

RARE HOSPITALITY INTERNATIONAL INC  
Form 10-Q  
August 14, 2002

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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**Quarterly Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

**For the Quarterly Period Ended June 30, 2002**

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**Commission file number 0-19924**

**RARE Hospitality International, Inc.**

**(Exact name of registrant as specified in its charter)**

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**Internal Revenue Service - Employer Identification No. 58-1498312**

**8215 Roswell Rd; Bldg. 600; Atlanta, GA 30350  
(770) 399-9595**

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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**

As of August 9, 2002, there were 21,917,304 shares of common stock of the Registrant outstanding.

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**Part I. Financial Information**  
**Item 1. Financial Statements**

**RARE Hospitality International, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**(In thousands, except share amounts)**  
**(Unaudited)**

| Assets   | June 30,<br>2002<br>---- | December 30,<br>2001<br>---- |
|--|--------------------------|------------------------------|
| Current assets:  |                          |                              |
| Cash and cash equivalents                              | \$ 33,205                | \$ 25,979                    |
| Accounts receivable                                    | 7,606                    | 6,710                        |
| Inventories  | 13,940                   | 13,437                       |
| Prepaid expenses                                       | 2,713                    | 3,069                        |
| Refundable income taxes                                | 5,874                    | 3,902                        |
| Deferred income taxes                                  | 7,368                    | 6,643                        |
|  | -----                    | -----                        |
| Total current assets                                   | 70,706                   | 59,740                       |
| Property & equipment, less accumulated<br>depreciation | 277,068                  | 269,323                      |
| Goodwill, net  | 19,187                   | 19,187                       |

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|  |           |           |
|--|-----------|-----------|
| Deferred income taxes                                    | 952       | 2,276     |
| Other  | 2,784     | 2,871     |
|  | -----     | -----     |
| Total assets   | \$370,697 | \$353,397 |
|  | =====     | =====     |
| Liabilities and Shareholders' Equity                     |           |           |
| Current liabilities:                                     |           |           |
| Accounts payable   | \$ 17,399 | \$ 27,189 |
| Accrued expenses   | 35,399    | 37,424    |
| Current installments of obligations under capital leases | 33        | 58        |
|  | -----     | -----     |
| Total current liabilities                                | 52,831    | 64,671    |
| Debt, net of current installments                        | 10,000    | 10,000    |
| Deferred tax liability                                   | 316       | --        |
| Obligations under capital leases                         | 20,834    | 20,867    |
|  | -----     | -----     |
| Total liabilities  | 83,981    | 95,538    |
| Minority interest  | 1,347     | 1,329     |
| Shareholders' equity:                                    |           |           |
| Preferred stock  | -         | -         |
| Common stock   | 189,155   | 178,787   |
| Unearned compensation-restricted stock                   | (782)     | (522)     |
| Retained earnings  | 97,883    | 79,007    |
| Accumulated other comprehensive loss                     | (728)     | (583)     |
| Treasury stock at cost; 10,000 shares in 2002 and 2001   | (159)     | (159)     |
|  | -----     | -----     |
| Total shareholders' equity                               | 285,369   | 256,530   |
| Total liabilities and shareholders' equity               | \$370,697 | \$353,397 |
|  | =====     | =====     |

See accompanying notes to consolidated financial statements

**RARE Hospitality International, Inc. and Subsidiaries**  
**Consolidated Statements of Earnings**  
(In thousands, except per share data) (Unaudited)

|                                       | Quarter Ended    |                 | Six Months       |
|---------------------------------------|------------------|-----------------|------------------|
|                                       | June 30,<br>2002 | July 1,<br>2001 | June 30,<br>2002 |
| Revenues:                             |                  |                 |                  |
| Restaurant sales:                     |                  |                 |                  |
| LongHorn Steakhouse                   | \$104,559        | \$90,071        | \$208,944        |
| The Capital Grille                    | 21,721           | 20,041          | 43,575           |
| Bugaboo Creek Steak House Steak House | 17,080           | 16,065          | 34,326           |
| Specialty concepts                    | 1,938            | 1,906           | 3,666            |
| Total restaurant sales                | 145,298          | 128,083         | 290,511          |
| Franchise revenues                    | 88               | 78              | 173              |
| Total revenues                        | 145,386          | 128,161         | 290,684          |
| Costs and expenses:                   |                  |                 |                  |
| Cost of restaurant sales              | 52,781           | 46,585          | 105,593          |
| Operating expenses - restaurants      | 63,650           | 56,150          | 125,930          |
| Depreciation and amortization         |                  |                 |                  |
| - restaurants                         | 5,841            | 5,220           | 11,601           |

RARE Hospitality International, Inc. and Subsidiaries Consolidated Statements of Earnings (In thousands, except per share data)

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|   |         |         |          |
|---|---------|---------|----------|
| Pre-opening expense                               | 825     | 849     | 1,739    |
| General and administrative expenses               | 8,312   | 7,815   | 16,685   |
| Total costs and expenses                          | 131,409 | 116,619 | 261,548  |
| Operating income                                  | 13,977  | 11,542  | 29,136   |
| Interest expense, net                             | 421     | 383     | 870      |
| Early termination of interest rate swap agreement | -       | -       | -        |
| Minority interest                                 | 120     | 155     | 300      |
| Earnings before income taxes                      | 13,436  | 11,004  | 27,966   |
| Income tax expense                                | 4,295   | 3,632   | 9,090    |
| Net earnings                                      | \$9,141 | \$7,372 | \$18,876 |
| Basic earnings per common share                   | \$0.42  | \$0.35  | \$0.87   |
| Diluted earnings per common share                 | \$0.40  | \$0.33  | \$0.83   |
| Weighted average common shares outstanding:       |         |         |          |
| Basic 21,732                                      | 21,251  | 21,612  | 20,646   |
| Diluted   | 23,000  | 22,592  | 22,836   |

See accompanying notes to consolidated financial statements

**RARE Hospitality International, Inc. and Subsidiaries**  
**Consolidated Statement of Shareholders' Equity**  
**and Comprehensive Income**  
**For the quarter ended March 31, 2002**  
**(In thousands, unaudited)**

|  | Common Stock |           | Restricted | Retained | Treasury | Accumulated<br>Other<br>Comprehensive |
|--|--------------|-----------|------------|----------|----------|---------------------------------------|
|  | Shares       | Amount    | Stock      | Earnings | Stock    | Income (Loss)                         |
|  | -----        | -----     | -----      | -----    | -----    | -----                                 |
| Balance, December 30, 2001                                     | 21,522       | \$178,787 | \$ (522)   | \$79,007 | \$ (159) | \$ (583)                              |
| Comprehensive income:  |              |           |            |          |          |                                       |
| Net earnings   | --           | --        | --         | 18,876   | --       | --                                    |
| Change in unrealized loss<br>from interest rate swaps          | --           | --        | --         | --       | --       | (145)                                 |
| Total comprehensive income                                     |              |           |            |          |          |                                       |
| Amortization of restricted<br>stock                            | --           | --        | 226        | --       | --       | --                                    |
| Issuance of shares to<br>retirement plans                      | 11           | 219       | --         | --       | --       | --                                    |
| Issuance of shares pursuant<br>to restricted stock award       | 22           | 486       | (486)      | --       | --       | --                                    |
| Issuance of shares pursuant<br>to exercise of stock<br>options | 350          | 3,945     | --         | --       | --       | --                                    |
| Tax benefit of stock options<br>exercised                      | --           | 5,718     | --         | --       | --       | --                                    |
| Balance, June 30, 2002   | 21,905       | \$189,155 | \$ (782)   | \$97,883 | \$ (159) | \$ (728)                              |
|  | =====        | =====     | =====      | =====    | =====    | =====                                 |

See accompanying notes to consolidated financial statements

**RARE Hospitality International, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(In thousands, unaudited)

|   |           | Six Months Ended |
|---|-----------|------------------|
|   | June 30,  | -----            |
|   | 2002      | -----            |
| Cash Flows from operating activities:   |           |                  |
| Net earnings  | \$ 18,876 |                  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |           |                  |
| Depreciation and amortization   | 12,510    |                  |
| Changes in working capital accounts   | (3,381)   |                  |
| Minority interest   | 300       |                  |
| Deferred tax(benefit) expense   | (2,063)   |                  |
| Issuance of common stock to employee retirement plans                               | 219       |                  |
|   | -----     |                  |
| Net cash provided by operating activities   | 26,461    |                  |
|   | -----     |                  |
| Cash flows from investing activities:   |           |                  |
| Purchase of property and equipment  | (19,959)  |                  |
|   | -----     |                  |
| Net cash used by investing activities   | (19,959)  |                  |
|   | -----     |                  |
| Cash flows from financing activities:   |           |                  |
| Proceeds from (repayments of) credit facilities                                     | -         |                  |
| Proceeds from issuance of common stock  | -         |                  |
| Distributions to minority partners  | (282)     |                  |
| Decrease in bank overdraft included in accounts payable                             | (2,881)   |                  |
| Principal payments on capital leases  | (58)      |                  |
| Proceeds from exercise of stock options   | 3,945     |                  |
|   | -----     |                  |
| Net cash provided by(used in) financing activities                                  | 724       |                  |
|   | -----     |                  |
| Net increase in cash and cash equivalents   | 7,226     |                  |
| Cash and cash equivalents, beginning of period                                      | 25,979    |                  |
|   | -----     |                  |
| Cash and cash equivalents, end of period  | \$ 33,205 |                  |
|   | =====     |                  |

See accompanying notes to consolidated financial statements

**RARE Hospitality International, Inc.**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**1. Basis of Presentation**

The consolidated financial statements of RARE Hospitality International, Inc. and subsidiaries (the Company) as of June 30, 2002 and December 30, 2001 and for the quarters and six months ended June 30, 2002 and July 1, 2001 have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of

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normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 30, 2001.

The Company operates on a 52- or 53-week fiscal year ending on the last Sunday in each calendar year. Each of the four fiscal quarters is typically made up of 13 weeks. The fiscal quarters and year-to-date periods ended June 30, 2002 and July 1, 2001 each contained 13 weeks and 26 weeks, respectively.

### 2. New Accounting Pronouncements

In November 2001, the Emerging Issues Task Force ( EITF ) of the Financial Accounting Standards Board ( FASB ) reached a consensus on EITF Issue 01-9, Accounting for Consideration Given by a Vendor to a Customer . EITF 01-9 addresses the recognition, measurement and income statement classification for sales incentives offered to customers. Sales incentives include discounts, coupons, free products or services and generally any other offers that entitle a customer to receive a reduction in the price of a product. Under EITF 01-9, the reduction in the selling price of the product resulting from any sales incentives should be classified as a reduction of revenue. Historically, the Company recognized certain sales incentives as restaurant operating and general and administrative expenses. Although this pronouncement does not have any impact on the Company's consolidated results of operations or financial position, the presentation prescribed has the effect of reducing sales, restaurant operating expense, and general and administrative expenses. Due to the adoption of EITF 01-9 as of the beginning of fiscal 2002, sales, restaurant operating expense, and general and administrative expenses have been restated for the second quarter and first six months of 2001 to conform to the new presentation requirement. Same store sales comparisons for each of the Company's restaurant concepts for the second quarter of 2002, consist of sales at restaurants opened prior to October 2, 2000 and, consistent with prior years, are calculated using sales prior to being reduced for discounts, coupons, free products or services.

The Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets , effective as of the beginning of fiscal year 2002. SFAS No. 142 requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. This Statement also provides that goodwill should not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. In the first quarter of fiscal 2002, the Company ceased amortization of goodwill and performed the required goodwill impairment testing. The impairment test requires the Company to compare the fair value of each reporting unit to its carrying value to determine whether there is an indication that an impairment may exist. If an impairment of goodwill is determined to exist, it is measured as the excess of its carrying value over its fair value. Upon performing the initial test of the carrying value of the Company's goodwill, it was concluded that there was no current indication of impairment to goodwill. Accordingly, no impairment losses were recorded upon the initial adoption of SFAS No. 142.

As of the date of adoption, the Company had unamortized goodwill in the amount of approximately \$19.2 million. Amortization expense related to goodwill was \$272,000 and approximately \$1.1 million for the second quarter of 2001 and fiscal year 2001, respectively. In accordance with SFAS No. 142, no goodwill amortization expense was recorded in the Company's financial statements for the second quarter of 2002. For the foreseeable future, management believes the only impact on the Company's consolidated financial statements from the adoption of SFAS 142 will be the elimination of goodwill amortization expense.

The pro forma effects of the adoption of SFAS No. 142 on net earnings and basic and diluted earnings per share is as follows (in thousands, except per share amounts):

|   | Quarter Ended    |                 | Six Month        |
|---|------------------|-----------------|------------------|
|   | June 30,<br>2002 | July 1,<br>2001 | June 30,<br>2002 |
| Net earnings, as reported                 | \$ 9,141         | \$ 7,372        | \$ 18,876        |
| Goodwill amortization, net of tax benefit | -                | 169             | -                |
| Net earnings, pro forma                   | \$ 9,141         | \$ 7,541        | \$ 18,876        |
| Basic earnings per common share:          |                  |                 |                  |
| Net earnings, as reported                 | \$ 0.42          | \$ 0.35         | \$ 0.87          |
| Goodwill amortization, net of tax benefit | -                | 0.01            | -                |
| Net Earnings, pro forma                   | \$ 0.42          | \$ 0.36         | \$ 0.87          |

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|   | =====   | =====   | =====   |
|---|---------|---------|---------|
| Diluted earnings per common share:        |         |         |         |
| Net earnings, as reported                 | \$ 0.40 | \$ 0.33 | \$ 0.83 |
| Goodwill amortization, net of tax benefit | -       | 0.01    | -       |
|   | -----   | -----   | -----   |
| Net Earnings, pro forma                   | \$ 0.40 | \$ 0.34 | \$ 0.83 |
|   | =====   | =====   | =====   |

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets", which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. SFAS No. 144 retains many of the provisions of SFAS No. 121, but addresses certain implementation issues associated with that statement. The Company adopted SFAS No. 144 effective as of the beginning of fiscal 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

### 3. Long-Term Debt

At June 30, 2002, \$10 million was outstanding under the Company's \$100 million revolving credit agreement at a weighted average interest rate of 7.77% after considering the effect of the Company's interest rate swap agreement.

### 4. Income Taxes

Income tax expense for the second quarter of 2002 was 32% of earnings before income taxes. This brings the year-to-date effective rate to 32.5%, which reflects the effective tax rate expected to be applicable for the full 2002 fiscal year. The effective income tax rate differs from applying the statutory federal income tax rate of 35% to pre-tax earnings primarily due to employee FICA tip tax credits (a reduction in income tax expense) and work opportunity tax credits partially offset by state income taxes.

### 5. Earnings Per Share

Basic earnings per common share equals net earnings divided by the weighted average number of common shares outstanding and does not include the dilutive effect of stock options or restricted stock. Diluted earnings per common share equals net earnings divided by the weighted average number of common shares outstanding, after giving effect to dilutive stock options and restricted stock. A reconciliation between basic and diluted weighted average shares outstanding and the related earnings per share calculation is presented below (in thousands, except per share amounts):

|   | Quarter Ended            |                         | Six Months               |
|---|--------------------------|-------------------------|--------------------------|
|   | June 30,<br>2002<br>---- | July 1,<br>2001<br>---- | June 30,<br>2002<br>---- |
| Basic weighted average shares outstanding   | 21,732                   | 21,251                  | 21,612                   |
| Dilutive effect of stock options            | 1,178                    | 1,271                   | 1,135                    |
| Dilutive effect of restricted stock         | 90                       | 70                      | 89                       |
|   | -----                    | -----                   | -----                    |
| Diluted weighted average shares outstanding | 23,000                   | 22,592                  | 22,836                   |
|   | =====                    | =====                   | =====                    |
| Net earnings                                | \$ 9,141                 | \$ 7,372                | \$ 18,876                |
|   | =====                    | =====                   | =====                    |
| Basic earnings per common share             | \$ 0.42                  | \$ 0.35                 | \$ 0.87                  |
|   | =====                    | =====                   | =====                    |
| Diluted earnings per common share           | \$ 0.40                  | \$ 0.33                 | \$ 0.83                  |
|   | =====                    | =====                   | =====                    |

### 6. Derivative Instruments and Comprehensive Income

The Company uses an interest rate swap agreement to effectively fix the interest rate on variable rate borrowings under the Company's \$100 million revolving credit facility. This interest rate swap agreement is classified as a hedge of a cash flow exposure and accordingly, the initial fair value and subsequent changes therein was reported as a component of other comprehensive loss and subsequently reclassified into earnings when the forecasted cash flows affect earnings. The estimated fair value of the Company's interest rate swap agreement at June 30, 2002 was a

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payable of \$1,166,000 (\$728,000 net of tax benefit). Approximately \$440,000 of the net payable was classified as current on June 30, 2002. A reconciliation of net earnings and total comprehensive income is as follows (in thousands):

|  | Quarter Ended    |                 | Six Months E     |
|--|------------------|-----------------|------------------|
|  | June 30,<br>2002 | July 1,<br>2001 | June 30,<br>2002 |
| Net earnings   | \$9,141          | \$7,372         | \$ 18,876        |
| Cumulative effect of change in<br>accounting principle         | --               | --              | --               |
| Change in unrealized loss from interest<br>rate swap agreement | (225)            | 84              | (145)            |
|  | -----            | -----           | -----            |
| Total comprehensive income                                     | \$8,916          | \$7,456         | \$ 18,731        |
|  | =====            | =====           | =====            |

### 7. Subsequent Event

On July 24, 2002, the Company announced that its Board of Directors has extended until April 30, 2003, its prior authorization for the Company to repurchase up to \$15.0 million in value of its common stock in the open market.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Results of Operations

#### Revenues

The Company currently derives all of its revenues from restaurant sales and franchise revenues. Total revenues increased 13.4% and 11.7% for the quarter and six months ended June 30, 2002, respectively, as compared to the same periods of the prior fiscal year.

Same store sales comparisons for each of the Company's restaurant concepts for the quarter ended June 30, 2002, consist of sales at restaurants opened prior to October 2, 2000 and are calculated using sales prior to being reduced for discounts, coupons, free products or services.

#### *LongHorn Steakhouse:*

Sales in the LongHorn Steakhouse restaurants for the quarter and six months ended June 30, 2002 increased 16.1% and 13.3%, respectively, as compared to the same periods of the prior year. The increases reflect a 10.0% and 10.8% increase in restaurant operating weeks in the quarter and six months ended June 30, 2002, respectively, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 147 LongHorn Steakhouse restaurants at the end of the second quarter of 2001 to 162 at the end of the second quarter of 2002 and an increase in average weekly sales. Average weekly sales for all LongHorn Steakhouse restaurants in the second quarter of 2002 were \$50,100, a 5.6% increase over the comparable period in 2001. Same store sales for the comparable LongHorn Steakhouse restaurants increased 4.9% in the second quarter of 2002 as compared to the same period in 2001, primarily due to an increase in customer counts and, to a lesser extent, an increase in average check.

#### *The Capital Grille:*

Sales in The Capital Grille restaurants for the quarter and six months ended June 30, 2002, increased 8.4% and 11.6%, respectively, as compared to the same periods of the prior fiscal year. The increase reflects a 6.0% and 11.1% increase in restaurant weeks in the quarter and six months ended June 30, 2002, as compared to the same periods of the prior fiscal year, resulting from the opening of one The Capital Grille restaurant near the end of the second quarter of 2001. Average weekly sales for all The Capital Grille restaurants in the second quarter of 2002 were \$111,389, a 2.3% increase from the comparable period in 2001. Same store sales for the comparable The Capital Grille restaurants increased 3.0% in the second quarter of 2002, primarily due to an increase in customer counts.

#### *Bugaboo Creek Steak House:*

Sales in the Bugaboo Creek Steak House restaurants increased for the quarter and six months ended June 30, 2002, by 6.3% and 4.2%, respectively, as compared to the same periods of the prior fiscal year. The increase reflects a 2.8% and 1.4% increase in restaurant weeks in the



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quarter and six months ended June 30, 2002, respectively, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 19 Bugaboo Creek Steak House restaurants at the end of the second quarter of 2001 to 20 restaurants at the end of the second quarter of 2002. Average weekly sales for all Bugaboo Creek Steak House restaurants in the second quarter of 2002 were \$67,502, a 3.4% increase from the comparable period for 2001. Same store sales for the comparable Bugaboo Creek Steak House restaurants in the second quarter of 2002 increased 4.0% as compared to the same period in 2001, primarily due to an increase in customer counts.

### **Franchise Revenue:**

Franchise revenues increased to \$88,000 for the second quarter of 2002, from \$78,000 for the same period in 2001.

### **Costs and Expenses**

Cost of restaurant sales as a percentage of restaurant sales decreased slightly to 36.3% for the second quarter of 2002 from 36.4% for the second quarter of 2001 and remained flat at 36.3% for the six months ended June 30, 2002 as compared to the same period of 2001. Favorable contract pricing on red meat more than offset higher produce costs during the second quarter of 2002. The Company is currently under fixed price contracts with respect to all of its beef products and these contracts are in effect for the remainder of 2002.

Restaurant operating expense as a percentage of restaurant sales remained flat at 43.8% for the second quarter of 2002 and 2001 and increased to 43.3% for the first six months of 2002, as compared to 42.8% for the same period of 2001. This increase as a percentage of restaurant sales was primarily due to an increase in restaurant labor costs. Restaurant depreciation as a percentage of restaurant sales remained essentially flat at 4.0% for the second quarter and 4.0% for the first six months of 2002 as compared to 4.1% and 3.9%, respectively, for the same periods of the prior fiscal year.

Pre-opening expense for the first six months of 2002 was \$1.7 million, a decrease from \$2.6 million in the same period of the prior year. This decrease was due to the nine restaurants opened during the first six months of 2002 as compared to 15 restaurants opened in the same period of the prior year.

General and administrative expenses, as a percentage of total revenues, decreased to 5.7% for the second quarter of 2002, from 6.1% for the same period of 2001, and decreased to 5.7% for the six months ended June 30, 2002 from 6.0% for the same period of 2001. These decreases were principally due to greater leverage of fixed and semi-fixed general and administrative expenses resulting from the higher average weekly sales volumes and a reduction of recruiting, training, and relocation expenses, which ran lower than in the comparable prior period due to an improvement in restaurant management retention in 2002 as compared to 2001.

As a result of the relationships between revenues and expenses discussed above, the Company's operating income increased to \$14.0 million for the second quarter of 2002 and increased to \$29.1 million for the first six months of 2002 as compared to \$11.5 million and \$26.2 million, respectively, for the same periods of the prior year.

Interest expense, net increased to \$421,000 in the second quarter of 2002 from \$383,000 in the same period of the prior year. The increase in interest expense was primarily due to the debt associated with the addition of one capital lease late in the second quarter of 2001.

Minority interest expense decreased to \$120,000 for the second quarter of 2002 from \$155,000 for the same period of the prior year primarily due to the Company's acquisition of two joint venture restaurants from two joint venture partners in 2002.

Income tax expense for the second quarter of 2002 was 32.0% of earnings before income taxes, which brought the effective income tax rate for the first six months of 2002 to 32.5%, which reflects the effective tax rate expected to be applicable for the full 2002 fiscal year. These rates in 2002 compare to rates of 33.0% and 32.8% for the quarter and six months ended July 1, 2001, respectively. The Company's effective income tax rate differs from applying the statutory federal income tax rate of 35% to pre-tax income, primarily due to employee FICA tip tax credits and work opportunity tax credits partially offset by state income taxes.

Net earnings increased to \$9.1 million for the second quarter of 2002 from net earnings of \$7.4 million for the second quarter of 2001 and increased to \$18.9 million for the six months ended June 30, 2002 from \$15.9 million for the six months ended July 1, 2001, reflecting the net effect of the items discussed above.

### **Liquidity and Capital Resources:**

The Company requires capital primarily for the development of new restaurants, selected acquisitions and the remodeling of existing restaurants. During the first six months of 2002 the Company's principal sources of working capital were cash provided by operating activities (\$26.5 million) and proceeds from the exercise of employee stock options (\$3.9 million). For the first six months of 2002, the principal use of working capital was capital expenditures (\$20.0 million) for new and improved facilities. As of June 30, 2002, the Company had \$10.0 million

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outstanding under the Company's \$100 million revolving credit facility.

The Company intends to open 16 to 17 Company-owned LongHorn Steakhouse restaurants, and three Bugaboo Creek Steak House Steak House restaurants in fiscal year 2002. The Company estimates that its capital expenditures for fiscal year 2002 will be approximately \$55-60 million. During the first six months of 2002, the Company opened nine LongHorn Steakhouse restaurants and one Bugaboo Creek Steak House Steak House restaurant. Seven to eight additional LongHorn Steakhouse restaurants and two Bugaboo Creek Steak House Steak House restaurants are expected to be opened by the end of 2002. Management believes that available cash, cash provided by operations, and available borrowings under the Company's \$100 million revolving credit facility will provide sufficient funds to finance the Company's expansion plans through the year 2005.

Since substantially all sales in the Company's restaurants are for cash, and accounts payable are generally due in seven to 30 days, the Company operates with little or negative working capital.

### Forward-Looking Statements

Statements contained in this Report concerning future results, performance or expectations are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All forward-looking statements in this Report are made based upon management's current expectations or beliefs, as well as assumptions made by, and information currently available to, the Company on the date of this Report. All forward-looking statements involve risks and uncertainties that could cause actual results, performance or developments to differ materially from those expressed or implied by those forward-looking statements, such as: the Company's ability to open the anticipated number of new restaurants on time and within budget; the Company's ability to continue to increase same-store sales at anticipated rates; a recession or other negative effect on business dining patterns, or some other negative effect on the economy in general; the effect upon dining patterns and the economy in general, of war, insurrection and/or terrorist attacks on United States soil; unexpected increases in cost of sales or other expenses; and the impact of any negative publicity or public attitudes related to the consumption of beef. Other risks and uncertainties include fluctuations in quarterly operating results, seasonality, guest trends, competition and risks associated with the development and management of new restaurant sites. More information about factors that potentially may affect the Company's results, performance or development is included in the Company's other filings with the Securities and Exchange Commission, including its annual report on Form 10-K for the year ended December 30, 2001, and the Company's press releases and other communications.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

### Interest Rate Risk

As of August 9, 2002, \$15.0 million was outstanding under the Company's \$100 million revolving credit facility. Amounts outstanding under such credit facility bear interest at LIBOR plus a margin of 1.25% to 2.0% (depending on the Company's leverage ratio), or the administrative agent's prime rate of interest plus a margin of 0% to 0.75% (depending on the Company's leverage ratio) at the Company's option. Accordingly, the Company is exposed to the impact of interest rate fluctuations. To achieve the Company's objective of managing its exposure to interest rate changes, the Company from time to time uses interest rate swaps.

The Company has an interest rate swap agreement with a commercial bank, which effectively fixes the interest rate at 6.52%, plus the margin on a national principal amount of \$15.0 million from July 2002 through March 2003, and \$17.5 million from April 2003 through August 2004. The Company is exposed to credit losses on this interest rate swap in the event of counterparty non-performance, but does not anticipate any such losses.

While changes in LIBOR and the administrative agent's prime rate of interest could affect the cost of borrowings under the credit facility in excess of amounts covered by the interest rate swap agreement in the future, the Company does not consider its current exposure to changes in such rates to be material, and the Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's financial condition, results of operations or cash flows would not be material.

### Investment Portfolio

The Company invests portions of its excess cash, if any, in highly liquid investments. At June 30, 2002, the Company had \$31.3 million invested in high-grade overnight repurchase agreements.

## Part II - Other Information

**Item 1. Legal Proceedings**

None

**Item 2. Changes in Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Securities Holders**

The 2002 Annual Meeting of Shareholders of the Company was held on May 13, 2002 at which the following proposals were voted upon by the shareholders: (i) election of three Class I directors to serve until the 2005 Annual Meeting of Shareholders and one Class II director to serve until the 2003 Annual Meeting of Shareholders; (ii) approval of the RARE Hospitality International, Inc. 2002 Stock Option Plan; and (iii) ratification of the selection of KPMG LLP as the Company's independent auditors for the fiscal year ending December 29, 2002. Holders of 21,717,633 shares of the Company's common stock were entitled to vote at that meeting.

The shareholders elected three Class I directors with a term expiring at the 2005 Annual Meeting and one Class II director with a term expiring at the 2003 Annual Meeting. As to each of the following named individuals, the holders of the indicated number of shares of the Company's common stock voted for his election, and the holders of the indicated number of shares withheld authority to vote for election. There were no broker non-votes.

|                         | Shares Voting | Shares Withholding |
|-------------------------|---------------|--------------------|
| Class I                 | For:          | Authority:         |
| Don L. Chapman          | 18,239,514    | 749,382            |
| Lewis H. Jordan         | 18,230,812    | 758,084            |
| George W. McKerrow, Sr. | 18,111,165    | 877,731            |
| Class II                |               |                    |
| Dick R. Holbrook        | 18,238,412    | 750,484            |

Philip J. Hickey, Jr., Carolyn H. Byrd, Ronald W. San Martin and Eugene I. Lee, Jr. continued their terms as directors.

The RARE Hospitality International, Inc. 2002 Stock Option Plan was approved as follows: 16,035,088 shares voted in favor of approval; 2,875,331 shares voted against approval; and 78,477 shares abstained. There were no broker non-votes.

The selection of KPMG LLP as independent auditors for the Company for the fiscal year ending December 29, 2002 was ratified as follows: 18,242,127 shares voted in favor of ratification; 745,305 shares voted against the ratification; and 1,464 shares abstained. There were no broker non-votes.

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

- (a) Exhibits Filed.
  - 99.1 Written Statement of the Chief Executive Officer
  - 99.2 Written Statement of the Chief Financial Officer

- (b) Reports filed on Form 8-K.

None

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

/s/ Philip J. Hickey, Jr.  
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Philip J. Hickey, Jr.  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)

/s/ W. Douglas Benn  
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W. Douglas Benn  
Executive Vice President, Finance  
and Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

Date: August 12, 2002  
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