RESTAURANT INDUSTRY MARKET OVERVIEW

According to an article published in December 2008 called "Restaurant Industry Expected to Post Modest Sales Growth in 2009 as it Copes with the Weakest Economy in Decades", restaurant industry sales are expected to reach $566 billion in 2009, with the industry employing 13 million individuals in 945,000 restaurant-and-foodservice outlets nationwide, according to the National Restaurant Association's 2009 Restaurant Industry Forecast. The Forecast projects that while overall restaurant industry sales will increase in current dollars by 2.5 percent over 2008 figures; the numbers translate to an inflation-adjusted decline of 1.0 percent. Despite the economic downturn, the industry will remain a cornerstone of the economy, representing 4 percent of the U.S. gross domestic product and employing 9 percent of the U.S. workforce, and restaurants will continue to adapt to the latest menu trends and consumer preferences.

Sales at full-service restaurants are projected to reach $182.9 billion in 2009, an increase of 1.0 percent over 2008. Quickservice restaurants are projected to post sales of $163.8 billion in 2009, a gain of 4.0 percent over 2008. Eating-and-drinking places will see an increase in sales from 2008 of 2.2 percent, totaling $395 billion.

Employment in the restaurant industry outpaced the overall economy in 2008 for the ninth consecutive year, despite several months of modest industry job losses, and is expected to continue to outpace the economy in 2009. The National Restaurant Association projects that 13 million people will be employed in 2009 in the restaurant industry, which will be the nation's second largest private sector employer, representing more than 9 percent of the nation's total jobs. The long-term outlook is for continued growth while the industry is expected to add an additional 1.8 million positions over the next 10 years, boosting the industry's workforce by 14 percent to 14.8 million people in 2019. Restaurant industry job growth will actually grow faster than the U.S. population, particularly in the key demographics of teens and young adults. Occupations that will grow considerably in the next decade include management positions, chefs and head cooks, and waitstaff.

The Association predicted that as we enter 2009, consumers express serious concern about finances but they will remain strongly desirous of continued use of restaurants. To be successful during the present economic downturn and prepare for an eventual recovery with its pent-up demand for restaurant services, restaurant operators are offering the value patrons desire in conjunction with operational improvements that cut costs without detracting from the dining experience. Indeed, the top trend restaurateurs see for 2009 is an expanded focus on value, with 36 percent of quickservice operators and 16 percent of casual-dining operators seeing the demand for value as the year's top trend in their segment.

The restaurant industry's resilience amidst the weak economy and relative strength compared to other industries is driven by restaurants responsiveness to consumers' desire for convenience, value and socialization. The increasingly essential nature of restaurant services buoys the industry even during times of economic uncertainty.

Source: *National Restaurant Association's 2009 Restaurant Industry Forecast, December 19, 2008, Contact: Sue Hensley 202-331-5964, Mike Donohue (202) 331-5902.*

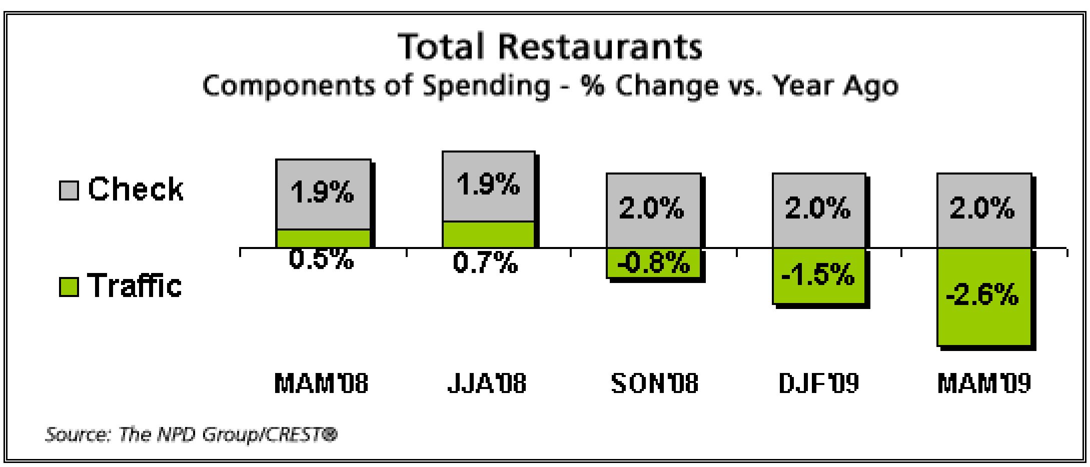
Based on the Florida Restaurant & Lodging Associations (www.frla.org) and the National Restaurant Association (www.restaurant.org), Florida's restaurants are an increasingly important part of the state's economy, are a key driver of employment and their sales generate tremendous tax revenues for the state. In 2007 there were 32,274 eating and drinking places in Florida. Every dollar spent in Florida's restaurants generates an additional $1.03 in sales for Florida's economy and each additional $1 million spent in Florida's eating and drinking places generates an additional 26.5 jobs. Restaurant jobs represent 11% of total employment in the state. Restaurant and food service employment in Florida is projected at 843,000 for 2009 and sales for 2009 are projected to register $27 billion. Nationally, restaurants' share of the food dollar is rising from 25% in 1955 to 48% in 2009.

According to a recent article published on February 7, 2009, called "Recent U.S. Restaurant Bankruptcies", a handful of high-profile U.S. restaurant chains have filed for bankruptcy. Experts are forecasting that 2009 will bring more restaurant bankruptcies than 2008 due to industry struggles with oversupply, decreases in consumer spending, and a lack of credit for refinancing. Some of the U.S. restaurants chains that have filed for bankruptcy in the recent months include Black Angus Steakhouse; Ponderosa and Bonanza Steakhouses; Bennigan's and Steak & Ale; Village Inn and Bakers Square; and Tahoe Joe's Famous Steakhouse, Old Country Buffet, HomeTown Buffet, Ryan's, and Fire Mountain.

Pecus Arg Holding, Inc. is the parent company of Black Angus Steakhouse that had 69 restaurants in seven western states with sales falling about 26% from 2006 to 2008. Metromedia Steakhouses Company, LP is the operator of Ponderosa and Bonanza steakhouse chains and was unable to generate enough cash to fulfill operating needs as it had already exhausted its loan options. S & A Restaurant Corporation is the company that operates Bennigan's and Steak & Ale chains which also fell under the umbrella of Metromedia Company. VICORP restaurants and its parent company VI Acquisitions corporation which operates Village Inn and Bakers Square restaurants operated 343 restaurants in 25 states. Finally, the largest steak-buffet chain, Buffet Holdings, Inc., which operates brands such as Tahoe Joe's Famous Steakhouse, Old Country Buffet, HomeTown Buffet, Ryan's, and Fire Mountain, was operating 626 restaurants in 39 states. (***Source:*** *Reuters)*

The latest news of the restaurant industry is found in the July 20, 2009 report by market research firm, The NPD Group:

> Restaurant traffic, still feeling the impact of rising unemployment and thrifty consumers, declined in the spring quarter ending May 2009, according to The NPD Group, a leading market research company. NPD's Consumer Reports on Eating Share Trends (CREST®) reports that total restaurant industry traffic declined -2.6 percent for this year's spring quarter versus the same quarter last year. This is the sharpest decline in industry traffic since 1981.
>
> According to NPD's CREST®, consumers, especially households with children, cut back their visits to all segments of restaurants. Parties including children, which represent a third of industry traffic, and adults from households with children, have been cutting back on restaurant visits for the last three quarters. Over half of the industry's decline this past quarter traced to fewer supper visits from parties with kids. Visits by adults in households without children were stable in the spring quarter.
>
> Traffic was down -2 percent at quick service restaurants (QSR)/fast food, marking seven of the last nine months with declining customer counts. Casual dining declined -4 percent and midscale was down -6 percent. While checks rose +2% in the quarter, the rate of increase failed to offset the decline in traffic; yielding a one percent decline in consumer spending at commercial foodservice this quarter.
>
> "The commercial foodservice industry has been struggling since last fall, and it appears that as unemployment increases the struggle is increasing," says Arnie Schwartz, president of U.S. foodservice at NPD. "Dealing, value menus, and attractive price points seem to be supporting some operators who are holding on. Menu innovations in the fast casual and QSR segments have also helped to capture occasions."



> Consumers cut back on their foodservice visits at each of the main meal occasions. Supper continued to absorb the steepest decline as consumers pulled back on supper visits at both QSR and full service restaurants and across both

on-premises and off-premises visits. Morning meal and lunch also declined across all three segments this spring and each contributed about a fourth of the industry's loss. QSR fared a little better with morning meal and lunch visits than full service restaurants, but still showed softness.

"It is going to take continued innovation, creativity, and perseverance to capture share in a market where the pie may not be growing in the near term," said Schwartz.

NPD also reports that the total number of restaurant units in the United States declined this spring from last spring. NPD's ReCount®, which is a census of commercial restaurant locations in the United States compiled in the spring and fall each year, shows restaurant industry units down -1 percent, or about 4,000 units, in spring 2009 compared to no growth in spring 2008.

According to NPD's Spring 2009 ReCount, collected from April 1, 2008 to March 31, 2009, major chains (500+ units), were up +1 percent. Midsize chains (100-499 units) and all other system sizes including independents declined. In terms of restaurant styles, the family dining segment continues to contract across all system types while the largest quick service restaurant (QSR) segment showed no unit growth overall versus last spring. The fine dining segment saw the sharpest decline in units.

2009 versus 2009 Restaurant Unit Counts
Percent Change from Year Ago

	Total Restaurants	QSR	Family Dining	Casual Dining	Fine Dining
TOTAL RESTAURANTS	-1	0	-2	0	-4
MAJOR CHAINS (500+ Units)	1	1	0	2	na
MIDSIZE CHAINS (100-499 Units)	-1	-1	-5	2	6
MINOR CHAINS (50-99 Units)	-2	-1	-6	-2	6
SMALLEST CHAINS (3-49 Units)	-1	-1	-2	0	1
INDEPENDENTS	-2	-2	-2	-1	-7

Source: The NPD Group/ReCount®

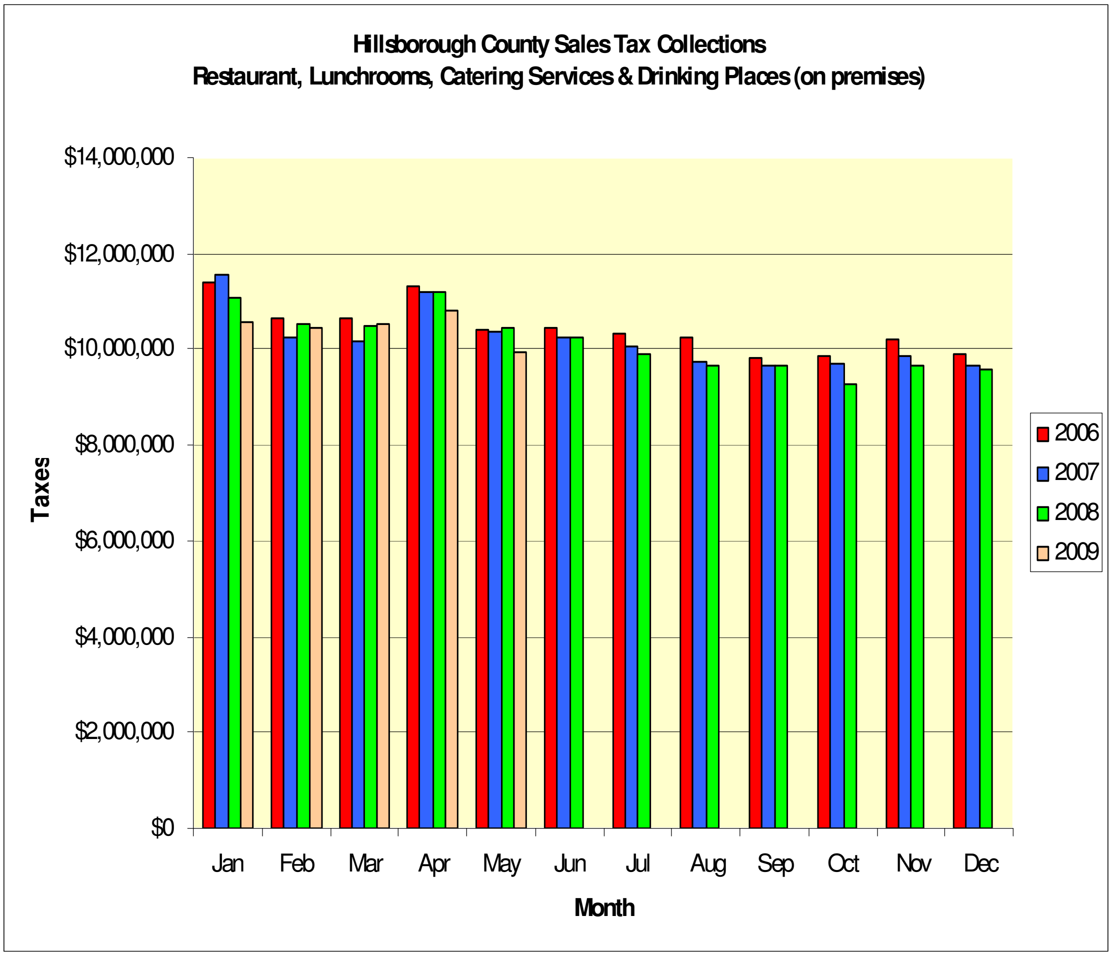
"It's clear that independent restaurants and smaller chains have been most impacted by the slower economy," said Susan Kleutsch, director, product development-foodservice at NPD. "The recession appears to have weeded out restaurants performing poorly prior to the economic downturn, and this seems most true for independents and smaller chains that are likely having a hard time competing with the resources and marketing power of major chains."

In terms of restaurant unit counts by U.S. Census Regions*, declines ranged from no growth to down -2 percent. The hardest hit is the West North Central Census Region, where units declined by -2 compared to last spring. On the other end of the spectrum, unit counts were flat in the East South Central, West South Central, Mountain, and Pacific regions. (*Editor's note: ReCount® restaurant counts are available by a variety of breakdowns; including geographical breakdowns, e.g., zip code, city, state, designated market area, census areas, etc.)

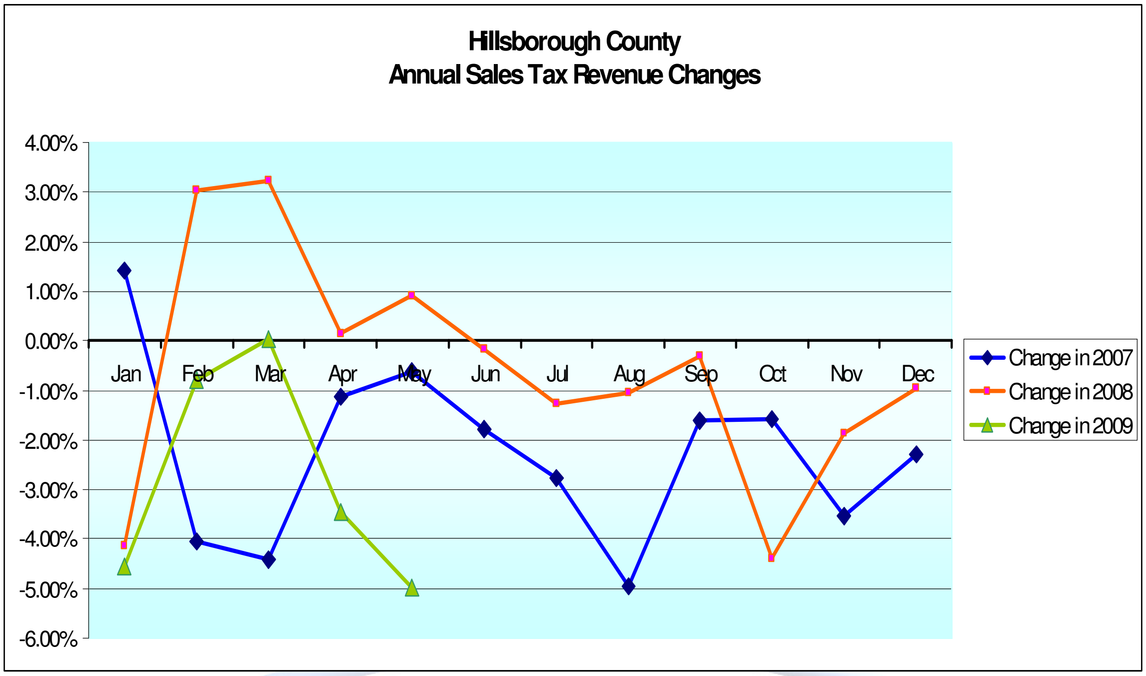
The NPD Group is the leading provider of reliable and comprehensive consumer and retail information for a wide range of industries. Today, more than 1,700 manufacturers, retailers, and service companies rely on NPD to help them drive critical business decisions at the global, national, and local market levels. NPD helps our clients to identify new business opportunities and guide product development, marketing, sales, merchandising, and other functions. Information is available for the following industry sectors: automotive, beauty, commercial technology, consumer technology, entertainment, fashion, food and beverage, foodservice, home, office supplies, software, sports, toys, and wireless. For more information, contact us, visit http://www.npd.com/, or follow us Twitter at https://twitter.com/npdgroup.

(Source: http://www.npd.com/press/releases/press_090720.html)

That brings us to the question, are the restaurants in Hillsborough County following the same trend? For the answer we looked at the sales taxes collected by the Florida Department of Revenue monthly from 2006 through May 2009 for two categories that apply to the subject, a.) restaurants, lunchrooms, catering services and b.) drinking places (alcoholic beverages served on premises. The first chart illustrates the totals of these amounts monthly from January 2006 through May 2009. The second chart shows the percent change in the sales tax collected each year by month.



Source: Florida Department of Revenue http://dor.myflorida.com/dor/taxes/colls_from_7_2003.html



Source: Florida Department of Revenue http://dor.myflorida.com/dor/taxes/colls_from_7_2003.html

The sales tax figures indicate a decline in sales tax collected every month in 2007 from the year before (2006) except January; in 2008, compared to the year before, the sales tax collected declined in January, rose in February through May and declined in June through December; and finally in the first five months of 2009, the change from the year before was a decline every month but March.

Restaurants locally are showing the same trend found in the July 20, 2009 report by market research firm, The NPD Group. According to an article dated July 23, 2009 in the St. Petersburg Times by Laura Reiley, Times Food Critic:

> Restaurant traffic is down here (Tampa Bay) and nationally more steeply in the past three months than at any point in the past 28 years. To cope with the downturn, Tampa Bay area restaurateurs are tightening their belts – shrinking staffs, doing the cooking or administrative duties themselves, monitoring food costs more closely, offering deals to keep customers coming in the doors – in order to survive. But most anticipate not everyone will survive.
>
> High-end restaurants, even great ones, are feeling more than their share of the pain. Chris Ponte, chef/owner of Café Ponte in Clearwater has used this downturn to his advantage. He states, "This is the best time to negotiate lease options. Landlords are willing to put money in because they need lessees…In the long run we're going to have better and longer leases."

> And certainly there is an upside for consumers. Each of the restaurateurs interviewed for this story pointed to special deals instituted to keep customers coming back. For beleaguered restaurants and their followers, these deals may be the saving grace.

In conclusion, the local restaurant market has been adversely affected by the downturn in the economy. Overall, it is anticipated to recover along with the end of the economic recession.