

MORTONS RESTAURANT GROUP INC
Form 10-K
March 13, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

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

For the fiscal year ended January 4, 2009

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 1-12692

MORTON S RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

13-3490149
(I.R.S. employer identification no.)

325 North LaSalle Street, Suite 500, Chicago, Illinois
(Address of principal executive offices)

60654
(zip code)

312-923-0030

(Registrant's telephone number, including area code)

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

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Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	New York Stock Exchange

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 or 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 or 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 or 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 definition 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 Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 27, 2008, the last business day of the registrant's most recently completed second quarter, was \$112 million (based on the closing sale price of the registrant's common stock on that date as reported on the New York Stock Exchange).

As of February 23, 2009, the registrant had 16,597,870 shares of its common stock, \$.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Definitive Proxy Statement to be filed subsequent to the date hereof with the Commission pursuant to Regulation 14A in connection with the registrant's 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended January 4, 2009.

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Part I

Item 1. Business

Morton's Restaurant Group, Inc. (MRG) was incorporated as a Delaware corporation on October 3, 1988 and, until February 14, 2006, was a wholly-owned subsidiary of Morton's Holding Company, Inc. (MHCI), which was incorporated as a Delaware corporation on March 10, 2004 and became the direct parent of MRG on June 4, 2004. MHCI was a wholly-owned subsidiary of Morton's Holdings, LLC (MHLLC), a Delaware limited liability company formed on April 4, 2002. On February 14, 2006, MHCI was merged with and into MRG, with MRG as the surviving corporation. As used in this Report, except where the context otherwise requires, the terms Company, we, us and our refer to MRG and its consolidated subsidiaries. In February 2006, MRG and certain selling stockholders completed an initial public offering (IPO) in which MRG and those stockholders sold 6,000,000 and 3,465,000 shares of common stock, respectively, at \$17.00 per share. On March 10, 2006, Wachovia Capital Markets, LLC, as representative of the several underwriters of the Company's IPO, exercised the underwriters' over-allotment option to purchase from MRG, at \$17.00 per share, 801,950 additional shares of common stock, resulting in additional net proceeds (after deducting underwriting discounts and commissions) to the Company of approximately \$12.7 million.

General

As of January 4, 2009, the Company owned and operated 80 Morton's The Steakhouse restaurants (Morton's) and three Italian restaurants (two Bertolini's Authentic Trattorias (Bertolini's) and one Trevi, collectively referred to as Italian restaurants). Morton's are upscale steakhouse restaurants associated with a fine steakhouse dining experience. Morton's and the Company's Italian restaurants appeal to a broad spectrum of consumer tastes and target separate price points and dining experiences.

Morton's The Steakhouse Restaurants

As of January 4, 2009, the Company owned and operated 80 Morton's steakhouses, including 75 domestic restaurants located in 69 cities across 28 states and San Juan, Puerto Rico, and five international locations (Toronto, Canada; Vancouver, Canada; Hong Kong, China; Macau, China and Singapore). During fiscal 2008, the Company opened new Morton's steakhouses in Brooklyn, New York; Coral Gables, Florida; Fort Lauderdale, Florida; and Naperville, Illinois. Additionally, during fiscal 2008, the Company opened a new Morton's steakhouse in Sacramento, California and closed a previously existing Morton's steakhouse in Sacramento, California. As of February 23, 2009, the Company currently has signed leases for new Morton's steakhouses in Dallas, Texas; Indian Wells, California; Mexico City, Mexico (through a joint venture structure); and Miami Beach, Florida. During fiscal November 2008, the Company closed its Morton's steakhouse in Kansas City, Missouri and during fiscal December 2008 closed its Morton's steakhouse in Charlotte (SouthPark), North Carolina.

Morton's strives to provide its guests high quality cuisine, an extensive selection of wines and exceptional service in an enjoyable dining environment. Morton's steakhouses feature USDA prime aged beef in the United States and Canada, including, among other cuts, a 24 oz. porterhouse, a 20 oz. New York strip sirloin and a 16 oz. ribeye steak. Due to restrictions imposed on the import of U.S. beef, Morton's steakhouses in Asia feature both USDA prime aged beef and comparable high quality aged beef. While the emphasis is on steaks, we believe the Morton's menu selection is broad enough to appeal to many taste preferences and desires. Morton's offers a wide selection of appetizers and salads. Besides featuring USDA prime aged steak, Morton's menu includes other fresh premium items including lamb, chicken, lobster and a variety of other seafood. Complementing its substantial main course selections, Morton's dessert menu features its original Morton's Legendary Hot Chocolate Cake, New York cheesecake, crème brûlée and soufflés. In addition, each Morton's steakhouse has a fully stocked bar and extensive premium wine list that offers approximately 200 wine selections in all restaurants, and a broader list of approximately 500 wines in selected restaurants. The Morton's tableside menu

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presentation by the server is intended to highlight the quality of its products, personalize the dining experience and underscore Morton's focus on premium service. In addition, all Morton's steakhouses feature an open display kitchen where the chefs and grills are visible, which we believe increases the energy level of the restaurant and enhances the guests' experience.

Morton's caters primarily to high-end, business-oriented clientele. All Morton's are open seven days a week. The 67 Morton's serving only dinner are typically open from 5:00 p.m. to 10:00 p.m. or 11:00 p.m., while the 13 Morton's serving both dinner and lunch typically open at 11:30 a.m. for lunch. All except for one Morton's have on-premises, private dining and meeting facilities referred to as Boardrooms. During the fiscal year ended January 4, 2009, the average per-person check, including lunch, dinner and Boardroom, was \$97.25. Management believes that a vast majority of Morton's weekday revenues and a substantial portion of its weekend revenues are derived from business people using expense accounts. Sales of alcoholic beverages accounted for approximately 29% of Morton's revenues during fiscal 2008, fiscal 2007 and fiscal 2006. In the 13 Morton's serving both dinner and lunch during fiscal 2008, dinner service accounted for approximately 88% of revenues and lunch service accounted for approximately 12%. During fiscal 2008, Boardroom revenues were approximately 19% of revenues in those locations offering Boardrooms.

Management believes that its operations and cost control systems, which have been developed and refined over its 30-year history, enable Morton's to maintain a high degree of control over operating expenses and allow Morton's to better adjust its cost structure to changes in revenues. Morton's staff is highly trained, experienced and motivated. Morton's management believes that its centralized sourcing from its primary suppliers of beef and other products gives it significant cost and availability advantages over many independent steakhouses. All Morton's steakhouses report daily through a sophisticated point-of-sale and accounting system that allows the Company to monitor its revenues, costs and inventory.

Italian Restaurants

As of January 4, 2009, the Company owned and operated three Italian restaurants, located in two cities. During January 2006, the Company signed a new long-term lease with respect to its then-existing Bertolini's restaurant located at the Fountain of Gods at the Forum Shops at Caesars Palace in Las Vegas, Nevada. In conjunction with the new lease, the then-existing Bertolini's restaurant at this location was closed on September 15, 2006, and was then renovated and replaced by Trevi, a new Italian restaurant that opened at this location on February 2, 2007. Trevi features classic Italian favorites served in a café dining environment. The Company's other two Italian restaurants, which operate under the name Bertolini's, are designed as white tablecloth, authentic Italian trattorias, which provide table service in a casual dining atmosphere. For the fiscal year ended January 4, 2009, the average per-person check for the Company's Italian restaurants, including lunch and dinner, was approximately \$29.45. The Company's Italian restaurants are open seven days a week, for lunch and dinner, with typical hours of 11:00 a.m. to 12:00 midnight. During fiscal 2008, dinner service accounted for approximately 69% of revenues and lunch service accounted for approximately 31% of revenues of total Italian revenues. Sales of alcoholic beverages accounted for approximately 23%, 22% and 22% of the Italian restaurant revenues during fiscal 2008, fiscal 2007 and fiscal 2006, respectively. During fiscal 2008, no new Italian restaurants were opened. Based on a strategic assessment of trends, during March 2008 the Company closed its Bertolini's restaurant in Indianapolis, Indiana. See Item 1A. Risk Factors- Our Restaurants may not be able to compete successfully with other restaurants and, as a result, we may not achieve our projected revenue and profitability targets. The Company has not signed any leases for new Italian restaurants.

Site Development and Expansion

General. To date, the Company has sought to reduce its capital investments in new Morton's steakhouses by obtaining substantial landlord development allowances. These landlord development allowances typically take the form of cash payments to Morton's but sometimes take the form of reduced rent. The Company's restaurant leases provide for a minimum annual rent and certain leases also provide for contingent rent to be determined as a percentage of the applicable restaurant's gross revenues. As a result, annual rent expense, which is included in

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restaurant operating expenses in the Company's consolidated statements of operations, varies according to restaurant revenues. This leasing strategy enables the Company to reduce its net investments in newly developed restaurants. The costs of opening a Morton's steakhouse vary by restaurant depending upon, among other things, the location of the site and construction required. The Company generally leases its restaurant sites and operates both free-standing restaurants and restaurants located in upscale retail, hotel, commercial and office complexes, which the Company refers to as in-line restaurants, in major metropolitan and urban centers and surrounding suburban areas. The Company currently targets its initial average cash investment to open new Morton's steakhouses in leased premises to be approximately \$4.2 million per restaurant, which is net of landlord development allowances of approximately \$1.2 million. This includes pre-opening costs of approximately \$0.6 million, which are expensed under generally accepted accounting principles (GAAP). However, the Company may expend greater amounts for particular restaurants.

The standard decor and interior design of each of the Company's restaurant concepts can be readily adapted to accommodate different types of locations. Management believes that the locations of the Company's restaurants are critical to its long-term success, and management devotes significant time and resources to analyzing each prospective site. As it has expanded, the Company has developed and refined specific criteria by which it evaluates each prospective site. Potential sites are generally sought in major metropolitan areas. Management considers factors such as demographic information, average household size, income, traffic patterns, proximity to shopping areas and office buildings, hotels and convention centers, area restaurant competition, accessibility and visibility. The Company's ability to open new restaurants depends upon, among other things, finding quality locations, reaching acceptable agreements regarding the lease or purchase of locations, raising or having available an adequate amount of money for construction and opening costs, hiring, training and retaining the skilled management and other employees necessary to meet staffing needs in a timely manner, obtaining, for an acceptable cost, required permits and approvals and efficiently managing the amount of time and money used to build and open each new restaurant. For these and other reasons, there can be no assurance that the Company's expansion plans will be successfully achieved or that new restaurants will meet with consumer acceptance or can be operated profitably.

Morton's. The first Morton's was opened in 1978 in downtown Chicago, where Morton's corporate office is still located. Since 1978, Morton's has grown to 80 restaurants as of February 23, 2009. During fiscal 2008, the Company opened new Morton's steakhouses in Brooklyn, New York; Coral Gables, Florida; Fort Lauderdale, Florida; and Naperville, Illinois. Additionally, during fiscal 2008, the Company opened a new Morton's steakhouse in Sacramento, California and closed a previously existing Morton's steakhouse in Sacramento, California. As of February 23, 2009, the Company currently has signed leases for new Morton's steakhouses in Dallas, Texas; Indian Wells, California; Mexico City, Mexico (through a joint venture structure); and Miami Beach, Florida.

The Company employs rigorous selection criteria for both existing and new markets when selecting new Morton's steakhouse sites. The Company's training department oversees its new restaurant opening program, which includes teams whose objective is to optimize the performance and efficiencies of its new restaurants. Typically, the Company opens its new Morton's steakhouses with a combination of seasoned restaurant managers, trainers and chefs from its established Morton's steakhouses. The training team typically spends approximately four to five weeks ensuring that the new employees are well trained and capable of consistently maintaining the Company's high standards for service and food at the new location.

Morton's are very similar in terms of style, concept and decor, and are typically located in upscale retail, hotel, commercial and office complexes in major metropolitan areas and urban centers and surrounding suburban areas. The approximate gross costs per restaurant to the Company for the five Morton's opened in leased premises between December 31, 2007 and February 23, 2009 ranged from approximately \$4.1 million to \$7.4 million, including costs for leasehold construction, furniture, fixtures, equipment and pre-opening expenses. For these restaurants, costs were offset in part by landlord development allowances ranging from approximately \$1.0 million to \$1.5 million per restaurant.

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Italian Restaurants. As of January 4, 2009, the Company owned and operated three Italian restaurants. During January 2006, the Company signed a new 15 year lease with respect to its then-existing Bertolini's restaurant located at the Fountain of Gods at the Forum Shops at Caesars Palace in Las Vegas, Nevada. In conjunction with the new lease, a new Italian restaurant, Trevi, was built at this location. The Company opened Trevi on February 2, 2007. The gross costs to the Company for Trevi were approximately \$12.7 million, including costs for leasehold construction, furniture, fixtures, equipment and pre-opening expenses. No Italian restaurants were opened during fiscal 2008 and there are no plans to open any Italian restaurants in the foreseeable future.

Restaurant Locations

The Company owned and operated 80 Morton's and 3 Italian restaurants as of February 23, 2009. The following table provides information with respect to those restaurants:

Morton's The Steakhouse Restaurants**Arizona**

Phoenix
Scottsdale

California

Anaheim
Beverly Hills
Burbank (1)
Los Angeles (Downtown)
Palm Desert
Sacramento (2)
San Diego
San Francisco
San Jose
Santa Ana/Costa Mesa
Woodland Hills (1)

Colorado

Denver (Downtown)
Denver (Tech Center)

Connecticut

Hartford
Stamford

Florida

Boca Raton
Coral Gables
Jacksonville
Fort Lauderdale
Miami (Downtown)
North Miami Beach
Orlando
Palm Beach

Georgia

Atlanta (Buckhead)
Atlanta (Downtown)

Hawaii

Honolulu

Date Opened

March 1996
January 1999

December 2006
October 1992
November 2002
November 2001
January 1994
May 1993
April 1997
November 1994
February 2007
November 2001
December 2007

March 1995
March 2000

September 2000
February 1998

August 1999
June 2008
June 2000
December 2008
December 1997
July 1998
March 1996
November 1991

March 1994
November 1995

November 2001

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Chicago (State Street) (3)
 Chicago (Wacker Place)
 Naperville
 Northbrook
 Rosemont
 Schaumburg
 Westchester/Oakbrook

Date Opened

December 1978
 February 2005
 March 2008
 September 2006
 June 1989
 December 1999
 June 1986

Indiana

Indianapolis

November 1999

Kentucky

Louisville

June 2001

Louisiana

New Orleans

December 2000

Maryland

Annapolis

October 2007

Baltimore

August 1997

Bethesda

February 2005

Massachusetts

Boston Backbay

December 1987

Boston Seaport

November 2007

Michigan

Detroit (Southfield)

November 1992

Detroit (Troy)

March 2006

Minnesota

Minneapolis

December 1991

Missouri

St. Louis (Clayton)

December 1993

Nevada

Las Vegas

May 2000

New Jersey

Atlantic City

August 2005

Hackensack

September 2002

New York

Brooklyn

November 2008

Great Neck (Long Island)

October 2000

New York (Midtown Manhattan)

October 1993

White Plains

July 2004

North Carolina

Charlotte (Downtown)

July 1994

Ohio

Cincinnati (4)

August 1991

Cleveland

September 1990

Columbus

April 1991

Oregon

Portland

December 1998

Pennsylvania

King of Prussia

April 2002

Philadelphia

July 1999

Pittsburgh

August 1993

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<i>Morton s The Steakhouse Restaurants</i>	<i>Date Opened</i>
Puerto Rico	
San Juan	October 2000
Tennessee	
Nashville	January 1999
Texas	
Dallas (Downtown)	May 1987
Houston (Galleria)	January 1996
Houston (Downtown)	November 2006
San Antonio	September 1991
Virginia	
Arlington	October 2002
Reston	July 2001
Richmond	February 2003
Tysons Corner	November 1990
Washington	
Seattle	December 1999
Washington D.C.	
Washington (Connecticut Ave.)	January 1997
Washington (Georgetown)	November 1982
Canada	
Toronto	September 1998
Vancouver	October 2000
China	
Hong Kong (Kowloon)	December 1999
Macau	August 2007
Singapore	
Singapore	May 1998
Italian Restaurants	Date Opened
Las Vegas, NV (5)	May 1992
King of Prussia, PA (6)	November 1995
West Las Vegas, NV (6)	December 1998

- (1) Operates under the name Arnie Morton s The Steakhouse.
- (2) Morton s which was originally opened in May 1993 was closed and a new Morton s was opened in November 2008.
- (3) Does not have Morton s private dining Boardroom facilities.
- (4) Morton s which was originally opened in August 1991 was closed and a new Morton s was opened in August 2007.
- (5) Bertolini s which was originally opened on May 1992 was reopened as a new Italian restaurant, Trevi, which was built at this location and opened February 2, 2007.
- (6) Operates under the name Bertolini s Authentic Trattorias.

Restaurant Operations and Management

The Company s Morton s and Italian restaurants have a well-developed management infrastructure and are operated and managed as distinct concepts. Regional managers supervise the operations for the Company s restaurants, and each is responsible for several restaurants and reports to a regional vice president. Management believes the Company has created a culture of accountability whereby regional vice presidents and regional managers meet at least monthly with senior corporate management to review operations and address issues. Working in concert with regional vice presidents, regional managers and restaurant general managers, senior corporate management sets operations and performance objectives for each restaurant. Incentive plans tied to

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achievement of specified revenue, profitability and operating targets and related quality objectives have been established for regional vice presidents, regional managers and restaurant managers. Management believes the Company's restaurant management staff is highly trained, experienced and motivated in part due to a success-based compensation program and benefit plans that the Company believes help reduce employee turnover and enhance operating efficiencies.

The Company strives to maintain quality and consistency in its restaurants through the careful training and supervision of personnel and the establishment of standards relating to food and beverage preparation, maintenance of facilities and conduct of personnel. Restaurant managers, many of whom have been promoted from the Company's restaurant personnel, must complete a training program of typically six to twelve weeks during which they are instructed in areas of restaurant management, including food quality and preparation, guest service, alcoholic beverage service, liquor liability avoidance and employee relations. Restaurant managers are also provided with operations manuals relating to food and beverage preparation and the operation of restaurants. These manuals are designed to ensure uniform operations, consistently high quality products and service, and proper accounting for restaurant operations. Generally on a quarterly basis, the Company conducts Morton's University, which is a one week classroom experience for entry level managers that focuses on specific Morton's expectations, accountability, communication, compliance and development of camaraderie amongst management teams. The Company continually seeks to improve and evolve its training and development processes. The Company holds regular meetings with its restaurant managers, as well as holding its general manager conference and its sales and marketing conference, generally on an annual basis, to discuss sales opportunities, menu items, ongoing training and development of staff and other aspects of effective business management.

The staff for a typical Morton's consists of one general manager, up to four additional managers and approximately 30 to 90 hourly employees. The staff for a typical Italian restaurant consists of one general manager, up to six additional managers and approximately 40 to 125 hourly employees. Each of the Company's new hourly employees participates in a training program during which the employee works under the close supervision of restaurant managers. Management believes its culture and employee morale is strong and strives to instill enthusiasm and dedication in the Company's employees. Corporate and restaurant management regularly meets with employees in each restaurant to solicit employee suggestions concerning restaurant operations and strives to be responsive to employee concerns and suggestions.

The Company devotes considerable attention to managing food, beverage and operating costs. The Company makes extensive use of information technology to provide management with pertinent information on daily revenues and inventory requirements, thus reducing the need to carry excessive quantities of food inventories. This cost management system is complemented by the Company's ability to obtain certain volume-based discounts. In addition, each Morton's and Italian restaurant has similar menu items and common operating methods, allowing for more effective management operating controls.

Each Morton's steakhouse employs a full time food and beverage controller who is an in-house purchasing manager from both a quality and control standpoint. The food and beverage controller is responsible for minimizing product losses and ensuring that all products received meet the Company's high quality standards.

The Company maintains financial and accounting controls for each of its restaurants through the use of centralized accounting and management information systems and specified reporting requirements. On a daily basis, the Company collects revenue, cost and related information for each restaurant. The Company provides restaurant managers with operating statements for their respective restaurants. Domestic cash and credit card receipts are controlled through daily deposits to local or concentration operating accounts, the balances of which are transferred or deposited to cash concentration accounts. All of the Company's restaurants utilize the same computerized point of sale system, which provides consistent centralized reporting that is available to both restaurant and corporate management. Information captured by the point of sale system flows to the restaurant accounting system, which allows management to review product sales mix, profit margins, cost of sales data,

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inventory levels and cash and credit card receipts on a daily basis. Sales are reported daily and reconciled by the accounting department in the Company's corporate office before they are posted to the accounting system. Cost of sales, inventory and other operating expenses are imported directly from the restaurant accounting system into the general ledger.

The Company's corporate financial reporting system provides additional comprehensive financial reports. Information such as daily, weekly, monthly and year to date sales comparisons, financial statements and ideal versus actual cost of sales are prepared on a restaurant, regional and consolidated basis. These reports are made available to operations and senior management through the Company's internal intranet site.

All of the Company's Morton's steakhouses and Italian restaurants utilize OpenTable.com's third-party reservation and data management system that allows the Company to recognize and record the preferences of its guests through its shared reservation database. This system enables the Company's managers to record guest reservations, special requests and any other relevant guest information. Through the OpenTable.com® website or www.mortons.com, www.bertolinis.net and www.trevi-italian.com, the Company's guests can make reservations online 24 hours a day, seven days a week for all worldwide Morton's and Italian locations.

Purchasing

The Company's ability to maintain consistent high quality throughout its restaurants depends in part upon the ability to procure food products and related items from approved sources in accordance with the Company's strict product specifications. Morton's has typically entered into purchasing arrangements, generally lasting for up to one year each, directly with its major beef suppliers. The Company's procurement strategies are intended to provide the Company with flexibility to benefit from market opportunities should they arise, without sacrificing product quality. These strategies have historically provided the Company with a consistent supply and helped the Company to manage purchase costs.

The Company's largest single purchase item is beef, which, for its U.S. and Canadian restaurants, consists of USDA prime aged beef for all of its steaks other than its filet mignon, which is USDA choice. Morton's domestic beef is shipped from the Company's suppliers directly to two meat cutting operations in Chicago, where it is aged and portion cut by skilled meat cutters in accordance with the Company's specifications. The portion controlled meat is packaged and shipped to domestic Morton's steakhouses by refrigerated common carrier. Management believes this process allows the Company to serve a more consistent product in each Morton's steakhouse. The Company also makes supply contingency arrangements to cover business fluctuations or additional short-term restaurant needs. Due to restrictions imposed on the import of U.S. beef, Morton's steakhouses in Asia feature both USDA prime aged beef and comparable high quality aged beef. Management believes the non-U.S. aged beef closely mirrors the Company's domestic standards and specifications. The Company uses several global vendors for additional items such as shrimp, seafood and cheesecake to maintain the high quality and consistency that Morton's specifications require. Additional products used by Morton's are locally procured using similar stringent standards and product specifications. The Company's Italian restaurants also adhere to strict product specifications and use national, regional and local suppliers. Food and supplies are shipped directly to the restaurants and invoices for purchases are processed in local restaurant accounting systems for cost analysis and then sent for review and payment to the Company's corporate office.

Marketing

Management believes that the Company's commitment to providing quality food, hospitality, service and a high level of value at its price point is an effective approach to attracting and maintaining guests. As a part of this approach, there are 13 dedicated sales and marketing employees at the corporate level, 80 dedicated sales and marketing employees at the Company's Morton's steakhouses and one dedicated sales and marketing employee at the Company's Trevi restaurant. The Company utilizes a variety of local and company-wide marketing and public relations techniques intended to maintain and build its guest traffic, maintain and enhance the Morton's

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brand image and continually improve and refine its fine-dining steakhouse experience. For example, the Company uses databases to identify its target guests and uses paper and electronic direct mailings to increase their awareness of Morton's fine-dining steakhouse experience and of its local promotional activities. Morton's steakhouses also host a number of special events such as wine dinners, opening benefit parties, annual fund raisers and sports theme dinners. During 2006, Klaus Fritsch, the Company's Vice Chairman and founder, along with the Company, introduced a cookbook titled Morton's Steak Bible and visited more than 40 cities for a nationwide publicity tour, where funds were raised for ProStart, a charity that supports students entering the food service and hospitality industry. Morton's Steak Bible is available at many fine bookstores throughout the country, in each of the Morton's steakhouses and at www.mortons.com. During 2007, Morton's partnered with the American Red Cross on its Women of Spirit campaign, hosting 38 wine dinners throughout the United States, honoring local women in the community and women winemakers and raising approximately \$0.2 million for local chapters of the American Red Cross. During 2008, Morton's celebrated its 30th anniversary by partnering with Make-a-Wish Foundation® on a 30 Wishes for 30 Years national campaign and raised nearly \$0.4 million. Morton's hosted special events and also undertook various local fund raising initiatives at its restaurants to partner with Make-a-Wish Foundation® and grant wishes for children with life-threatening medical conditions.

In addition, the Company uses various local public relations and marketing consultants and limited airport signage, targeted print advertising and certain other media. In the past the Company has placed, and may continue to place, selected advertisements in periodicals such as Boston Magazine, Chicago Magazine, Los Angeles Magazine and New York Magazine. The Company's expenditures for advertising, marketing and promotional expenses, as a percentage of its revenues, were 2.2%, 2.2% and 1.9% during fiscal 2008, fiscal 2007 and fiscal 2006, respectively.

Competition

The restaurant business is highly competitive and fragmented, and the number, size and strength of 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 decor and location, name recognition and price. The Company's restaurants compete with a number of restaurants within their markets, both locally-owned restaurants and other restaurants that are part of regional or national chains. The restaurant business is also impacted by various factors including changes in consumer taste, economic and market conditions, demographic trends, traffic patterns, employee availability and benefits, regulatory developments, product availability and cost increases. For additional information, see Item 1A. Risk Factors.

Seasonality

The Company's business is somewhat seasonal in nature, with revenues generally being less in the third quarter primarily due to reduced summer volume, and revenues generally being higher in the first and fourth fiscal quarters in part due to increased redemption of gift cards and/or certificates and increased usage of Boardrooms and holiday sales, respectively. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonality.

Intellectual Property

The Company has registered the marks Morton's, Morton's of Chicago, Morton's The Steakhouse, Bertolini's, Trevi and certain other marks used by its restaurants as trade names, trademarks or service marks in various states and/or with the United States Patent and Trademark Office and in certain foreign countries. The Company is aware of marks similar to those of the Company's restaurants used and/or registered by third parties in certain limited geographical areas, although the Company does not anticipate that such use and/or registrations will prevent the Company from using its marks in those areas. The Company believes that its trade names, trademarks and service marks are valuable to the operation of its restaurants and are important to its marketing strategy. For additional information, see Item 1A. Risk Factors.

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Government Regulation

The Company's restaurants are subject to licensing and regulation by state, local and foreign health, safety, fire and other authorities, including licensing and regulation requirements for the sale of alcoholic beverages and food. The Company maintains the necessary restaurant, alcoholic beverage and retail licenses, permits and approvals. The development and construction of restaurants is also subject to compliance with applicable zoning, land use and environmental regulations. Federal, state and foreign labor laws govern the Company's relationship with its employees and affect operating costs. These laws include minimum wage requirements, overtime, unemployment tax rates, workers compensation rates, citizenship requirements and sales taxes. The Company is also subject to the Fair Labor Standards Act, the Immigration Reform and Control Act of 1986 and various federal, state and foreign laws governing such matters as minimum wages, overtime, tips, tip credits and other working conditions.

The Company's restaurants are subject, in each state and in some of the foreign countries in which the Company operates, to dram shop laws or similar laws, which allow, in general, a person to sue the Company if that person was injured by an intoxicated person who was wrongfully served alcoholic beverages at one of the Company's restaurants. A judgment against the Company under dram shop laws or similar laws could exceed the Company's liability insurance coverage policy limits and could result in substantial liability for the Company and have a material adverse effect on its results of operations. The Company's inability to continue to obtain such insurance coverage at reasonable costs also could have a material adverse effect on the Company.

The Company has experienced restrictions on importing beef from the United States. For example, we currently are not able to export some U.S. beef to our restaurants in Asia.

There is pending and new legislation by certain states and other municipalities relating to nutritional content, nutritional labeling and menu labeling regulations. These laws and regulations have and will continue to require certain of the Company's restaurant locations to include specified nutritional information on its menu and other materials presented to guests or to otherwise post such information in the Company's restaurants. The requirements to post nutritional information on the Company's menus or in the Company's restaurants could reduce demand for its menu offerings, reduce guest traffic and/or reduce average revenue per guest, which would have an adverse effect on the Company's revenue. In addition, the Company may incur expenses as a result of its compliance with such legislation including costs relating to menu printing. Compliance may also increase our exposure to litigation or governmental investigations or proceedings relating to the accuracy of the nutritional content information provided. For additional information, see Item 1A. Risk Factors.

Employees

As of January 4, 2009, the Company had 4,743 employees, of whom 4,152 were hourly restaurant employees, 470 were salaried restaurant employees engaged in administrative and supervisory capacities and 121 were corporate and office personnel. Many of the hourly employees are employed on a part-time basis to provide services necessary during peak periods of restaurant operations. With the exception of employees at the Company's Morton's steakhouse opening in Mexico in March 2009, none of the Company's employees are covered by a collective bargaining agreement. The Company believes that it generally has good relations with its employees.

Financial Information about Geographic Areas

As of January 4, 2009, the Company owned and operated 80 Morton's steakhouses, including 75 domestic restaurants located in 69 cities across 28 states and San Juan, Puerto Rico, and five international locations (Toronto, Canada; Vancouver, Canada; Hong Kong, China; Macau, China and Singapore).

The information regarding revenues that is reported in the Company's consolidated statements of operations includes revenues generated from operations in foreign countries of \$25.6 million, \$22.9 million and \$18.6 million for fiscal 2008, fiscal 2007 and fiscal 2006, respectively. The information regarding income before

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income taxes that is reported in the Company's consolidated statements of operations includes income before income taxes generated from operations in foreign countries of \$0.6 million, \$3.1 million and \$4.1 million for fiscal 2008, fiscal 2007 and fiscal 2006, respectively. Fiscal 2008 income before income taxes generated from operations in foreign countries includes a non-cash impairment charge of approximately \$2.6 million relating to certain long-lived assets. The information regarding property and equipment, net which is reported on the Company's consolidated balance sheets includes property and equipment, net, in foreign countries of \$2.0 million and \$3.8 million at the end of fiscal 2008 and fiscal 2007, respectively. The Company's restaurants operating in foreign countries do not have any purchase commitments. Many parts of the world are currently in a recession and the Company's management believes that these weak general economic conditions could continue through 2009 and possibly beyond. However, management believes foreign restaurant capital requirements will be funded by the operations of such restaurants for at least the next 12 months. For information regarding the risks associated with foreign operations, see Government Regulation, Item 1A. Risk Factors and Item 7A. Quantitative and Qualitative Disclosures about Market Risk. For additional information regarding the Company's revenues, income (loss) before income taxes and property and equipment see Item 8. Financial Statements and Supplementary Data.

Available Information

The Company's most recent Securities and Exchange Commission (SEC) filings, including the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports that are filed with or furnished to the SEC pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on the SEC's website, www.sec.gov or through the Company's website, www.mortons.com. These materials are made available through Morton's website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. All such filings are available free of charge. The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330.

Information appearing on the Company's website is not a part of, and is not incorporated by reference in, this Form 10-K.

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report. Additionally, in 2008 the Company's Chief Executive Officer certified to the New York Stock Exchange (NYSE) that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

Forward-Looking Statements

This Form 10-K contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements, written, oral or otherwise made, represent the Company's expectation or belief concerning future events. Without limiting the foregoing, the words believes, thinks, anticipates, estimates, plans, expects, and similar expressions are intended to identify forward-looking statements. The Company cautions that these statements are subject to risks, uncertainties, assumptions and other important factors that could cause actual results to differ materially, or otherwise, from those in the forward-looking statements, including, without limitation, (i) a reduction in consumer and/or business spending in one or more of the Company's markets due to business layoffs or budget reductions, negative consumer sentiment, access to consumer credit, commodity and other prices, events or occurrences affecting the securities and/or financial markets, occurrences affecting the Company's common stock, housing values, changes in federal, state, foreign and/or local tax levels or other factors, (ii) risks relating to the restaurant industry and the Company's business, including competition, changes in consumer tastes and preferences, risks associated with opening new locations, increases in food and other raw materials costs, increases in energy costs, demographic trends, traffic

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patterns, weather conditions, employee availability, benefits and cost increases, perceived product safety issues, supply interruptions, litigation, government regulation, the Company's ability to maintain adequate financing facilities, the Company's liquidity and capital resources, prevailing interest rates and legal and regulatory matters and (iii) other risks detailed in Item 1A. Risk Factors herein and in the Company's other reports filed from time to time with the SEC. In addition, the Company's ability to expand is dependent upon various factors, such as the availability of attractive sites for new restaurants, the ability to negotiate suitable lease terms, the ability to generate or borrow funds to develop new restaurants the ability to obtain various government permits and licenses, limitations on permitted capital expenditures under the Company's senior revolving credit facility and the recruitment and training of skilled management and restaurant employees. Other unknown or unpredictable factors also could harm the Company's business, financial condition and results. Consequently, there can be no assurance that actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by applicable securities laws.

Item 1A. Risk Factors

Any of the risks described below, as well as any of the other risks described in this Form 10-K, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Recent economic events have adversely impacted our business and results of operations and may continue to do so.

The restaurant industry is affected by macro economic factors, including changes in international, national, regional, and local economic conditions, employment levels and consumer spending patterns. The recent disruptions in the overall economy and financial markets and the related reduction in consumer confidence in the economy, have negatively affected guest traffic and results of operations throughout large segments of our industry, including our segment and our Morton's and Italian restaurants, and are expected to continue to do so until economic conditions improve. Furthermore, the fine dining segment of the restaurant industry derives a significant portion of their revenues from business customers dining on an expense account and from leisure travelers, and, across all customer categories, from sales of higher margin wine and other alcoholic beverages. Historically, revenues from these customer and product segments have been adversely affected by unfavorable general economic conditions, and this has thus far been the case in the current economic downturn. Accordingly, recent economic events have adversely affected our results of operations. Continued weakness in or a further worsening of the economy, generally and in a number of our markets, could be harmful to our financial position and results of operations and could result in further non-cash impairment or other charges, cause us to reduce the number and frequency of new restaurant openings, slow our re-modeling of existing locations and/or adversely affect our ability to comply with the covenants under our senior revolving credit facility.

Many parts of the world including the United States are currently in a recession and we believe that these weak general economic conditions could continue through 2009 and possibly beyond. The ongoing impacts of the housing crisis, rising unemployment and financial market weakness may further exacerbate current economic conditions. As the economy struggles, our guests may become more apprehensive about the economy and/or related factors, and may reduce their level of discretionary spending. A decrease in spending due to lower consumer discretionary income or consumer confidence in the economy could impact the frequency with which our guests choose to dine out or the amount they spend on meals while dining out, thereby decreasing our revenues and negatively affecting our operating results. Additionally, we believe there is a risk that if the current negative economic conditions persist for a long period of time and become more pervasive, consumers might make long-lasting changes to their discretionary spending behavior, including dining out less frequently on a more permanent basis.

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Additionally, our common stock is currently listed on the NYSE and we are subject to certain NYSE continued listing standards. We cannot provide any assurance that we will be able to continue to satisfy the requirements of the NYSE's continued listing standards. A delisting of our common stock could negatively affect the price and liquidity of our common stock and could impair our ability to raise capital in the future.

The current industry downturn is negatively impacting our business with significant revenue declines in the fourth quarter of 2008 and an expected worsening of those declines through the first quarter of fiscal 2009.

We had a net loss of \$67.7 million in fiscal 2008, including a fourth quarter net loss of \$8.1 million, which included after-tax non-cash impairment charges of \$70.2 million and \$9.5 million, respectively. Revenues declined for the fourth quarter of fiscal 2008 to \$93.5 million from \$100.5 million for the fourth quarter of fiscal 2007. Revenue trends for the first quarter of fiscal 2009 are expected to be significantly unfavorable when compared to the first quarter of fiscal 2008. Although we believe we will remain in compliance with our financial covenants through fiscal 2009, as a result of this poor business environment, management undertook amending our \$115.0 million senior revolving credit facility to revise one of our financial covenants to make it less restrictive. On March 4, 2009, we entered into the fifth amendment to our senior revolving credit facility which, among other things, reduced the facility from \$115.0 million to \$75.0 million, with a further reduction to \$70.0 million effective December 31, 2009. As of January 4, 2009 and February 23, 2009, we have \$60.8 million and \$63.3 million, respectively, outstanding under our senior revolving credit facility. The fifth amendment also reduces the annual maximum consolidated capital expenditures permitted and increases interest rates and certain fees payable under the senior revolving credit facility (see Note 8 to our consolidated financial statements). Based on our current projections, we anticipate that we will be in compliance with the financial covenants under the amended senior revolving credit facility throughout fiscal 2009. However, if the weak economic environment deteriorates further, or is prolonged, and our actions to respond to these conditions are not sufficient, we could fail to comply with one or more of the financial covenants.

Changing discretionary spending patterns and general economic conditions could reduce our guest traffic and/or average revenue per guest, which would have an adverse effect on our revenues.

Purchases at our restaurants are discretionary for our guests and, therefore, we are susceptible to economic slowdowns. In particular, our Morton's steakhouses cater primarily to business clientele and local fine-dining guests. We believe that the vast majority of our weekday revenues and a substantial portion of our weekend revenues from these restaurants are derived from business people using expense accounts. Accordingly, we believe that our business is particularly susceptible to any factors that cause a reduction in expense account or other dining by our business clientele. We also believe that consumers generally are more willing to make discretionary purchases, including high-end restaurant meals, during periods in which favorable economic conditions prevail. Changes in spending habits as a result of the current economic slowdown and reduction in consumer confidence have reduced our guest traffic, which adversely affected our revenues.

The future performance of the U.S. economy and global economies are uncertain and are directly affected by numerous global and national political and other factors that are beyond our control. These factors, which also affect discretionary consumer spending, include among other items, international, national, regional and local economic conditions, disposable consumer income, consumer confidence, terrorist attacks and the United States' participation in military actions. We believe that these factors have adversely impacted our business and, should these conditions continue, worsen or be perceived to be worsening or should similar conditions occur in the future, we would expect them to continue to adversely impact our business.

You should not rely on past increases in our average restaurant revenues or our comparable revenues as an indication of our future results of operations because they may fluctuate significantly.