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	**13-3490149**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**
325 North LaSalle Street, Suite 500, Chicago, Illinois	**60654**
(Address of principal executive offices)	**(zip code)**

312-923-0030

(Registrant s telephone number, including area code)

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

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 x

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 x

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 x 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 x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

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 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	*Date Opened*
Arizona	
Phoenix	March 1996
Scottsdale	January 1999
California	
Anaheim	December 2006
Beverly Hills	October 1992
Burbank (1)	November 2002
Los Angeles (Downtown)	November 2001
Palm Desert	January 1994
Sacramento (2)	May 1993
San Diego	April 1997
San Francisco	November 1994
San Jose	February 2007
Santa Ana/Costa Mesa	November 2001
Woodland Hills (1)	December 2007
Colorado	
Denver (Downtown)	March 1995
Denver (Tech Center)	March 2000
Connecticut	
Hartford	September 2000
Stamford	February 1998
Florida	
Boca Raton	August 1999
Coral Gables	June 2008
Jacksonville	June 2000
Fort Lauderdale	December 2008
Miami (Downtown)	December 1997
North Miami Beach	July 1998
Orlando	March 1996
Palm Beach	November 1991
Georgia	
Atlanta (Buckhead)	March 1994
Atlanta (Downtown)	November 1995
Hawaii	
Honolulu	November 2001

Morton s The Steakhouse Restaurants	*Date Opened*
Illinois	
Chicago (State Street) (3)	December 1978
Chicago (Wacker Place)	February 2005
Naperville	March 2008
Northbrook	September 2006
Rosemont	June 1989
Schaumburg	December 1999
Westchester/Oakbrook	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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Morton s The Steakhouse Restaurants	*Date Opened*
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 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®, a 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 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.

A number of factors have historically affected, and will continue to affect, our average restaurant revenues and comparable revenues, including, among other factors:

- our ability to execute our business strategy effectively;

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- competition;
- consumer trends;
- introduction of new menu items; and
- general international, national, regional and local economic conditions.

Our average restaurant revenues and comparable revenues may not increase at rates achieved over the past several years. Changes in our average restaurant revenues and comparable revenues could cause our results of operations and the price of our common stock to fluctuate substantially.

Our results of operations and revenues could be adversely affected by the inability to open new restaurants within anticipated time periods and budgets.

There are a number of factors which may impact the amount of time and money required for the development and construction of new restaurants, including but not limited to, delays by the landlord, shortages of skilled labor, labor disputes, shortages of materials, delays with obtaining permits, local government regulations and weather interference.

Our continued growth depends on our ability to open new restaurants and operate new restaurants profitably.

A substantial majority of our historical growth has been due to opening new restaurants. When comparing fiscal 2008 to fiscal 2007, revenues due to the opening of nine new restaurants (four in fiscal 2008 and five in fiscal 2007) represented 6.2% growth compared to total growth in revenues of 0.2%. We experienced growth of 4.0%, 3.6% and 1.8% in our total revenues in fiscal 2008, fiscal 2007 and fiscal 2006, respectively, attributable to the revenues from our new restaurants opened in fiscal 2007, fiscal 2006 and fiscal 2005, respectively, compared to total growth in revenues of 0.2%, 9.9% and 7.1% in fiscal 2008, fiscal 2007 and fiscal 2006, respectively. Our ability to open new restaurants is dependent upon a number of factors, some of which are beyond our control, including but not limited to our ability to:

- find quality locations;
- reach acceptable agreements regarding the lease or purchase of locations;
- comply with capital expenditure restrictions set forth in our senior revolving credit facility;
- comply with applicable zoning, land use and environmental regulations;
- raise, borrow or have available an adequate amount of money for construction and opening costs;
- hire, train and retain the skilled management and other employees necessary to meet staffing needs in a timely manner;
- obtain, for an acceptable cost, required permits and approvals;

- successfully promote our new restaurants and compete in the markets in which our new restaurants are located;
- efficiently manage the amount of time and money used to build and open each new restaurant;
- address general economic conditions and conditions specific to the restaurant industry; and
- open additional restaurants within anticipated time periods and budgets.

We are reviewing additional sites for potential future Morton s steakhouses. Typically, there has been a ramp-up period of one to two years before we expect a new Morton s steakhouse to achieve our targeted level of performance. This ramp-up period, however, could be longer if the weak economic environment continues. The delay in achieving our targeted level of performance is due to higher operating costs caused by start-up and other temporary inefficiencies associated with opening new restaurants such as lack of market familiarity and acceptance when we enter new markets and unavailability of experienced staff.

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We may not be able to attract enough guests to new restaurants because potential guests may be unfamiliar with our restaurants or the atmosphere or the menus of our restaurants might not appeal to them. As a result, the operating results generated at new restaurants may not equal the operating results generated at any of our existing restaurants. The restaurants may even operate at a loss, which could have a significant adverse effect on our overall operating results. In addition, opening a new restaurant in an existing market could reduce the revenue of our existing restaurants in that market.

For these same reasons, many markets would not successfully support one of our restaurants. Furthermore, our ability to expand into non-U.S. markets also may be impacted by legal considerations such as restrictions on importing USDA prime aged beef from the United States. For example, we currently are not able to export some U.S. beef to our restaurants in Asia.

Our existing senior personnel levels, restaurant management systems, financial controls, information systems and other systems and procedures may be inadequate to support our expansion, which could require us to incur substantial expenditures that could adversely affect our operating results.

Additionally, on March 4, 2009, we entered into the fifth amendment to our senior revolving credit facility reducing the facility from $115.0 million to $75.0 million, with a further reduction to $70.0 million effective December 31, 2009. The amendment also reduces the annual maximum consolidated capital expenditures permitted. The reduction in borrowing capacity and permitted capital expenditures could adversely impact our ability to open new restaurants.

Our results of operations could be adversely affected by the new lease for our new Italian restaurant, Trevi.

During January 2006, we signed a new long-term lease with respect to our then-existing Bertolini s restaurant located in Las Vegas, Nevada. In conjunction with the new lease, the Bertolini s restaurant was closed on September 15, 2006 for renovation and replaced by Trevi, a new Italian restaurant that opened at this location on February 2, 2007. The rent under the new lease for Trevi is substantially higher than the rent under the previous lease. We may not be able to offset all or any part of this increase in rent through operational measures. The revenue and income from operations generated at the newly renovated restaurant may not equal the revenue and income from operations generated at the previous restaurant. Additionally, revenue and income from operations may be adversely affected due to a downturn in traffic in Las Vegas, including the convention business, if the weak economic environment continues. Revenues relating to our Italian restaurant in Las Vegas, Nevada increased $0.4 million when comparing fiscal 2008 (restaurant open 53 weeks) to fiscal 2007 (restaurant was open 47 weeks).

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.

If our restaurants are unable to compete successfully with other restaurants in new and/or existing markets, we may not achieve our projected or historical revenue and profitability targets. Our industry is intensely competitive with respect to price, quality of service, restaurant location, ambiance of facilities and type and quality of food. We compete with national and regional restaurant chains and independently owned restaurants for guests, restaurant locations and qualified management and other restaurant staff. Compared to our business, some of our competitors may have greater financial and other resources, have been in business longer, have greater name recognition and be better established in the markets where our restaurants are located or are planned to be located. Our inability to compete successfully with other restaurants may force us to close one or more of our restaurants. We closed one Morton s steakhouse in fiscal 2002 and two Morton s steakhouses in fiscal 2003. We closed our Morton s steakhouse in Kansas City during fiscal November 2008 and our Morton s steakhouse in Charlotte (SouthPark) during fiscal December 2008 and may close other restaurants in the future. We closed our Bertolini s restaurant in Indianapolis, Indiana during fiscal March 2008. Closing a restaurant would reduce our revenues, and could subject us to construction and other costs including but not limited to severance, legal costs and the write-down of leasehold improvements, equipment, furniture and fixtures. In addition, we could remain liable for remaining future lease obligations. Closing a restaurant could also adversely affect our reputation, brand or competitive position.

Our success depends in part upon the continued popularity of upscale steakhouses.

Shifts in consumer preferences away from this type of concept could materially adversely affect our operating results. The restaurant industry is characterized by the continual introduction of new concepts and is subject to rapidly changing consumer preferences, tastes and eating and purchasing habits. Our success depends in part on our ability to anticipate and respond to changing consumer preferences, as well as other factors affecting the restaurant industry, including new market entrants and demographic changes.

Continued expansion by our competitors in the upscale steakhouse segment of the restaurant industry could prevent us from realizing anticipated benefits from new restaurant growth or continued growth in existing restaurant revenues.

Our competitors have opened many upscale steakhouses in recent years and a key element of our strategy is to open new steakhouses in both new and existing markets. If we overestimate demand for Morton s steakhouses or underestimate the popularity of our competitors restaurants, we may be unable to realize anticipated revenues from new steakhouses. Similarly, if one or more of our competitors open new restaurants in any of our existing or anticipated markets, revenues in our steakhouses may be lower than we expect. Any unanticipated slowdown in demand in any of our restaurants due to industry growth or other factors could reduce our revenues and results of operations, which could cause the price of our common stock to decline substantially.

Restaurant companies, including ours, have been the target of class action lawsuits and other proceedings alleging, among other things, violations of federal and state workplace and employment laws. Proceedings of this nature, if successful, could result in our payment of substantial damages.

Our results of operations and liquidity may be adversely affected by legal or governmental proceedings brought by or on behalf of our employees or guests. In recent years, a number of restaurant companies, including ours, have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace and employment matters, discrimination and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Similar lawsuits have been instituted against us from time to time and we are also a defendant in a number of pending lawsuits alleging violations of various state and federal wage and hour laws regarding employee meal deductions, the sharing of tips amongst certain employees and failure to pay for all hours worked. We may incur substantial damages and expenses resulting from lawsuits, which would increase the cost of operating our business and decrease the cash available for other uses, and may require us to make additional borrowings under our senior revolving credit facility. See Item 3. Legal Proceedings.

Litigation concerning food quality, health and other issues could impact our results of operations or require us to incur additional liabilities 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 and claims alleging violations of federal and state laws regarding workplace and employment, discrimination and similar matters. In addition, we could become subject to class action lawsuits related to these matters in the future. 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. 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, results of operations and liquidity. Adverse publicity resulting from these claims may negatively impact sales at one or more of our restaurants.

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Restaurants outside the United States expose us to uncertain conditions and other risks in international markets.

We own and operate Morton s steakhouses in Hong Kong, Macau, Singapore, Toronto and Vancouver. We also entered into a joint venture agreement to open a restaurant in Mexico in fiscal 2009. We face and will continue to face substantial risks associated with having foreign restaurants, including: economic or political instability, restrictions on or costs relating to the repatriation of foreign profits to the United States, including possible taxes or withholding obligations on any repatriations, and the imposition of trade restrictions. These risks could have a significant impact on our international restaurants. Also, our restaurants outside of the United States are subject to risks relating to appropriate compliance with legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations, potentially higher incidence of fraud or corruption, and potentially adverse tax consequences. We are also exposed to foreign currency exchange rate risk with respect to our revenues, expenses, profits, assets and liabilities denominated in currencies other than the U.S. dollar. We have not used instruments to hedge certain foreign currency risks and are not protected against foreign currency fluctuations. As a result, our reported earnings may be affected by changes in foreign currency exchange rates. Moreover, any favorable impacts to profit margins or financial results from fluctuations in foreign currency exchange rates are likely to be unsustainable over time.

Taxing authorities may select to audit our international, federal, state and/or local tax returns from time to time, which may result in tax assessments and penalties that could have an adverse affect on our results of operations and financial condition.

We are subject to federal, state and local taxes in the U.S. as well as taxation by the taxing authorities in countries where we have international operations. Although we believe that our tax estimates are reasonable, if any taxing authority disagrees with the positions taken by the Company on its tax returns, we could have additional tax liabilities, including interest and penalties, which, if material, could have an adverse impact on our results of operations and financial condition.

Increases in the prices of, and/or reductions in the availability of, USDA prime aged beef and other food products could reduce our operating margins and our revenues.

We purchase large quantities of beef, particularly USDA prime aged beef, which is subject to extreme price fluctuations due to seasonal shifts, climate conditions, industry demand and other factors. Our beef costs represented approximately 46%, 48% and 47% of our Morton s food and beverage costs during fiscal 2008, fiscal 2007 and fiscal 2006, respectively. The market for USDA prime aged beef is particularly volatile. For example, increased demand in late 2003 and in 2004 and the impact of diminished prime grading in the spring of 2007, resulted in shortages of USDA prime aged beef, requiring us to pay significantly higher prices for the USDA prime aged beef we purchased during these periods. Because Morton s steakhouses feature USDA prime aged beef, we generally would expect to purchase USDA prime aged beef even if the price increased significantly. If prices for the types of beef we use in our restaurants increase in the future and we choose not to pass, or cannot pass, these increases on to our guests, our operating margins would decrease, perhaps materially. If certain kinds of beef become unavailable for us to purchase, our revenues could decrease as well.

We may experience higher operating costs, including increases in supply prices and employee salaries, wages and benefits, which will adversely affect our operating results if we cannot increase menu prices to cover them.

If we increase the compensation or benefits to our employees or pay higher prices for food items or other supplies, we will have an increase in our operating costs. If we are unable or unwilling to increase our menu prices or take other actions to offset increased operating costs, our operating results will suffer. Many factors affect the prices that we pay for the various food and other items that we use to operate our restaurants, including seasonal fluctuations, longer term cycles and other fluctuations in livestock markets, changes in weather or demand and inflation. Factors that may affect the salaries and benefits that we pay to our employees include local

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unemployment rates and changes in minimum wage and employee benefits laws. Other factors that could cause our operating costs to increase include fuel prices, cost of gas and electricity, occupancy and related costs, maintenance expenditures and increases in other day-to-day expenses.

Increases in the minimum wage could increase our labor costs. For example, under the Federal Minimum Wage Act of 2007, on July 24, 2008, the federal minimum wage increased from $5.85 per hour to $6.55 per hour and on July 24, 2009, the federal minimum wage will increase to $7.25 per hour. In addition, certain states in which we operate restaurants have adopted or are considering adopting minimum wage statutes that exceed the federal minimum wage. If we are unable to offset the increased labor costs by increasing our menu prices or by other means, this could have a material adverse effect on our business and results of operations.

Our operating results may fluctuate significantly due to the seasonality of our business and these fluctuations make it more difficult for us to predict accurately and address in a timely manner, factors that may have a negative impact on our business.

Our business is subject to seasonal fluctuations that may vary greatly depending upon the region in which a particular restaurant is located. These fluctuations can make it more difficult for us to predict accurately and address in a timely manner factors that may have a negative impact on our business. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year. In addition, in the past we have incurred, and in the future are likely to incur, a net loss in the third quarter due to the seasonality of our business, with revenues generally being less in the third quarter primarily due to our reduced summer volume. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Seasonality.

Our results of operations are affected by a variety of factors, including severe weather conditions, and have fluctuated significantly in the past and can be expected to continue to fluctuate significantly in the future.

Our results of operations have fluctuated significantly in the past and can be expected to continue to fluctuate significantly in the future. Our results of operations are affected by a variety of factors, including:

- the timing of new restaurant openings, the cost of opening new restaurants and the relative proportion of new restaurants to mature restaurants;
- changes in consumer preferences;
- general economic conditions;
- severe weather conditions; and
- actions by our competitors.

Some of our restaurants are located in regions that may be susceptible to severe weather conditions. As a result, adverse weather conditions in any of these areas could damage these restaurants, result in fewer guest visits to these restaurants and otherwise have a material adverse impact on our business. For example, our business was adversely impacted in the third and fourth quarters of fiscal 2005 due to hurricanes and severe weather in New Orleans and Florida. Therefore, you should not rely on our past results of operations as being indicative of the future.

Negative factors or publicity surrounding our restaurants or the consumption of beef generally could adversely affect consumer taste, which could reduce sales in one or more of our restaurants and make our brand less valuable.

Because our competitive strengths include the quality of our food and our restaurant facilities, we believe that adverse publicity relating to these factors or other similar concerns affects us more than it would restaurants that compete primarily on other factors. Any shifts in consumer preferences away from the kinds of food we

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offer, particularly beef, whether because of dietary or other health concerns or otherwise, would make our restaurants less appealing and adversely affect our revenues. Adverse changes involving any of these factors could further reduce our guest traffic and/or impose practical limits on pricing, which could further reduce our revenues and operating income.

Instances of food-borne illness and outbreaks of disease, as well as negative publicity relating thereto, could result in reduced demand for our menu offerings and reduced traffic in our restaurants and negatively impact our business.

Instances of food-borne illness, including Bovine Spongiform Encephalopotathy, which is also known as BSE or mad cow disease, aphthous fever, which is also known as hoof and mouth disease, as well as hepatitis A, lysteria, salmonella and e-coli, whether or not traced to our restaurants, could reduce demand for our menu offerings. Outbreaks of disease, including severe acute respiratory syndrome, which is also known as SARS, Avian flu and other influenzas, could reduce traffic in our restaurants. Any of these events would negatively impact our business. In addition, any negative publicity relating to these and other health-related matters may affect consumers perceptions of our restaurants and the food that we offer, reduce guest visits to our restaurants and negatively impact demand for our menu offerings. Because our competitive strengths include the quality of our food, adverse publicity relating to these matters or other similar concerns affects us more than it would restaurants that compete primarily on other factors.

We depend upon frequent deliveries of food and other supplies, in most cases from a limited number of suppliers, which subjects us to the possible risks of shortages, interruptions and price fluctuations.

Our ability to maintain consistent quality throughout our restaurants depends in part upon our ability to acquire fresh food products, including USDA prime aged beef, and related items from reliable sources in accordance with our specifications and in sufficient quantities. We have relatively short-term contracts with a limited number of suppliers for the distribution of most meat and some food and other supplies for our restaurants. Our dependence on a small number of suppliers, as well as the limited number of available suppliers of USDA prime aged beef, subject us to the possible risks of shortages, interruptions and price fluctuations. If any of these suppliers do not perform adequately or otherwise fail to distribute products or supplies to our restaurants, we may be unable to replace the suppliers in a short period of time on acceptable terms. Our inability to replace our suppliers in a short period of time on acceptable terms could increase our costs and could cause shortages at our restaurants of food and other items that may cause us to remove certain items from a restaurant s menu or temporarily close a restaurant. If we temporarily close a restaurant or remove popular items from a restaurant s menu, that restaurant may experience a significant reduction in revenue during the time affected by the shortage and thereafter, as our guests may change their dining habits as a result. We have no long-term contracts for any food items used in our restaurants. We currently do not engage in futures contracts or other financial risk management strategies with respect to potential price fluctuations in the cost of food and other supplies, which we purchase at prevailing market or contracted prices.

We may incur additional costs or liabilities and lose revenues impacting operating results as a result of litigation and government regulation affecting the operation of our restaurants.

Our business is subject to extensive federal, state, local and foreign government regulation, including regulations related to the preparation and sale of food, the sale of alcoholic beverages, the sale and use of tobacco, zoning and building codes, land use and employee, health, sanitation and safety matters.

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 required and will continue to require certain of our restaurant locations to include specified nutritional information on our menu and other materials presented to guests or to otherwise post such information in the restaurants. The requirements to post nutritional information on our menus or in our restaurants could reduce demand for our menu offerings,

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reduce guest traffic and/or reduce average revenue per guest, which would have an adverse effect on our revenue. In addition, we may incur expenses as a result of our compliance with such laws and regulations including costs relating to menu printing. Compliance may also increase our exposure to litigation or governmental investigations or proceedings.

Typically our restaurants licenses to sell alcoholic beverages must be renewed annually and may be suspended or revoked at any time for cause. Alcoholic beverage control regulations relate to various aspects of daily operations of our restaurants, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing and inventory control, handling and storage. The failure of any of our restaurants to timely obtain and maintain liquor or other licenses, permits or approvals required to serve alcoholic beverages or food could delay or prevent the opening of, or adversely impact the viability of, and any negative publicity related thereto could have an adverse effect on, the restaurant and we could lose significant revenue.

Our 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 generally allow a person to sue us if that person was injured by a legally intoxicated person who was wrongfully served alcoholic beverages at one of our restaurants. A judgment against us under dram shop laws or similar laws could exceed our liability insurance coverage policy limits and could result in substantial liability for us and have a material adverse effect on our results of operations. Our inability to continue to obtain such insurance coverage at reasonable costs also could have a material adverse effect on us.

To the extent that governmental regulations impose material additional obligations on our suppliers, including, without limitation, regulations relating to the inspection or preparation of meat, food and other products used in our business, product availability could be limited and the prices that our suppliers charge us could increase. We may not be able to offset these costs through increased menu prices, which could have a material adverse effect on our business. If any of our restaurants were unable to serve particular food products, even for a short period of time, we could experience a reduction in our overall revenue, which could have a material adverse effect on us. In addition, further government regulation including laws restricting smoking in restaurants and bars may reduce guest traffic and adversely impact our sales.

One or more of our restaurants could be subject to litigation and governmental fine, censure or closure in connection with issues relating to our food and/or our facilities. The food products that we serve, including meat and seafood, are susceptible to food borne illnesses. We and other restaurant companies have been named as defendants in actions seeking damages as a result of food borne illnesses and actions brought under state laws regarding notices with respect to chemicals contained in food products and regarding excess moisture in the business premises. To date, none of these matters has had a material adverse effect on our business, but that may not continue to be the case in the future.

The costs of operating our restaurants may increase if there are changes in laws governing minimum hourly wages, working conditions, overtime and tip credits, health care, workers compensation insurance rates, unemployment tax rates, sales taxes or other laws and regulations such as those governing access for the disabled, including the Americans with Disabilities Act. If any of these costs were to increase and we were unable to offset the increase by increasing our menu prices or by other means, this could have a material adverse effect on our business and results of operations. As an example, because we have a significant number of restaurants located in various states, including eleven in California, eight in Florida and seven in Illinois as of February 23, 2009, regulatory changes in these states could have a disproportionate impact on our business. See Item 1. Business Government Regulation for a discussion of certain regulations affecting our business.

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The failure to enforce and maintain our intellectual property rights could enable others to use names confusingly similar to Morton s, Morton s of Chicago, Morton s The Steakhouse and other names and marks used by our restaurants, which could adversely affect the value of the Morton s brand.

We have registered the marks Morton s, Morton s of Chicago, Morton s The Steakhouse, Bertolini s, Trevi and certain other marks used by our restaurants as trade names, trademarks or service marks in various states and/or the United States Patent and Trademark Office and in certain foreign countries. The success of our business depends on our continued ability to use our existing trade names, trademarks and service marks in order to increase our brand awareness. In that regard, we believe that our trade names, trademarks and service marks are valuable assets that are critical to our success. The unauthorized use or other misappropriation of our trade names, trademarks or service marks could diminish the value of our brands and restaurant concepts and may cause a decline in our revenue. We are aware of marks similar to those of our restaurants used and/or registered by third parties in certain limited geographical areas.

We occupy most of our restaurants under long-term non-cancelable leases and we may be unable to renew leases at the end of their terms.

Most of our restaurants are located in leased premises. Many of our current leases are non-cancelable and typically have terms ranging from 10 to 15 years with renewal options for terms ranging from five to 15 years. We believe that leases that we enter into in the future likely will also be long-term and non-cancelable and have similar renewal options. If we close a restaurant, we generally remain committed to perform our obligations under the applicable lease, which would include, among other things, payment of the base rent for the balance of the lease term. Our obligation to continue making rental payments in respect of leases for closed restaurants could have a material adverse effect on our business and results of operations. Alternatively, at the end of the lease term and any renewal period for a restaurant, we may be unable to renew the lease without substantial additional cost, if at all. If we are unable to renew our restaurant leases, we may close or relocate a restaurant, which could subject us to construction and other costs and risks, and could have a material adverse effect on our business and results of operations. For example, closing a restaurant, even during the time of relocation, will reduce the sales that the restaurant would have contributed to our revenues. Additionally, the revenue and profit, if any, generated at a relocated restaurant may not equal the revenue and profit generated at the existing restaurant.

Fixed rental expenses account for a significant portion of our operating expenses, which increases our vulnerability to general adverse economic and industry conditions and could limit our operating and financing flexibility.

Rent expense incurred under our operating leases account for a significant portion of our operating expenses. For example, total rental expenses, including additional rental payments based on sales at some of our restaurants, under operating leases were approximately $27.5 million (7.8% of our revenues), $24.8 million (7.0% of our revenues) and $23.5 million (7.3% of our revenues) for fiscal 2008, fiscal 2007 and fiscal 2006, respectively. In addition, as of January 4, 2009, we were a party to operating leases requiring future minimum lease payments aggregating approximately $141.0 million through fiscal 2013 and approximately $196.6 million thereafter. We expect that new restaurants we open will typically be leased by us under operating leases. Our substantial operating lease obligations could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring a substantial portion of our available cash to be applied to pay our rental obligations, thus reducing cash available for other purposes;
- limiting our flexibility in planning for or reacting to changes in our business or the industry in which we compete; and
- placing us at a disadvantage with respect to some of our competitors.

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We depend on cash flow from operations to pay our lease obligations and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities and sufficient funds are not otherwise available to us from borrowings under bank loans or from other sources, we may not be able to service our operating lease obligations, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which would have a material adverse affect on us. In certain circumstances we have sought to renegotiate the terms of our leases. Our actions could result in the landlords claiming a default by us, terminating our leases and enforcing their rights as landlord under the terms of our leases. Any of these actions could result in litigation, delays and additional costs, which could have a material adverse impact on our business.

Our level of indebtedness may adversely affect our financial condition, results of operations, limit our operational and financing flexibility and negatively impact our business.

Our senior revolving credit facility, and other debt instruments we may enter into in the future, may have important consequences to the Company, including the following:

- our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;
- we may use a substantial portion of our cash flows from operations to pay interest on our indebtedness, which will reduce the funds available to us for operations and other purposes;
- our level of indebtedness could place us at a competitive disadvantage compared to our competitors that may have proportionately less debt;
- our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited; and
- our level of indebtedness may make us more vulnerable to economic downturns and adverse developments in our business.

We expect that we will depend primarily upon our operations to provide funds to pay our expenses and to pay any amounts due under our senior revolving credit facility and any other indebtedness we may incur. Our ability to make these payments depends on our future performance, which will be affected by various financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flows from operations in the future and our currently anticipated growth in revenues and cash flows may not be realized, either or both of which could result in our being unable to repay indebtedness, including our senior revolving credit facility, or to fund other liquidity needs. If we do not have enough money, we may be required to refinance all or part of our then-existing debt, sell assets or borrow more money. We may not be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future debt agreements, including our senior revolving credit facility, may restrict us from adopting any of these alternatives.

Cash we use to repurchase our common stock, as discussed in Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, will not be available for other purposes, including repayment of debt. Utilizing borrowed funds in order to implement a stock repurchase program may result in important consequences to us similar to those mentioned in regard to our senior revolving credit facility, including liquidity risk that could impair our ability to fund operations, obtain debt in the future and affect our financial condition.

The terms of our senior revolving credit facility impose significant operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions.

In February 2006, we entered into a senior revolving credit facility with a syndicate of financial institutions including affiliates of certain of the underwriters in the IPO. We have subsequently amended our senior revolving credit facility. Our indirect wholly-owned subsidiary, Morton s of Chicago, Inc., is the borrower under

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the facility. We and most of our other domestic subsidiaries are guarantors of the facility. The credit agreement is secured by substantially all of our present and future domestic subsidiaries assets and contains a number of significant restrictions and covenants that generally limit our ability to, among other things:

- pay dividends or purchase stock or make other restricted payments to our stockholders;
- incur additional indebtedness;
- borrow money or issue guarantees;
- make investments;
- use assets as security in other transactions;
- sell assets or merge with or into other companies;
- make capital expenditures;
- enter into transactions with affiliates;
- sell stock in our subsidiaries; and
- create or permit restrictions on our subsidiaries ability to make payments to us.

The credit agreement limits our ability to engage in these types of transactions, even if we believe that a specific transaction would contribute to our future growth or improve our operating results. The credit agreement requires us to achieve specified financial and operating results and maintain compliance with specified financial ratios. Our ability to comply with these provisions may be affected by events outside of our control. A breach of any of these provisions or our inability to comply with required financial ratios in our senior revolving credit facility could result in a default under the credit facility. If that were to occur, the lenders have the right to declare all borrowings to be immediately due and payable. In addition, the lenders have the right to declare all borrowings to be immediately due and payable upon the occurrence of certain change of control events relating to us. If we are unable to repay all borrowings when due, whether at maturity or if declared due and payable following a default or change of control event, the lenders have the right to proceed against the collateral granted to secure the indebtedness. If we breach these covenants or fail to comply with the terms of our senior revolving credit facility, or a change of control event occurs, lenders may declare all borrowings to be immediately due and payable, and may sell the assets pledged as collateral in order to repay those borrowings, which would have a material adverse effect on our cash flow and, to the extent that our assets are sold to repay borrowings, our restaurant business. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Debt and Other Obligations Senior Revolving Credit Facility for further information regarding our senior revolving credit facility.

In addition, we are exposed to market risk related to changes in interest rates because our senior revolving credit facility carries a floating rate of interest. Accordingly, our results of operations may be adversely affected by changes in interest rates. Assuming a 10% increase in the interest rate on our $75.0 million senior revolving credit facility, if the entire amount available under the facility were drawn, interest expense would increase by approximately $0.3 million over the course of 12 months.

We could face labor shortages that could slow our growth and adversely impact our ability to operate our restaurants.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers, kitchen staff and servers, necessary to keep pace with our anticipated expansion schedule and meet the needs of our existing restaurants. A sufficient number of qualified individuals of the requisite caliber to fill these positions may be in short supply in some areas. Any future inability to recruit and retain qualified individuals may delay the planned openings of new restaurants and could adversely impact our existing restaurants. Any such delays, any material increases in employee turnover rates in existing

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restaurants or any widespread employee dissatisfaction could have a material adverse effect on our business and results of operations. Additionally, competition for qualified employees could require us to pay higher wages, which could result in higher labor costs, which could have a material adverse effect on our results of operations.

We depend on the services of key executives, the loss of whom could materially harm our business and our strategic direction if we were unable to replace them with executives of equal experience and capabilities.

Some of our senior executives, such as Thomas J. Baldwin, our Chief Executive Officer, are important to our success because they have been instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business until a suitable replacement could be found. Although we have an employment agreement with our Chief Executive Officer, we could not prevent him from terminating his employment with us. Other executives are not bound by employment agreements with us. We do not maintain key person life insurance policies on any of our executives.

Since our IPO in February 2006, we have incurred, and we expect to continue to incur substantial expenses to meet our reporting obligations as a public company. In addition, failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting and could harm our ability to manage our expenses.

Reporting obligations as a public company and our anticipated growth have placed and are likely to continue to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, as a public company we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify as to the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on the effectiveness of our internal controls over financial reporting by the time this annual report for fiscal 2008 is due and thereafter, which requires us to document and test the design and operating effectiveness of our internal controls over financial reporting. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an unqualified opinion on the effectiveness of our internal controls over financial reporting, or if material weaknesses in our internal controls are identified, or if we fail to comply with other obligations imposed by the Sarbanes-Oxley Act or NYSE rules relating to corporate governance matters, we could be subject to regulatory scrutiny and a loss of public confidence, which could have a material adverse effect on our business and our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and adversely affect our ability to raise capital.

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms. In connection with the preparation of our Annual Report on Form 10-K for fiscal 2008, an evaluation of the effectiveness of internal controls and procedures over financial reporting (as defined under the SEC rules) was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. The evaluation was carried out using criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of January 4, 2009, the Company s internal controls and procedures over financial reporting were effective based on those criteria. No change in the Company s internal controls over financial reporting occurred during the fiscal quarter ended January 4, 2009 that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting. However, there can be no assurance that we will not discover any material weaknesses or deficiencies in our internal controls, including our internal controls over financial reporting and our disclosure controls and procedures, which could subject us to regulatory scrutiny and a loss of public confidence and could have a material adverse effect on our business and our stock price.

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Our current insurance policies may not provide adequate levels of coverage against all claims and we may incur losses that are not covered by our insurance.

We believe we maintain insurance coverage that is customary for businesses of our size and type. However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure. For example, we believe that insurance covering liability for violations of wage and hour laws is generally not available. These losses, if they occur, could have a material adverse effect on our business and results of operations.

Additionally, health insurance costs in general have risen significantly over the past few years and are expected to continue to increase in 2009. These increases, as well as potential state legislation requirements for employers to provide health insurance to employees, could have a negative impact on our profitability if we are not able to offset the effect of such increases with plan modifications and cost control measures, or by continuing to improve our operating efficiencies.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company s restaurants are generally located in space leased by its subsidiaries. The Company s remaining restaurant lease terms range from one to 33 years. The Company s leases typically provide for renewal options for terms ranging from five years to 15 years. 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 annual gross revenues. Generally, leases are net leases that require the Company s subsidiary that is a party to the lease to pay its pro rata share of taxes, insurance and maintenance costs. Typically, one of the Company s subsidiaries is a party to the lease, and performance is guaranteed by another one of its subsidiaries for a portion of the lease term. See Note 13 to the Company s consolidated financial statements. Many of the Company s current leases are non-cancelable. If the Company closes a restaurant, it generally remains committed to perform its obligations under the applicable lease, which would include, among other things, payment of the base rent for the balance of the lease term. The Company s obligation to continue making rental payments in respect of leases for closed restaurants could have a material adverse effect on the Company s business and results of operations. Alternatively, at the end of the lease term and any renewal period for a restaurant, the Company may be unable to renew the lease without substantial additional cost, if at all. As of February 23, 2009, the Company operated six restaurants on properties which it owned and operated 77 restaurants on leased properties.

The Company leases its executive offices in approximately 23,300 square feet in Chicago, Illinois. On January 2, 2009, the Company closed its office in New Hyde Park, New York. See Note 3(d) to the Company s consolidated financial statements. Management believes that the Company s current office and operating space is suitable and adequate for its intended purposes.

See Item 1. Business Restaurant Locations for additional information about the Company s restaurant properties.

Item 3. Legal Proceedings

Since August 2002, a number of the Company s current and former employees in New York, California, Massachusetts, Florida and Illinois have initiated arbitrations with the American Arbitration Association in their respective states alleging that the Company has violated state (California and Massachusetts arbitrations), state and federal (New York and Illinois arbitrations) and federal (Florida and Massachusetts arbitrations) wage and hour laws regarding the sharing of tips with other employees and failure to pay for all hours worked. There are two group arbitrations pending in Florida. One is proceeding in Palm Beach as a collective action with approximately 25 claimants. The second is proceeding in Boca Raton with six claimants. In May 2008, a memorandum of understanding was reached and in September 2008 a settlement agreement was entered into by the parties to resolve both arbitrations. The settlement is subject to final closing and court approval. There are two group arbitrations pending in New York. In the first, the arbitrator has permitted 78 claimants to consolidate their arbitrations into one action and proceed as a collective action. In July 2008 a joint stipulation of settlement and release was entered into by the parties and in September 2008, court approval was obtained resolving this matter with the exception of one remaining claimant. The second New York arbitration was filed in October 2006 and contains similar allegations as the first New York arbitration. There are four named claimants in this arbitration proceeding. The claimants seek to represent a class of current and former employees from the Morton s steakhouses in New York (Midtown Manhattan), Great Neck and White Plains for a six year time period. The arbitrator has determined that the matter may proceed as a class and has certified a class comprising a group of servers in the New York restaurants. The Company has moved to vacate that decision. In December 2008, an agreement was reached to resolve this matter. A joint stipulation of settlement and release was entered into by the parties in February 2009. The settlement is subject to final closing and court approval. In the case involving Massachusetts state claims only, the arbitrator has ruled that the claimants may proceed as a class, but to date, there are only three people in the class and the arbitrator has ruled that there would be no automatic certification.

In November 2004, current and former employees of the Sacramento, California Morton s steakhouse commenced a state lawsuit in the Superior Court of the State of California, County of Sacramento, asserting individual, representative and class claims against the Sacramento Morton s steakhouse and several other Morton s steakhouses. The plaintiffs asserted claims based on the Company s alleged failure to provide them with meal and rest periods, and for unlawful tip sharing and unfair competition. The plaintiffs seek restitution of tips, meal and break period compensation and attorneys fees. The plaintiffs have not stated the amount of damages they seek. Dismissals with prejudice for all defendants, except the Sacramento Morton s steakhouse, were granted. The claims against the Sacramento Morton s steakhouse have been moved to arbitration. In June 2008, a joint stipulation of settlement and release was reached and in December 2008 court approval was obtained resolving this matter.

In May 2005, a former employee of the Boston, Massachusetts Morton s steakhouse filed a nationwide class action complaint in federal court in the United States District Court, District of Massachusetts, alleging that the sharing of tips with other restaurant employees violates the Fair Labor Standards Act. The Company moved to dismiss the complaint and compel arbitration. While the motion was pending, the plaintiff filed a nationwide collective action demand for arbitration with the American Arbitration Association. The demand for arbitration alleges the same facts as the lawsuit filed in federal court. The Company s motion to dismiss was granted and the matter is moving forward as an arbitration. The arbitrator has ruled that a nationwide class is appropriate, excluding certain states. The Company appealed that decision to the district court and that appeal has been denied. The plaintiffs have not stated the amount of damages sought and, at this stage of the proceedings, it is not possible to state the estimated damages sought by the plaintiff.

In March 2006, a former employee of the Burbank, California Morton s steakhouse filed a class and collective action in Superior Court in Los Angeles, California alleging that the sharing of tips with other restaurant employees violates federal and state laws. The case was brought on behalf of all current and former California servers for a four-year period. The Company moved to dismiss the action and its motion was granted. The plaintiff appealed. In February 2008, a memorandum of understanding was executed resolving this matter. A joint stipulation of settlement and release was executed in June 2008 and in October 2008 court approval was obtained. The settlement is subject to final closing.

In April 2008, a former employee of the Chicago (Wacker), Illinois Morton s steakhouse filed a nationwide class action complaint in federal court in the United States District Court, Northern District of Illinois, alleging that the Company failed to pay overtime wages in violation of the Fair Labor Standards Act. In addition, in April 2008, another former employee of the Chicago (Wacker), Illinois Morton s steakhouse filed a statewide class action complaint in state court in the Circuit Court of Cook County, Illinois County Department alleging that certain food deductions, tip pooling practices and tip credits taken by the Company violate Illinois wage and hour laws. The Company filed motions to dismiss both complaints and compel arbitration for both matters. In July 2008, the plaintiff in the federal action filed a motion to dismiss the lawsuit (without prejudice), which was granted by the court. In September 2008, the court granted the Company s motion to dismiss and compel arbitration for the state action and the plaintiff in such action subsequently filed a motion asking the court to reconsider its decision. This motion was denied and the case was dismissed. The plaintiffs, along with a group of others, subsequently filed individual claims in arbitration. The plaintiffs in the individual arbitration have not stated the amount of damages sought and, at this stage of the proceedings, it is not possible to state the estimated damages sought by the plaintiffs.

In general, the claimants are seeking restitution of tips, the difference between the tip credit wage and the minimum wage, recovery of unpaid compensation, liquidated damages and attorneys fees and costs. We are contesting these matters vigorously. The claimants in Massachusetts and Illinois have not stated the amount of damages sought and, at this stage of the proceedings, it is not possible to state the estimated damages sought by the claimants.

We are involved in various other claims and legal actions arising in the ordinary course of business. We do not believe that the ultimate resolution of these actions will have a material adverse effect on the Company s financial condition. However, an adverse judgment by a court or arbitrator or a settlement could adversely impact the Company s results of operations in any given period.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of February 23, 2009, there were 16,597,870 shares of the Company s common stock outstanding held by approximately 187 holders of record.

The following table sets forth, for the periods indicated, the highest and lowest sales prices for the Company s common stock, as reported by the NYSE.

	Fiscal 2008		Fiscal 2007	
	High	Low	High	Low
First Quarter	$ 9.41	$ 6.54	$ 20.82	$ 16.00
Second Quarter	$ 8.70	$ 6.67	$ 18.79	$ 15.21
Third Quarter	$ 7.91	$ 5.02	$ 20.82	$ 14.81
Fourth Quarter	$ 5.18	$ 1.75	$ 17.50	$ 8.75

The Company has not paid cash dividends on its common stock since the time of the IPO, in which MRG and certain selling stockholders sold 6,000,000 and 3,465,000 shares of common stock, respectively, at $17.00 per share, and it is the Company s present intention not to pay cash dividends on its common stock for the foreseeable future. Although its board of directors may, at its discretion, modify or repeal the Company s dividend policy, future dividends, if any, with respect to shares of common stock will depend on, among other things, the Company s results of operations, cash requirements, financial condition, contractual restrictions, provisions of applicable law and other factors that its board of directors may deem relevant. Accordingly, there can be no assurance that the Company will pay dividends in the future.

The information under the principal heading Equity Compensation Plan Information in the Company s definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 12, 2009, to be filed with the SEC (the Company s 2009 Proxy Statement), is incorporated herein by reference.

On January 15, 2008, the Company s Board of Directors authorized the repurchase of up to $4.0 million of the Company s common stock. On February 27, 2008, the Company s Board of Directors approved, and the Company entered into, an amendment to the Company s senior revolving credit facility to allow the repurchase of an additional $6.0 million of the Company s common stock. On February 27, 2008, the Company s Board of Directors authorized the repurchase of an additional $6.0 million of the Company s common stock, resulting in authorization for the Company to repurchase a total of $10.0 million of its common stock. The timing and amount of any share repurchases will be determined by the Company s management based on market conditions and other factors. During fiscal 2008, the Company purchased 1,232,000 shares of its common stock for an aggregate purchase price of approximately $9.4 million. During the three month period ended January 4, 2009, the Company did not purchase shares of its common stock.

Item 6. Selected Financial Data

The following table contains selected consolidated historical financial data for fiscal 2008, 2007, 2006, 2005 and 2004. The selected financial data for fiscal 2008, 2007, 2006, 2005 and 2004 have been derived from audited consolidated historical financial statements. Audited consolidated statement of operations data for fiscal 2008, 2007 and 2006 and audited consolidated balance sheet data at the end of fiscal 2008 and 2007 are included in Item 8. Financial Statements and Supplementary Data. The selected financial data should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and with the Company s consolidated financial statements and the notes thereto.

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The Company was incorporated in Delaware on October 3, 1988, was acquired by MHCI on June 4, 2004 and, from June 4, 2004 until February 14, 2006, was a wholly-owned subsidiary of MHCI. On February 14, 2006, in connection with the Company s IPO, MHCI was merged with and into the Company, with the Company as the surviving corporation. MHCI was a holding company with no independent operations except that MHCI was the issuer of the 14.0% senior secured notes, which were repaid in connection with the closing of the IPO. In accordance with Financial Accounting Standards Board Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations*, the merger of MHCI into the Company in connection with the IPO represented a merger of entities under common control and, accordingly, the Company recognized MHCI s assets and liabilities at their carrying amounts. Additionally in accordance with SFAS No. 141, the consolidated financial statements are presented as if MHCI was merged with and into MRG at the beginning of fiscal 2004.

We use a 52/53 week fiscal year that ends on the Sunday closest to January 1. In this Form 10-K, we sometimes refer to the fiscal years ended January 4, 2009, December 30, 2007, December 31, 2006, January 1, 2006 and January 2, 2005 as fiscal 2008, fiscal 2007, fiscal 2006, fiscal 2005 and fiscal 2004, respectively. Approximately every six or seven years a 53rd week is added to our fiscal year. Fiscal 2008 consisted of 53 weeks, while fiscal 2007, 2006, 2005 and 2004 each consisted of 52 weeks. As a result, some of the differences in the results of operations between those fiscal years are attributable to the different lengths of the fiscal years.

			Fiscal Year		
	2008 (53 weeks)	**2007 (52 weeks)**	**2006 (52 weeks)**	**2005 (52 weeks)**	**2004 (52 weeks)**
			(dollars in millions, except per share data)		
Statement of Operations Data					
Revenues	$ 354.5	$ 353.8	$ 322.0	$ 300.7	$ 276.3
(Loss) income before income taxes	(78.4)(1)	13.6(2)	(18.7)(4)	(4.3)(5)	4.1(6)
Net (loss) income	(67.7)(1)	13.0(2)(3)	(13.6)(4)	(4.2)(5)	(0.7)(6)
Net (loss) income per share*:					
Basic	(4.21)	0.77	(0.84)	(0.42)	(0.07)
Diluted	(4.21)	0.77	(0.84)	(0.42)	(0.07)
Balance Sheet Data (at fiscal year end)					
Current assets	$ 33.2	$ 38.8	$ 44.0	$ 55.2	$ 40.8
Property and equipment, net	111.2	114.7	90.9	66.5	61.5
Total assets	245.6	310.1	291.2	285.0	267.3
Current liabilities	59.7	64.5			