

Ruths Hospitality Group, Inc.
Form 10-Q
August 03, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 26, 2011

OR

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

For the transition period from to

Commission File Number 000-51485

Ruth s Hospitality Group, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

Delaware (State or other jurisdiction of incorporation or organization)	72-1060618 (I.R.S. Employer Identification No.)
400 International Parkway, Ste. 325, Heathrow, FL (Address of principal executive offices)	32746 (Zip code)
(407) 333-7440	
Registrant's telephone number, including area code	

Former name, former address and former fiscal year, if changed since last report.

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of August 1, 2011 was 35,064,468, which includes 865,332 shares of unvested restricted stock.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I - Financial Information</u>	3
Item 1. <u>Financial Statements:</u>	3
<u>Condensed Consolidated Balance Sheets as of December 26, 2010 and June 26, 2011</u>	3
<u>Condensed Consolidated Statements of Income for the Thirteen and Twenty-six Week Periods ended June 27, 2010 and June 26, 2011</u>	4
<u>Condensed Consolidated Statement of Shareholders' Equity (Deficit) for the Twenty-six Week Period ended June 26, 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Twenty-six Week Periods ended June 27, 2010 and June 26, 2011</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	19
Item 4. <u>Controls and Procedures</u>	19
<u>Part II - Other Information</u>	20
Item 1. <u>Legal Proceedings</u>	20
Item 1A. <u>Risk Factors</u>	20
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 3. <u>Defaults Upon Senior Securities</u>	20
Item 4. <u>(Removed and Reserved)</u>	20
Item 5. <u>Other Information</u>	20
Item 6. <u>Exhibits</u>	20
<u>Signatures</u>	21

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****RUTH S HOSPITALITY GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(dollar amounts in thousands, except share and per share data)

	December 26, 2010	June 26, 2011 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,018	\$ 3,354
Accounts receivable, less allowance for doubtful accounts 2010 - \$350; 2011 - \$370	11,977	8,815
Inventory	7,521	6,892
Prepaid expenses and other	1,314	1,393
Deferred income taxes	1,672	1,671
Total current assets	27,502	22,125
Property and equipment, net of accumulated depreciation 2010 - \$91,383; 2011 - \$98,592	105,151	101,368
Goodwill	22,097	22,097
Franchise rights	32,200	32,200
Trademarks	13,718	13,718
Other intangibles, net of accumulated amortization 2010 - \$1,522; 2011 - \$1,811	7,138	6,720
Deferred income taxes	36,795	38,285
Other assets	4,468	4,101
Total assets	\$ 249,069	\$ 240,614
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 8,710	\$ 8,924
Accrued payroll	12,115	9,715
Accrued expenses	8,415	6,352
Deferred revenue	28,238	19,890
Other current liabilities	8,385	7,005
Total current liabilities	65,863	51,886
Long-term debt	51,000	40,000
Deferred rent	22,284	23,167
Other liabilities	6,023	5,546
Total liabilities	145,170	120,599
Commitments and contingencies (Note 13)		
Series A 10% Redeemable Convertible Preferred Stock, par value \$0.01 per share; 25,000 shares authorized, issued and outstanding, liquidation preference of \$25,000 at June 26, 2011	23,538	23,715

Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

Shareholders' equity (deficit):		
Common stock, par value \$.01 per share; 100,000,000 shares authorized, 33,981,509 shares issued and outstanding at December 26, 2010 34,127,286 shares issued and outstanding at June 26, 2011	339	341
Additional paid-in capital	198,304	199,350
Accumulated deficit	(118,282)	(103,391)
Treasury stock, at cost; 71,950 shares at December 26, 2010 and June 26, 2011		
 Total shareholders' equity	 80,361	 96,300
 Total liabilities, preferred stock, and shareholders' equity	 \$ 249,069	 \$ 240,614

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RUTH S HOSPITALITY GROUP, INC AND SUBSIDIARIES****Condensed Consolidated Statements of Income - Unaudited****(dollar amounts in thousands, except share and per share data)**

	13 Weeks Ending		26 Weeks Ending	
	June 27, 2010	June 26, 2011	June 27, 2010	June 26, 2011
Revenues:				
Restaurant sales	\$ 83,269	\$ 87,525	\$ 173,862	\$ 182,168
Franchise income	2,785	2,881	5,714	5,938
Other operating income	2,331	2,198	2,943	2,698
Total revenues	88,385	92,604	182,519	190,804
Costs and expenses:				
Food and beverage costs	24,397	26,738	50,974	55,775
Restaurant operating expenses	44,331	45,208	90,656	91,923
Marketing and advertising	2,880	3,177	5,386	6,119
General and administrative costs	5,359	5,353	10,924	11,230
Depreciation and amortization expenses	3,857	3,649	7,744	7,360
Pre-opening costs	342	41	347	42
Restructuring benefit	(1,121)		(1,683)	(502)
Loss on the disposal of property and equipment, net		21		21
Operating income	8,340	8,417	18,171	18,836
Other expense:				
Interest expense, net	(988)	(739)	(2,318)	(1,569)
Other	(42)	(179)	(142)	(361)
Income from continuing operations before income tax expense (benefit)	7,310	7,499	15,711	16,906
Income tax expense (benefit)	2,138	(1,807)	3,564	1,027
Income from continuing operations	5,172	9,306	12,147	15,879
Loss (income) from discontinued operations, net of income tax benefit (expense)	839	100	1,055	(259)
Net income	\$ 4,333	\$ 9,206	\$ 11,092	\$ 16,138
Preferred stock dividends	623	623	931	1,247
Accretion of preferred stock redemption value		88		176
Net income available to preferred and common shareholders	\$ 3,710	\$ 8,495	\$ 10,161	\$ 14,715
Basic earnings per common share:				
Continuing operations	\$ 0.11	\$ 0.20	\$ 0.30	\$ 0.34
Discontinued operations	(0.02)		(0.03)	0.01
Basic earnings per share	\$ 0.09	\$ 0.20	\$ 0.27	\$ 0.35

Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

Diluted earnings per common share:													
Continuing operations	\$	0.11	\$	0.20	\$	0.30	\$	0.33					
Discontinued operations		(0.02)				(0.03)		0.01					
Diluted earnings per share						\$	0.09	\$	0.20	\$	0.27	\$	0.34
Shares used in computing net income per common share:													
Basic		33,945,193		34,075,604		31,050,777		34,037,818					
Diluted		42,800,126		43,233,207		37,660,789		43,196,850					

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RUTH S HOSPITALITY GROUP, INC AND SUBSIDIARIES****Condensed Consolidated Statement of Shareholders' Equity (Deficit)****for the Twenty-six Weeks ended June 26, 2011****Unaudited****(dollar and share amounts in thousands)**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Shareholders Equity (Deficit)
	Shares	Value			Shares	Value	
Balance at December 26, 2010	33,981	\$ 339	\$ 198,304	\$ (118,282)	72	\$	\$ 80,361
Net income				16,138			16,138
Preferred stock dividends				(1,247)			(1,247)
Accretion of preferred stock redemption value			(176)				(176)
Shares issued under stock compensation plan including tax effects	146	2	3				5
Stock-based compensation			1,219				1,219
Balance at June 26, 2011	34,127	\$ 341	\$ 199,350	\$ (103,391)	72	\$	\$ 96,300

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RUTH S HOSPITALITY GROUP, INC AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows - Unaudited**

(dollar amounts in thousands)

	26 Weeks Ending	
	June 27, 2010	June 26, 2011
Cash flows from operating activities:		
Net income	\$ 11,092	\$ 16,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,744	7,360
Deferred income taxes	234	(1,489)
Non-cash interest expense	390	384
Loss on the disposal of property and equipment, net		21
Amortization of below market lease	99	162
Restructuring benefit	(1,683)	(502)
Non-cash compensation expense	815	1,219
Changes in operating assets and liabilities:		
Accounts receivable	2,147	3,162
Inventories	527	629
Prepaid expenses and other	(2,686)	(79)
Other assets	182	113
Accounts payable and accrued expenses	4,982	(4,665)
Deferred revenue	(8,937)	(8,348)
Deferred rent	1,337	883
Other liabilities	(197)	(525)
Net cash provided by operating activities	16,046	14,463
Cash flows from investing activities:		
Acquisition of property and equipment	(2,318)	(3,885)
Net cash used in investing activities	(2,318)	(3,885)
Cash flows from financing activities:		
Principal repayments on long-term debt	(56,500)	(11,000)
Proceeds from issuance of common stock	25,369	
Proceeds from the issuance of Series A 10% redeemable convertible preferred stock	25,000	
Income tax benefits credited to equity upon exercise of stock options	66	1
Proceeds from exercise of stock options	56	4
Dividend payments	(329)	(1,247)
Equity offering costs	(3,820)	
Deferred financing costs	(1,389)	
Net cash used in financing activities	(11,547)	(12,242)
Net increase (decrease) in cash and cash equivalents	2,181	(1,664)
Cash and cash equivalents at beginning of period	1,681	5,018

Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

Cash and cash equivalents at end of period	\$ 3,862	\$ 3,354
--	----------	----------

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 2,518	\$ 1,234
Income taxes	\$ 678	1,109

Noncash investing and financing activities:

Excess accrual-based acquisition of property and equipment	\$ (55)	\$ (427)
Preferred stock dividends accrued	\$ 603	\$ 596

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RUTH S HOSPITALITY GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except share and per share data)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Ruth s Hospitality Group, Inc. and its subsidiaries (together, the Company) as of June 26, 2011, and December 26, 2010, and for the quarters and twenty-six weeks ended June 26, 2011 and June 27, 2010, have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC).

The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. The interim results of operations for the fiscal quarters ended June 26, 2011 and June 27, 2010 are not necessarily indicative of the results that may be achieved for the full year. Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 26, 2010.

The Company operates on a 52 or 53-week fiscal year ending on the last Sunday in December. The fiscal quarters ended June 26, 2011 and June 27, 2010 each contained 13 weeks and are referred to herein as the second quarter of fiscal 2011 and the second quarter of fiscal 2010, respectively.

Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reporting of revenue and expenses during the period to prepare these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, goodwill, franchise rights, trademarks, other intangibles, deferred income taxes, obligations related to workers compensation and medical insurance and lease obligations. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the financial statements of Ruth s Hospitality Group, Inc. and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements for Future Application

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

(2) Private Placement and Rights Offering

On February 12, 2010, the Company completed its sale of \$25.0 million of the Company s newly-created Series A 10% Redeemable Convertible Preferred Stock (the Preferred Stock) to Bruckmann, Rosser, Sherrill & Co. III, L.P. and BRS Coinvestor III, L.P. (collectively, BRS) in a private placement transaction. The Company received proceeds of \$23.2 million, net of approximately \$1.8 million in closing and issuance costs. On February 12, 2010, the Company also closed its rights offering and sold 10,147,451 shares of the Company s common stock, at a subscription price of \$2.50 per share, for an aggregate purchase price of approximately \$25.4 million. The Company received proceeds of \$23.3 million, net of approximately \$2.1 million in closing and issuance costs.

The Company applied approximately \$44.3 million of the net proceeds from the rights offering and the private placement, together with cash on hand, to reduce its outstanding borrowings under its existing credit facility. Upon the application of those net proceeds, and the satisfaction of other agreed-upon conditions, a credit agreement amendment that the Company entered into with the lenders under its existing credit facility

became effective (see Note 4).

(3) Fair Value Measurements

The carrying amount of cash and cash equivalents, receivables, prepaid expenses, accounts payable and accrued expenses and other current liabilities are a reasonable estimate of their fair values due to their short duration. Borrowings classified as long-term debt as of June 26, 2011 have variable interest rates that approximate currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of its fair value.

Table of Contents

During the second quarter of fiscal 2011, the Company had no assets or liabilities measured on a recurring or nonrecurring basis subject to the disclosure requirements of Fair Value Measurements and Disclosures, FASB Accounting Standards Codification Topic 820.

(4) Long-term Debt

Long-term debt consists of the following:

	December 26, 2010	June 26, 2011
Senior Credit Facility:		
Revolving credit facility	\$ 51,000	\$ 40,000
Less current maturities		
	\$ 51,000	\$ 40,000

On February 12, 2010, the Company entered into a Second Amendment to the First Amended and Restated Credit Agreement (Amended Credit Agreement). The amendment to the credit agreement reduced the revolving loan commitment to \$129.6 million as of the end of the second fiscal quarter of 2011, extended the scheduled maturity of the credit agreement by two years, to February 2015, and provided the Company with a less restrictive set of covenants. Specifically, the amendment provided for no financial covenant testing until the end of fiscal year 2010, provided less restrictive leverage and coverage covenants thereafter, and permanently eliminated the minimum EBITDA covenant. The amendment provided for higher interest rates under the credit agreement, with interest rates based on the Company's actual leverage ratio, ranging from 3.25% to 5.00% above the applicable LIBOR rate or, at the Company's option, from 2.00% to 3.75% above the applicable base rate.

As of June 26, 2011, the Company had an aggregate of \$40.0 million of outstanding indebtedness under its Amended Credit Agreement at a weighted average interest rate of 4.67% with approximately \$85.7 million of borrowings available, net of outstanding letters of credit of approximately \$3.9 million. The Company is required to maintain certain financial covenants and is also subject to several restrictive covenants under its borrowings. The restrictive covenants include, but are not limited to, covenants that, subject to exceptions: (1) prohibit the Company and its subsidiaries from incurring additional indebtedness and from guaranteeing obligations of others; (2) prohibit the Company and its subsidiaries from creating, incurring, assuming or permitting to exist any lien on or with respect to any property or asset; (3) limit the Company's ability and its subsidiaries' ability to enter into joint ventures, acquisitions, and other investments; (4) prohibit the Company and its subsidiaries from directly or indirectly creating or becoming liable with respect to any contingent liabilities; and (5) restrict the Company and its subsidiaries from directly or indirectly declaring, ordering, paying, or making any restricted junior payments. The Company's obligations under the Amended Credit Agreement are guaranteed by each of its existing and future subsidiaries and are secured by substantially all of its assets and a pledge of the capital stock of its subsidiaries. As of June 26, 2011, the Company is in compliance with the covenants under the Amended Credit Agreement.

(5) Redeemable Convertible Preferred Stock

In the first quarter of 2010, the Company issued 25,000 shares of Preferred Stock in a private placement transaction (see Note 2). The Preferred Stock is classified on the accompanying balance sheets as temporary shareholders' equity as of June 26, 2011, since the shares have certain conditions that allow the holder to redeem the Preferred Stock for cash, and redemption is not solely within the control of the Company.

Each share of the Preferred Stock has an initial liquidation preference of \$1,000. The holders of the Preferred Stock are entitled to quarterly dividends accruing at a 10% annual rate payable on the following dates: January 1, April 1, July 1 and October 1. Any unpaid dividends are added to the liquidation preference and compound on the subsequent dividend payment dates. The Company's credit agreement limits the amount of dividends the Company may pay annually to \$1.0 million. The Company received a waiver of the annual \$1.0 million dividend limit required under the Amended Credit Agreement for purposes of paying the dividend due on July 1, 2011. A Preferred Stock dividend of \$0.6 million was paid or accrued during the second quarters of fiscal 2010 and 2011 as a reduction of net income available to preferred and common shareholders.

The Preferred Stock is convertible, under certain circumstances, into the number of shares of the Company's common stock equal to the quotient of the liquidation preference, including accrued dividends, divided by the conversion price. The conversion price was initially set at \$2.90 per share, and is subject to change based on certain customary anti-dilution provisions. Using the liquidation preference of \$25.0 million as of June 26, 2011, a conversion of Preferred Stock into the Company's common stock would result in the issuance of 8,620,690 additional common

Edgar Filing: Ruths Hospitality Group, Inc. - Form 10-Q

shares. The Preferred Stock is convertible at any time, at the option of the holders. The Company has the option to convert the Preferred Stock, in whole or in part, after February 12, 2012 if the closing price of the Company's common stock equals or exceeds 225% of the then applicable conversion price for a period of 20 trading days over any 30 consecutive trading day period.

Table of Contents

At the option of the Company, the Preferred Stock may be redeemed on or after February 12, 2015 without regard to the Company's stock price. The Company shall not be permitted to redeem less than all of the outstanding shares of the Preferred Stock if such partial redemption would result in the holder holding more than 0% and less than 5% of the Company's voting securities. At the option of the holders, the Preferred Stock may be redeemed on or after February 12, 2017. The redemption price per share will equal the liquidation preference, including any accrued dividends. In accordance with FASB Accounting Standards Codification Topic 480-10-S99, the Company will accrete the carrying value of Preferred Stock to its redemption value of \$25.0 million from the date of issuance to the earliest redemption date, February 12, 2015. During the second quarter of fiscal 2011, the Preferred Stock carrying value increased \$0.1 million for the accretion of the redemption value.

(6) Stock-Based Employee Compensation

Under the 2000 Stock Option Plan, there are 46,601 shares of common stock issuable upon exercise of currently outstanding options at June 26, 2011. No future grants are able to be made under the 2000 Stock Option Plan. Under the 2005 Equity Incentive Plan, as amended, there are 2,617,251 shares of common stock issuable upon exercise of currently outstanding options and restricted stock awards at June 26, 2011, and 649,467 shares available for future grants. Total stock compensation expense recognized for the thirteen weeks ended June 27, 2010 and June 26, 2011 was \$0.6 million and \$0.5 million, respectively. Total stock compensation expense recognized for the twenty-six weeks ended June 27, 2010 and June 26, 2011 was \$0.8 million and \$1.2 million, respectively.

(7) Earnings Per Share

Basic earnings per common share is computed under the two-class method as provided in Earnings Per Share, FASB Accounting Standards Codification Topic 260. Under the two-class method a portion of net income is allocated to participating securities, such as the Company's Preferred Stock, and therefore is excluded from the calculation of earnings per share allocated to common shares. Diluted earnings per common share is computed by dividing the net income available to common shareholders for the period by the weighted average number of common and potential common shares outstanding during the period. Net income, in both the basic and diluted earnings per common share calculations, is reduced by the Preferred Stock dividends and accretion of the Preferred Stock to its redemption value.

Diluted earnings per share for the thirteen weeks ended June 27, 2010 and June 26, 2011 excludes stock options and restricted shares of 894,989 and 973,794, respectively, which were outstanding during the period but were anti-dilutive. The weighted average exercise prices of the anti-dilutive stock options for the thirteen weeks ended June 27, 2010 and June 26, 2011 were \$13.14 and \$10.95 per share, respectively.

Diluted earnings per share for the twenty-six weeks ended June 27, 2010 and June 26, 2011 excludes stock options and restricted shares of 1,408,835 and 1,515,348, respectively, which were outstanding during the period but were anti-dilutive. The weighted average exercise prices of the anti-dilutive stock options for the twenty-six weeks ended June 27, 2010 and June 26, 2011 were \$9.95 and \$8.46 per share, respectively.

Table of Contents

The following table sets forth the computation of basic earnings per common share:

	13 Weeks Ending		26 Weeks Ending	
	June 27, 2010	June 26, 2011	June 27, 2010	June 26, 2011
Income from continuing operations	\$ 5,172	\$ 9,306	\$ 12,147	\$ 15,879
Loss (income) from discontinued operations, net of income tax benefit (expense)	839	100	1,055	(259)
Net income	\$ 4,333	\$ 9,206	\$ 11,092	\$ 16,138
Preferred stock dividends	623	623	931	1,247
Accretion of preferred stock redemption value		88		176
Undistributed net income	\$ 3,710	\$ 8,495	\$ 10,161	\$ 14,715
Undistributed net income allocated to preferred shareholders	751	1,715	1,735	2,974
Net income available to common shareholders	\$ 2,959	\$ 6,780	\$ 8,426	\$ 11,741
Shares:				
Weighted average number of common shares outstanding - basic	33,945,193	34,075,604	31,050,777	34,037,818
Basic earnings per common share:				
Continuing operations	\$ 0.11	\$ 0.20	\$ 0.30	\$ 0.34
Discontinued operations	(0.02)		(0.03)	0.01
Basic earnings per common share	\$ 0.09	\$ 0.20	\$ 0.27	\$ 0.35

The following table sets forth the computation of diluted earnings per share: