in estimated fair value of the impaired restaurant was attributable to decreases in that restaurant's projected profitability. During fiscal year 2012, we recorded a gain on asset disposals of $134 thousand, a $395 thousand impairment loss related to a location being sold, and two impairment losses aggregating $4.7 million due to declines in the estimated fair value of the assets (which consisted primarily of leasehold improvements). The declines in estimated fair value of assets were primarily attributable to management's assessment that our expected lease term would be shortened.

Gain on Settlements. During fiscal year 2013, the Company settled two loss claims asserted by us which previously arose and recognized an aggregate gain of $2.2 million, net of fees incurred. The majority of the gain pertained to compensation for the Company's lost operating income awarded by the claims administrator pursuant to the settlement agreement reached in litigation related to the 2010 Deepwater Horizon oil spill in the Gulf of Mexico.

Interest Expense. Interest expense decreased $725 thousand to $1.6 million during fiscal year 2013 from fiscal year 2012. The decrease in expense was primarily due to a lower average debt balance during fiscal year 2013.

Income Tax Expense. During fiscal year 2013, we recognized income tax expense of $9.1 million. During fiscal year 2012, we recognized income tax expense of $6.7 million. The effective tax rate decreased to 27.7% during fiscal year 2013 compared to 29.0% during fiscal year 2012. During fiscal year 2013, the Company recognized a state income tax benefit for employment-related tax credits aggregating $1.0 million generated during the years 2006 through 2012. These prior year state tax credits resulted in a discrete $623 thousand reduction (net of federal and state tax consequences) in income tax expense.

Income from Continuing Operations. Income from continuing operations of $23.8 million during fiscal year 2013 increased by $7.4 million compared to fiscal year 2012 due to the factors noted above.

Income (Loss) from Discontinued Operations, net of income taxes. Income (loss) from discontinued operations, net of income taxes during fiscal year 2013 was a loss of $1.3 million. The loss includes a $1.2 million loss, net of income tax benefit, attributable to property we lease near the United Nations in Manhattan. We recognized the loss as a consequence of the re-measurement of our lease exit costs due to the subtenant abandoning the property subleased from us.

Net Income (Loss) Applicable to Preferred and Common Shareholders. Net income applicable to preferred and common shareholders was $22.5 million during fiscal year 2013 compared to $20.0 million net loss during fiscal year 2012. Net income applicable to preferred and common shareholders in fiscal year 2012 included charges for preferred stock dividends of $514 thousand and accretion of preferred stock redemption value of $73 thousand. We also recorded a reduction of net income applicable to shareholders of $35.8 million during fiscal year 2012 to reflect the excess of the redemption value over the carrying value of the preferred shares redeemed.

Fiscal Year 2012 Compared to Fiscal Year 2011

Restaurant Sales. Restaurant sales increased $27.1 million, or 7.7%, to $378.4 million during fiscal year 2012 from fiscal year 2011. The increase was attributable to a $15.7 million increase in Company-owned comparable sales for all brands and an increase in operating weeks. Because fiscal year 2012 included 53 weeks whereas fiscal year 2011 included 52 weeks, fiscal year 2012 benefitted from sales for an additional week: fiscal year 2012 sales included approximately $9.3 million of sales attributable to the 53rd week. Company-owned comparable restaurant sales for Ruth's Chris Steak House increased 5.1%, which consisted of a traffic increase of 2.7% and an average check increase of 2.4%. Company-owned comparable restaurant sales at Mitchell's Fish Market increased 2.5%, which consisted of a traffic increase of 3.4% and an average check decrease of 0.8%.

Franchise Income. Franchise income increased $1.4 million, or 11%, to $13.8 million during fiscal year 2012 from fiscal year 2011. The increase was driven by a $700 thousand increase from six new locations which opened during 2012 and 2011 and a $600 thousand increase from an increase in comparable franchisee-owned restaurant sales of 4.6% (which included a 5.0% increase in domestic comparable franchisee-owned restaurant sales and a 2.9% increase in international comparable franchisee-owned restaurant sales).

Food and Beverage Costs. Food and beverage costs increased $11.3 million, or 10.4%, to $120.2 million during fiscal year 2012 from fiscal year 2011. As a percentage of restaurant sales, food and beverage costs increased to 31.8% during fiscal year 2012 from 31.0% during fiscal year 2011. This increase in food and beverage costs as a percentage of restaurant sales was primarily due to 13% higher beef costs partially offset by a 1.8% increase in menu pricing.

Restaurant Operating Expenses. Restaurant operating expenses increased $9.1 million, or 5.0%, to $190.7 million in fiscal year 2012 primarily due to higher restaurant sales. Despite the increase in total expense, restaurant operating expenses, as a percentage of restaurant sales, decreased to 50.4% in fiscal year 2012 from 51.7% in fiscal year 2011 due to leveraging higher comparable restaurant sales.

Marketing and Advertising Costs. Marketing and advertising costs decreased $570 thousand, or 4.9%, to $11.2 million in fiscal year 2012. The decrease was due a planned reduction in spending.

General and Administrative Costs. General and administrative costs increased $5.5 million, or 24.1%, to $28.3 million in fiscal year 2012 due to a $2.5 million increase in performance-based compensation, $1.4 million increase from the filling of open positions and $1.0 million from additional professional fees.

Depreciation and Amortization Expenses. Depreciation and amortization expense decreased $303 thousand, or 2.0%, to $14.6 million in fiscal year 2012. The year over year decrease in depreciation and amortization is primarily attributable to certain restaurant assets becoming fully depreciated.

Loss on Impairment and Asset Deposals, Net. We recognized a loss on the impairment and asset disposals of $5.0 million in fiscal year 2012 compared to a loss of $3.5 million in fiscal year 2011. During fiscal year 2012, we recorded a gain on asset disposals of $134 thousand, a $395 thousand impairment loss related to a location being sold, and two impairment losses aggregating $4.7 million due to declines in the estimated fair value of the assets (which consisted primarily of leasehold improvements). The declines in estimated fair value of assets were primarily attributable to management's assessment that our expected lease term would be shortened. Management reviewed the lease terms and expected cash flows for these restaurants and determined that we are not likely to extend our lease terms under certain of our existing lease agreements long enough to recover the net book value of our long-lived assets. During fiscal year 2011, we recorded loss on asset disposals of $502 thousand and a $3.0 million loss on impairment. The loss on impairment was attributable to a reduction in the estimated fair value of the Mitchell's Fish Market trademark.

Restructuring Expense (Benefit). In fiscal year 2011, we recognized $502 thousand benefit attributable to favorable lease resolutions on closed/unopened restaurant sites.

Gain on the Settlements. During fiscal year 2012, the Company reached an agreement to settle certain liabilities pertaining to unclaimed property returns which had not been filed timely. A $683 thousand gain was recognized during the fourth quarter of fiscal year 2012 pertaining to this settlement.

Interest Expense. Interest expense, net of interest income, decreased $527 thousand, or 18.2%, to $2.4 million in fiscal year 2012. The decrease in expense was primarily due to lower interest rates in fiscal year 2012. The lower interest rates were largely attributable to more favorable terms under our amended senior credit agreement.

Debt issuance costs written off. As a consequence of the February 2012 amendment to our senior credit agreement, $807 thousand of previously deferred debt issuance costs were written off.

Income Tax Expense. Income tax expense increased $5.0 million to $6.7 million in fiscal year 2012. The year over year increase was largely due to the favorable impact of a $4.0 million benefit recorded in the second quarter of fiscal year 2011. The benefit pertained to a reduction of the valuation allowance on certain state deferred tax assets.

Income from Continuing Operations. Income from continuing operations decreased $2.8 million to $16.4 million in fiscal year 2012 from income of $19.2 million in fiscal year 2011 due to the factors discussed above.

Discontinued Operations, Net of Income Tax Benefit. During fiscal 2012, we reported a $19 thousand loss from discontinued operations, net of income tax benefit. During fiscal year 2011, we reported $396 thousand net of tax income on discontinued operations. The fiscal year 2011 income pertained to a change in estimate of lease-related liabilities.

Net Income (Loss) Applicable to Preferred and Common Shareholders. During fiscal year 2012, we reported a loss applicable to preferred and common shareholders of $20.0 million compared to $16.7 million net income applicable to preferred and common shareholders reported for fiscal year 2011. Preferred stock requirements are deducted from net income to arrive at net income (loss) applicable to preferred and common shareholders. We recorded a reduction of net income applicable to shareholders of $35.8 million in the first fiscal quarter of 2012 to reflect the excess of the redemption value over the carrying value of the preferred shares redeemed.

Potential Fluctuations in Quarterly Results and Seasonality

Our quarterly operating results may fluctuate significantly as a result of a variety of factors. See “Risk Factors” for a discussion of certain material risks that could affect our quarterly operating results.

Our business is also subject to seasonal fluctuations. Historically, the percentages of our annual total revenues during the first and fourth fiscal quarters have been higher due, in part, to the year-end holiday season. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year, and comparable restaurant sales for any particular period may decrease.

Liquidity and Capital Resources

Overview

Our principal sources of cash during fiscal year 2013 were net cash provided by operating activities and borrowings under our $100 million senior credit facility. Our principal uses of cash during fiscal year 2013 were for capital expenditures, principal repayments on our senior credit facility and dividends. We reduced outstanding borrowings under our $100 million senior credit facility by $26.0 million during fiscal year 2013.

We paid quarterly cash dividends of $0.04 per share, $1.4 million in aggregate, during each of the second, third and fourth quarters of fiscal year 2013. On February 21, 2014, we announced that our Board of Directors declared a quarterly cash dividend of $0.05 per share, $1.8 million in aggregate, to be paid on March 27, 2014 to stockholders of record as of the close of business on March 13, 2014. This dividend represents a 25% increase from the previous quarterly dividend paid to shareholders on November 26, 2013. Future dividends will be subject to the approval of our Board of Directors.

On May 3, 2013, we announced that our Board of Directors approved a common stock repurchase program. Under the program, we may from time to time purchase up to $30 million of our outstanding common stock. The share repurchases will be made at our discretion in the open market or in negotiated transactions depending on share price, market conditions or other factors. The share repurchase program does not obligate us to repurchase any dollar amount or number of shares. As of December 29, 2013, no shares have been repurchased under the common stock repurchase program.

We believe that our borrowing ability under our senior credit facility coupled with our anticipated cash flow from operations should provide us with adequate liquidity in fiscal year 2014.

Senior Credit Facility

As of December 29, 2013, the Company had an aggregate of $19.0 million of outstanding indebtedness under its $100 million senior credit facility at a weighted average interest rate of 3.46% with approximately $76.9 million of borrowings available, net of outstanding letters of credit of approximately $4.1 million. The 3.46% weighted average interest rate includes a 2.19% interest rate on outstanding indebtedness, plus fees on the Company's unused borrowing capacity and outstanding letters of credit. As of December 29, 2013, the Company was in compliance with all the covenants under its credit facility.

On February 14, 2012, the Company entered into a Second Amended and Restated Credit Agreement with Wells Fargo Bank, as administrative agent, and certain other lenders (the Amended and Restated Credit Agreement). The Amended and Restated Credit Agreement allows for loan advances plus outstanding letters of credit of up to $100.0 million to be outstanding at any time that the conditions for borrowings are met. The Amended and Restated Credit Agreement sets the interest rates applicable to borrowings based on the Company's actual leverage ratio, ranging (a) from 2.00% to 2.75% above the applicable LIBOR rate or (b) at the Company's option, from 1.00% to 1.75% above the applicable base rate.

The Amended and Restated Credit Agreement contains customary covenants and restrictions, including, but not limited to: (1) prohibitions on incurring additional indebtedness and from guaranteeing obligations of others; (2) prohibitions on creating, incurring, assuming or permitting to exist any lien on or with respect to any property or asset; (3) limitations on the Company's ability to enter into joint ventures, acquisitions and other investments; (4) prohibitions on directly or indirectly creating or becoming liable with respect to certain contingent liabilities; and (5) restrictions on directly or indirectly declaring, ordering, paying, or making any restricted junior payments. The Amended and Restated Credit Agreement requires the Company to maintain a fixed charge coverage ratio of 1.25:1.00 and the maximum leverage ratio of 2.50:1.00. The agreement was amended in May 2013 to reset the limit applicable to junior stock payments, which include both cash dividend payments and repurchase of common and preferred stock. Junior stock payments made subsequent to December 30, 2012 through the end of the agreement are limited to $100.0 million; $4.3 million of such payments had been made as of December 29, 2013. The Company's obligations under the Amended and Restated Credit Agreement 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 Amended and Restated Credit Agreement includes customary events of default. As of December 29, 2013, the Company was in compliance with the covenants under the Amended and Restated Credit Agreement.

Capital Expenditures

Capital expenditures in fiscal year 2013, which aggregated $15.3 million, pertained primarily to: $8.0 million for various restaurant remodel projects; $2.9 million for the cost of relocating our Houston Ruth's Chris Steak House; $2.4 million for a new Ruth's Chris Steak House which opened in Denver in early 2014; and $1.7 million for information technology projects. Capital expenditures in fiscal year 2012, which aggregated $11.5 million, pertained primarily to $7.7 million for various remodel projects and $3.0 million for a new Ruth's Chris Steak House in Cincinnati. Capital expenditures in fiscal year 2011 aggregated $9.0 million.

We anticipate capital expenditures in fiscal year 2014 will be approximately $20 to $22 million. We currently expect to open three to four Company-owned restaurants at leased locations in fiscal year 2014.

Repurchase of All our Preferred Stock

On March 8, 2012, we repurchased all of our issued and outstanding shares of preferred stock for $60.2 million in cash. The purchase price, which includes all accrued and unpaid dividends owed on the preferred stock, was funded using borrowings from our $100 million senior credit facility. We believe the repurchase of all of the outstanding preferred stock enhanced our capital structure by reducing our potentially fully diluted common share base and eliminating the preferred dividends. As of the date of the repurchase, our potential fully diluted common share base decreased by approximately 8.6 million shares and the 10% dividend on the preferred stock, which amounted to $2.5 million in fiscal year 2011, was eliminated subsequent to the redemption.

Cash Flows

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

	Fiscal Year		
	2013	**2012**	**2011**
Net cash provided by (used in):			
Operating activities	$47,796	$53,324	$39,337
Investing activities	(14,207)	(11,296)	(8,975)
Financing activities	(30,912)	(38,044)	(31,455)
Net increase (decrease) in cash and cash equivalents	$2,677	$3,984	$(1,093)

Operating Activities. Operating cash inflows pertain primarily to restaurant sales and franchise income. Operating cash outflows pertain primarily to expenditures for food and beverages, restaurant operating expenses, marketing and advertising and general and administrative costs. Operating activities provided cash flow all three fiscal years primarily because operating revenues have exceeded cash-based expenses. Cash provided by operating activities decreased $6.3 million in fiscal year 2013 compared to fiscal year 2012 primarily due to the fiscal year 2013 payments of fiscal year 2012 performance-based compensation liabilities and a $2.5 million payment to settle certain liabilities pertaining to unclaimed property.

Investing Activities. Cash used in investing activities in all three fiscal years pertained primarily to capital expenditure projects.

Financing Activities. Financing activities used cash in all three fiscal years. During fiscal year 2013, we reduced the debt outstanding under our senior credit facility by $26.0 million and paid dividends of $4.3 million. Cash used in financing activities in fiscal year 2012 was the net result of $60.2 million cash used to repurchase all of our outstanding preferred stock and the $23.0 million proceeds from net additional borrowings under our senior credit facility. Net cash used by financing activities in fiscal year 2011 was attributable to $29 million net principal payments on long-term debt and $2.5 million cash dividends paid on preferred stock.

Contractual Obligation

The following table summarizes our contractual obligations as of December 29, 2013:

	Payments due by period				
	Total	Less than 1 year	1-2 years	3-5 years	More than 5 years
			(in millions)		
Long-term debt obligations	$21.1	$0.7	$0.7	$19.7	$-
Operating lease obligations	249.5	24.5	23.2	64.1	137.7
Total	$270.6	$25.2	$23.9	$83.8	$137.7

Long-term debt obligations include principal maturities and expected interest payments. Expected interest payments were estimated using the weighted average interest rate of 3.46% under our senior credit facility as of December 29, 2013. Operating lease obligations do not include contingent rent, common area maintenance, property taxes and other pass through charges from our landlords. The above table does not include recorded liabilities to vendors or employees.

Off-Balance Sheet Arrangements

As of December 29, 2013, we do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

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

Deferred Gift Card Revenue and Gift Card Breakage Revenue

Revenue from restaurant sales is recognized when food and beverage products are sold. Deferred revenue primarily represents the Company’s liability for gift cards that have been sold but not yet redeemed, and is recorded at the expected redemption value. When the gift cards are redeemed, the Company recognizes restaurant sales and reduces the deferred revenue liability. Company issued gift cards redeemed at franchisee-owned restaurants reduce the deferred revenue liability but do not result in our restaurant sales. Gift card transactions involving franchisees are settled on a monthly basis through the Company's third party gift card provider. The expected redemption value of gift cards represents the full value of all gift cards issued less the amount the Company has recognized as other operating income for gift cards that are not expected to be redeemed.

The portion of gift cards sold to customers which are never redeemed is commonly referred to as gift card breakage. Prior to the fourth quarter of fiscal 2013, the Company recognized breakage revenue using the Delayed Method of accounting. Based on historical information and after the Company’s determination that there is no legal obligation to remit the value of unredeemed gift cards to relevant governmental authorities, gift card breakage revenue was recognized for cards which remained unredeemed 18 months after the date of last activity. Gift card breakage produces a revenue stream which is a key element of the profitability of the Company’s gift card program and is classified as a component of other operating revenue.

At the end of the fourth quarter of fiscal year 2013, the Company concluded it had accumulated a sufficient level of historical data from a large pool of homogeneous transactions to allow management to reasonably and objectively determine an estimated gift card breakage rate and the pattern of gift card redemptions. As a result, the Company elected to change its policy for recognizing gift card breakage revenue by changing from the Delayed Method to the Redemption Method of accounting. Under the Redemption Method, breakage revenue is recognized and the gift card liability is derecognized for unredeemed gift cards in proportion to actual gift card redemptions. The Company believes that the Redemption Method is preferable to the Delayed Method because it better reflects the gift card earnings process resulting in the recognition of breakage revenue over the period of gift card redemptions (i.e., over the performance period) and because the new presentation makes the Company’s financial statements more comparable with its primary competitors. The Company will continue to review historical gift card redemption information to assess the reasonableness of projected gift card breakage rates and patterns of redemption. Future gift card usage may be different than our historical experience and as result our estimate of cards not expected to be redeemed is subject to inherent uncertainty. If actual redemption activity differs significantly from our historical experience our deferred revenue liability and results of operations could be materially impacted.

Impairment of Long-Lived Assets

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

During fiscal year 2013, the Company recognized a $2.1 million impairment loss due to a decline in the estimated fair value of one restaurant's assets (primarily leasehold improvements). The decline in estimated fair value was attributable to decreases in that restaurant's projected profitability. During fiscal year 2012, we recorded a $395 thousand impairment related to a location being sold and two impairment losses aggregating $4.7 million due to declines in the estimated fair value of the assets (which consisted primarily of leasehold improvements). The declines in estimated fair value were primarily attributable to management's assessment that our expected lease term would be shortened. Management reviewed the lease terms and expected cash flows for these restaurants and determined that we are not likely to extend our lease terms under certain of our existing lease agreements.

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

Generally, costs for exit or disposal activities, including restaurant closures, are expensed as incurred. The costs include the cost of disposing of the assets as well as other facility-related expenses from previously closed restaurants. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. Upon disposal of the assets associated with a closed restaurant, any gain or loss is recorded in the same line within our consolidated statements of income as the original impairment.

Valuation and Recoverability of Goodwill, Franchise Rights and Trademarks

Goodwill, franchise rights and trademarks arose primarily from our acquisition of franchisee-owned Ruth's Chris restaurants and our acquisition of Mitchell's Fish Markets. The most significant acquisitions were completed in 1996, 1999, 2006, 2007 and 2008. Goodwill, trademarks and franchise rights acquired prior to 2008 are not subject to amortization. Such assets must be tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A variety of inherently uncertain estimates, judgments and projections are used in both assessing whether there has been an indicator that an impairment of an intangible asset may have occurred and estimating fair value of possibly impaired assets. Management is required to: project future sales and cash flows associated with a specific intangible asset; assess maintenance and capital improvement requirements; estimate the cost of capital (or discount rate) that a third party would use in assessing value for a specific intangible asset; and anticipate changes in usage and operating performance. Changes in the following will impact future assessments of whether or not our intangible assets have been impaired: our expectations regarding future sales and profitability; the economic environment; competitive conditions; the desirability of restaurant sites; and the cost of capital to the restaurant industry generally and the Company specifically.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; unfavorable results of testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of these assets which could have a material impact on our consolidated financial statements. If we determine that an intangible asset may be impaired we are required to estimate its fair value. Because similar intangible assets are not bought and sold regularly in public markets, estimates of fair value of our intangible assets are inherently uncertain. Franchise rights and trademarks tend to be bought and sold as components of the business units being sold. Also, trademarks and franchise rights tend to be unique assets further complicating the task of estimating the fair value of such assets.

The goodwill impairment test involves a two-step process. The first step is a comparison of the carrying value of the reporting unit to its fair value, which is considered to be the individual restaurant acquired. Consistent with the valuation of restaurant operations, the Company utilizes a multiple of EBITDA to approximate the fair value of the reporting unit for purposes of completing Step 1 of the evaluation. The Company considers EBITDA multiples of publicly held companies, including its own, as well as other private reporting unit acquisitions. For reporting units whose estimated fair value exceed its carrying value, no impairment is recorded. As of December 29, 2013, the estimated fair values of all reporting units exceeded their respective carrying values. If a reporting unit's fair value had not exceeded its carrying value as the balance sheet date, the Company would have completed Step 2 of the evaluation by comparing the implied fair value of goodwill with the net asset value of the reporting unit. The Company would have calculated the implied fair value by allocating the fair value of a reporting unit to all of its assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the unit. The fair values of the reporting units with goodwill on the balance sheet as of December 29, 2013 significantly exceed their financial statement carrying values.

The fair value of our franchise rights are estimated and compared to their carrying value. We estimate the fair value of these intangible assets using an excess earnings approach, which estimates value based upon the discounted value of future cash flow expected to be generated by Company-owned restaurants in the acquired trade area, net of all contributory asset returns. This calculation requires market based assumptions related to projected cash flows, projected capital expenditures, as well as a discount rate. We recognize an impairment loss when the estimated fair value of the franchise rights is less than its carrying value. We completed our impairment test of our franchise rights and concluded as of the date of the test, there was no impairment because the estimated fair value significantly exceeded the financial statement carrying value as of December 29, 2013.

The fair value of our acquired trademarks are estimated and compared to the financial statement carrying value. We recognize an impairment loss when the estimated fair value of a trademark is less than its carrying value. To determine the fair value of trademarks we use a relief-from-royalty valuation approach. This approach assumes that in lieu of ownership, a third party would be willing to pay a royalty in order to exploit the related benefits of these types of assets. This approach is dependent on a number of factors, including estimates of future revenue growth and trends, royalty rates in the category of intellectual property, discount rates and other variables. During the fourth quarter of fiscal year 2013, a $400 thousand loss on the impairment of an ancillary trademark not expected to be used was recorded. We completed our impairment test of our trademarks as of December 29, 2013, and concluded that (after the impairment loss was recorded) the estimated fair value of trademarks exceeded the financial statement carrying value. During the fourth quarter of fiscal year 2011 in connection with our annual impairment test, we recorded a non-cash loss on impairment of $3.0 million to reduce the financial statement carrying value of the Mitchell’s Fish Market trademark to $9.2 million, which represented its then estimated fair value. The estimated fair value declined primarily due to a change in the Company’s assumptions related to the projected sales growth of Mitchell’s Fish Market. The growth assumptions were revised in the fourth quarter of 2011 consistent with Company’s annual strategic plan. After adjustment, the estimated fair value of the Mitchell’s Fish Market trademark equaled its financial statement carrying value as of December 25, 2011.

Declines in sales at our restaurants and significant adverse changes in the operating environment for the restaurant industry may result in future impairment charges. Changes in circumstances, existing at the measurement date or at other times in the future, or in the estimates associated with management’s judgments and assumptions made in assessing the fair value of our goodwill, franchise rights and trademarks could result in an impairment charge.

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

Insurance Liability

We maintain various insurance policies for workers' compensation, employee health, general liability and property damage. Pursuant to those policies, we are responsible for losses up to certain limits and are required to estimate a liability that represents our ultimate exposure for aggregate losses below those limits. The recorded liabilities are based on management's estimates of the ultimate costs to be incurred to settle known claims and claims not reported as of the balance sheet date. We use independent actuaries to develop the estimated workers' compensation, general and employee health liabilities. Our estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions. If actual trends differ from our estimates, our financial results could be impacted.

Income Taxes

We account for income taxes in accordance with "Income Taxes," Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 (Topic 740). FASB Topic 740 establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. We recognize deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities resulted in a net deferred tax asset, an evaluation is made of the probability of our ability to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or the entire deferred tax asset will not be realized. The realization of such net deferred tax will generally depend on whether we will have sufficient taxable income of an appropriate character within the carry-forward period permitted by the tax law. Without sufficient taxable income to utilize the deductible amounts and carry forwards, the related tax benefits will expire unused. We have evaluated both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. Measurement of deferred items is based on enacted tax laws.

Share-Based Compensation

“Accounting for Stock-Based Compensation,” FASB ASC Topic 718 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. All employee stock options were granted at or above the grant date market price.

Recent Accounting Pronouncements for Future Application

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company is exposed to market risk from fluctuations in interest rates. For fixed rate debt, interest rate changes affect the fair market value of such debt but do not impact earnings or cash flows. Conversely for variable rate debt, including borrowings under the Company’s senior credit facility, interest rate changes generally do not affect the fair market value of such debt, but do impact future earnings and cash flows, assuming other factors are held constant. At December 29, 2013, the Company had $19 million of variable rate debt outstanding. The Company currently does not use financial instruments to hedge its risk to market fluctuations in interest rates. Holding other variables constant (such as foreign exchange rates and debt levels), a hypothetical 100 basis point change in interest rates as of December 29, 2013 would be expected to have an impact on pre-tax earnings and cash flows for fiscal year 2014 of approximately $0.2 million.

Foreign Currency Risk

The Company believes that fluctuations in foreign exchange rates do not present a material risk to its operations. Franchise fee revenue from international locations aggregated $3.0 million and $2.7 million in fiscal years 2013 and 2012, respectively.

Commodity Price Risk

The Company is exposed to market price fluctuations in beef and other food product prices. Given the historical volatility of beef and other food product prices, this exposure can impact the Company’s food and beverage costs. As the Company typically sets its menu prices in advance of its beef and other food product purchases, the Company cannot quickly react to changing costs of beef and other food items. To the extent that the Company is unable to pass the increased costs on to its guests through price increases, the Company’s results of operations would be adversely affected. As of December 29, 2013, we have not negotiated set pricing for any beef requirements in 2014. The market for USDA Prime-grade beef is particularly volatile. If prices increase, or the supply of beef is reduced, operating margin could be materially adversely affected. *Ceteris paribus*, a hypothetical 10% fluctuation in beef prices would have an approximate impact on pre-tax earnings ranging from $4.0 million to $5.0 million for fiscal year 2014.

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

Effects of Inflation

Components of the Company’s operations subject to inflation include food, beverage and 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 general 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 public accounting firm, are set forth in the pages indicated in Item 15 of this Annual Report on Form 10-K.

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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 Exchange Act) as of December 29, 2013. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 29, 2013 to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by the Company is accumulated and communicated to the Company's management to allow timely decisions regarding the required disclosure.

Management's Report on Internal Control over Financial Reporting

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

Management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 29, 2013. In making this assessment, management applied the criteria based on the "Internal Control—Integrated Framework (1992)" set forth by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's assessment included documenting, evaluating and testing the design and operating effectiveness of the Company's internal control over financial reporting. Based upon this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 29, 2013.

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

29, 2013, which follows.

Our system of internal control over financial reporting was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with accounting principles generally accepted in the United States. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ending December 29, 2013, there was no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that in the Company’s judgment has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Ruth's Hospitality Group, Inc.:

We have audited Ruth's Hospitality Group, Inc.'s internal control over financial reporting as of December 29, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ruth's Hospitality Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Ruth's Hospitality Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 29, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ruth's Hospitality Group, Inc. and subsidiaries as of December 29, 2013 and December 30, 2012, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 29, 2013, and our report dated March 11, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Orlando, Florida

March 11, 2014

Certified Public Accountants

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Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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

Information about security ownership is incorporated by reference to the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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 29, 2013:

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)**	**Number of Securities Remaining Available for Future Issuance Under an Equity Compensation Plan (Excluding Securities Reflected in Column (a)) (c)**
Equity compensation plans approved by stockholders:			
2000 Stock Option Plan	9,527	$ 0.48	-
2005 Long-Term Equity Incentive Plan	1,960,497	$ 7.79	456,280
Total	1,970,024	$ 7.75	456,280

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

The information required by this Item is incorporated by reference to the Company’s Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the Company’s Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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 11, 2014

RUTH'S HOSPITALITY GROUP, INC.

By: /s/ MICHAEL P. O'DONNELL
Michael P. O'Donnell

Chairman of the Board, President and Chief Executive

Officer

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

Signatures	**Title**	**Dates**
/s/ MICHAEL P. O'DONNELL **Michael P. O'Donnell**	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 11, 2014
/s/ ARNE G. HAAK **Arne G. Haak**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 11, 2014
/s/ MARK W. OSTERBERG **Mark W. Osterberg**	Vice President of Accounting and Chief Accounting Officer (Principal Accounting Officer)	March 11, 2014
/s/ ROBIN P. SELATI **Robin P. Selati**	Lead Director	March 11, 2014
/s/ CARLA R. COOPER **Carla R. Cooper**	Director	March 11, 2014
/s/ BANNUS B. HUDSON	Director	March 11, 2014

Bannus B. Hudson

/s/ ROBERT S. MERRITT **Robert S. Merritt**	Director	March 11, 2014
/s/ ALAN VITULI **Alan Vituli**	Director	March 11, 2014

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RUTH'S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Ruth's Hospitality Group, Inc.:

We have audited the accompanying consolidated balance s