

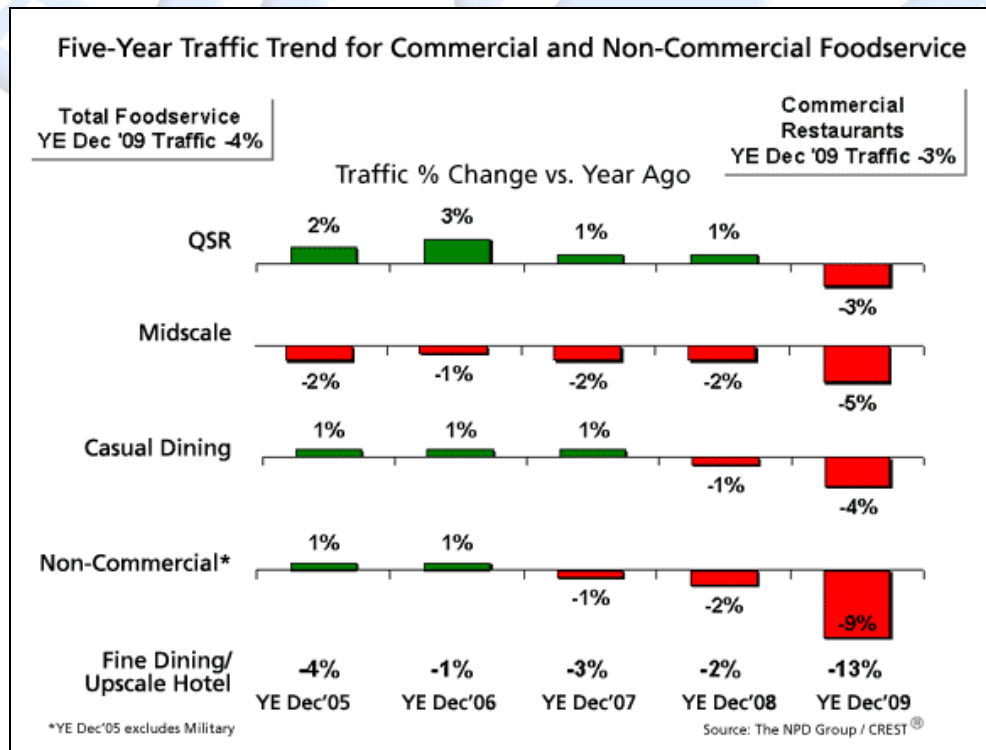
## RESTAURANT INDUSTRY MARKET OVERVIEW

In our analysis of the restaurant industry, we have included a recent (March 2010) article prepared by the market research firm NPD Group. In addition, we have included the January 2010 Restaurant Index Report, prepared by the National Restaurant Association.

### Restaurant Industry Ends Tough Year with Visits Down Across All Foodservice Segments, Reports NPD

**Chicago, IL, March 3, 2010** - Restaurant visit losses in each of the four quarters of 2009 contributed to a -3 percent decline for the year compared to a year ago, according to The NPD Group, a leading market research company. NPD's foodservice market research reports that due to weak traffic and only modest check growth, consumer spending at restaurants in 2009 declined for the first time since the company began tracking the foodservice industry in 1976.

According to NPD's CREST®, which continually tracks consumer usage of foodservice, foodservice industry traffic turned soft in the summer quarter of 2008 and declines accelerated in mid-2009. In the fourth quarter, traffic declines slowed from the steep loss in Q3, but they were still down -2.9 percent. All segments of the industry — quick service restaurants, midscale, casual dining, non-commercial, and fine dining — posted traffic declines.



“In 2008, consumers appeared to trade down some full service visits for fast food visits. In 2009 they made fewer visits to restaurants overall,” says Bonnie Riggs, NPD’s restaurant industry analyst. “When consumers did visit restaurants, they favored lower priced options.”

The industry weakness traces to the weak state of the economy, especially in terms of high unemployment and low consumer confidence. Nearly half of the traffic losses related to fewer visits made by people picking up something from a foodservice outlet to eat at work. Visit cutbacks by families with kids and young adults, who are the heaviest restaurant users, also contributed to the traffic declines, reports NPD.

In addition, lower food commodity prices, while easing margin pressure for some restaurant operators, also made grocery store prices more appealing for consumers. NPD, which tracks consumption behavior and attitudes in-home and away-from-home, finds consumers viewing in-home meals as more affordable, especially among consumers most concerned about their finances.

The non-commercial foodservice sector also experienced declines in 2009. According to NPD’s CREST OnSite®, which tracks usage of foodservice at business and industry, secondary schools, colleges and universities, hospitals, lodging, senior care, military, and vending segments, for the year ending December 2009, non-commercial foodservice traffic declined by -9 percent. Sectors most affected by the economy and high unemployment, such as business and industry, vending, and lodging, posted the steepest declines.

According to Riggs, the outlook for 2010 remains difficult for the foodservice industry until unemployment gets under control. Foodservice demand is expected to be weak through the first three quarters of the year. NPD’s forecast model shows a modest growth in the fourth quarter of the year.



# National Restaurant Association Restaurant Performance Index

January 2010

## Restaurant Performance Index Declined in January Due to Softer Same-Store Sales and Traffic Levels

As a result of softening sales and traffic results, the National Restaurant Association's comprehensive index of restaurant activity backed off from December's 22-month high in January. The Association's *Restaurant Performance Index (RPI)* – a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry – stood at 98.3 in January, down 0.3 percent from December's level. In addition, the RPI remained below 100 for the 27<sup>th</sup> consecutive month, which signifies contraction in the index of key industry indicators.

Although the current situation indicators remained soft in January, the Expectations Index rose above 100 for the first time in 9 months. Restaurant operators are relatively optimistic about improving sales growth and economic conditions in the months ahead, and their capital spending plans rose to the highest level in five months.

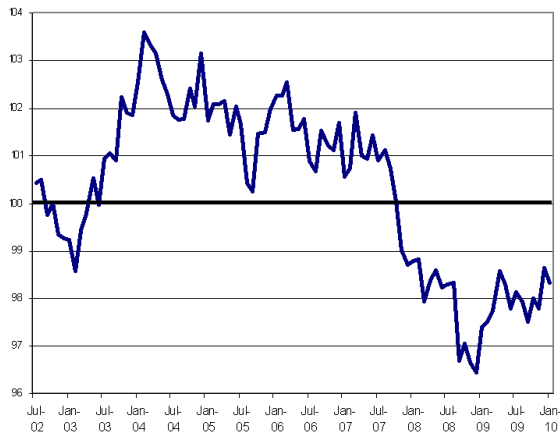
The *Restaurant Performance Index* is based on the responses to the Association's Restaurant Industry Tracking Survey, which is fielded monthly among restaurant operators nationwide. The index consists of two components – the Current Situation Index and the Expectations Index.

The *Restaurant Performance Index* is constructed so that the health of the restaurant industry is measured in relation to a steady-state level of 100. Index values above 100 indicate that key industry indicators are in a period of expansion, while index values below 100 represent a period of contraction for key industry indicators. The distance from 100 signifies the magnitude of the expansion or contraction.

## Current Situation Index Fell 0.8 Percent in January to a Level of 96.6; Stood Below 100 for 29<sup>th</sup> Consecutive Month

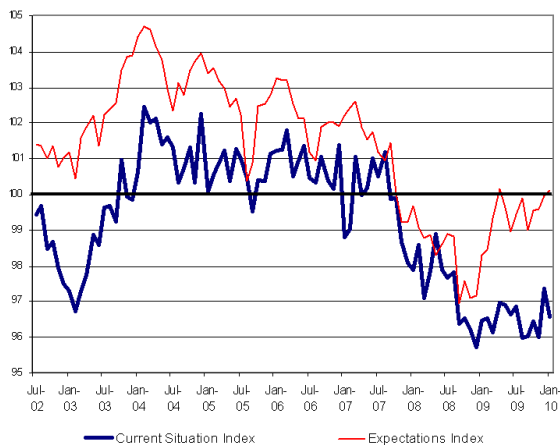
The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 96.6 in January – down 0.8 percent from December. In addition, January represented the 29<sup>th</sup> consecutive month below 100, which signifies contraction in the current situation indicators.

### Restaurant Performance Index



Source: NRA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

### Current Situation & Expectations Indices



Source: NRA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

After posting a moderate improvement in December, restaurant operators reported a softening in sales results in January. Twenty-seven percent of restaurant operators reported a same-store sales gain between January 2009 and January 2010, down from 35 percent of operators who reported higher sales in December. Fifty-seven percent of operators reported a same-store sales decline in January, up from 49 percent who reported negative sales in December.

Restaurant operators also reported softer customer traffic results in January. Twenty-six percent of restaurant operators reported an increase in customer traffic between January 2009 and January 2010, down from 30 percent who reported higher customer traffic in December. Fifty-four percent of operators reported a traffic decline in January, up from 47 percent who reported lower traffic in December.

Capital spending activity in the restaurant industry held relatively steady in recent months. Thirty-two percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, roughly on par with the levels reported by operators in the previous two months.

**Expectations Index Rose 0.2 Percent in January to a Level of 100.1**

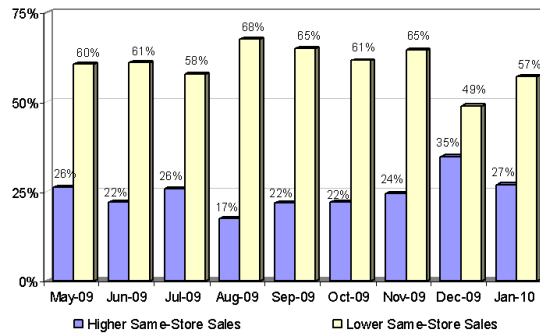
The Expectations Index, which measures restaurant operators' six-month outlook for four industry indicators (same-store sales, employees, capital expenditures and business conditions), stood at 100.1 in January – its third gain in the last four months. In addition, the Expectations Index exceeded 100 for the first time in 9 months, which signifies expansion in the forward-looking indicators.

Restaurant operators remain relatively optimistic about sales growth in the months ahead. Thirty-three percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), compared to 35 percent who reported similarly last month. In comparison, 22 percent of restaurant operators expect their sales volume in six months to be lower than it was during the same period in the previous year, while 21 percent reported similarly last month.

Restaurant operators are also cautiously optimistic about the direction of the economy in the months ahead. Twenty-nine percent of restaurant operators said they expect economic conditions to improve in six months, while 18 percent expect economic conditions to worsen during the next six months. Last month, 34 percent of operators said they expected the economy to improve in six months, while 18 percent expected economic conditions to deteriorate.

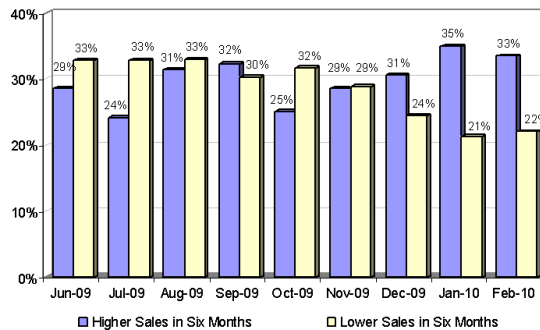
Forty-three percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, up from 39 percent who reported similarly last month.

**Restaurant Operators' Reporting of Same-Store Sales versus Same Month in Previous Year**



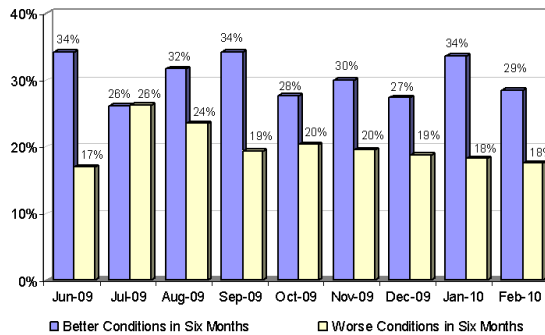
Source: National Restaurant Association, Restaurant Industry Tracking Survey

**Restaurant Operators' Outlook for Sales Volume in Six Months versus Same Period in Previous Year**



Source: National Restaurant Association, Restaurant Industry Tracking Survey

**Restaurant Operators' Outlook for General Economic Conditions in Six Months**



Source: National Restaurant Association, Restaurant Industry Tracking Survey

## National Restaurant Association Restaurant Industry Performance Index and Its Components

	September 2009	October 2009	November 2009	December 2009	January 2010	Jan-10 over Dec-09
<b>Restaurant Performance Index</b>	97.5	98.0	97.8	98.7	98.3	-0.3%
<b>Current Situation Index</b>	96.0	96.5	96.0	97.3	96.6	-0.8%
<i>Current Situation Indicators:</i>						
Same-Store Sales	95.7	96.1	96.0	98.6	97.0	-1.6%
Customer Traffic	95.7	96.1	95.9	98.3	97.2	-1.1%
Labor	95.3	95.7	95.5	96.4	95.6	-0.8%
Capital Expenditures	97.4	98.0	96.6	96.1	96.4	0.3%
<b>Expectations Index</b>	99.0	99.6	99.6	100.0	100.1	0.2%
<i>Expectations Indicators:</i>						
Same-Store Sales	99.3	100.0	100.6	101.4	101.2	-0.2%
Staffing	98.5	98.8	98.8	99.0	99.7	0.7%
Capital Expenditures	97.4	98.4	98.1	97.9	98.5	0.7%
Business Conditions	100.7	101.1	100.9	101.5	101.1	-0.4%

*Note: For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction.*

### Definitions

The National Restaurant Association's *Restaurant Performance Index* is a statistical barometer that measures the overall health of the U.S. Restaurant Industry. This monthly composite index is based on the responses to the National Restaurant Association's monthly Restaurant Industry Tracking Survey, which is fielded among restaurant operators nationwide on a variety of indicators including sales, traffic, labor and capital expenditures. The *Restaurant Performance Index* is composed of two equally-weighted components: the Current Situation Index and the Expectations Index. For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction.

The Current Situation Index is a composite index based on four 'recent-period' restaurant industry indicators:

*Same-Store Sales:* Compares same-store sales volume in the reference month versus the same month in the previous year

*Customer Traffic:* Compares customer traffic in the reference month versus the same month in the previous year

*Labor:* Compares the number of employees and the average employee hours in the reference month versus the same month in the previous year

*Capital Expenditures:* Measures capital expenditure activity during the three most recent months

The Expectations Index is a composite index based on four 'forward-looking' restaurant industry indicators:

*Same-Store Sales:* Restaurant operators' outlook for same-store sales in six months, compared to the same period in the previous year

*Staffing:* Restaurant operators' expectations for their number of employees in six months, compared to the same period in the previous year

*Capital Expenditures:* Restaurant operators' capital expenditure plans during the next six months

*Business Conditions:* Restaurant operators' outlook for general business conditions during the next six months

For a complete analysis of the National Restaurant Association's Restaurant Industry Tracking Survey including data broken out by industry segment, as well as a host of other economic indicators that impact the restaurant industry, log on to *Restaurant TrendMapper* at [www.restaurant.org/trendmapper](http://www.restaurant.org/trendmapper) (subscription required).