

RARE HOSPITALITY INTERNATIONAL INC
Form 10-Q
August 13, 2003

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

FORM 10-Q

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

For the Quarterly Period Ended June 29, 2003

Commission file number 0-19924

RARE Hospitality International, Inc.

(Exact name of registrant as specified in its charter)

Internal Revenue Service - Employer Identification No. 58-1498312

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

(Registrant's telephone number, including area code)

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes **No**

As of August 8, 2003, there were 22,322,549 shares of common stock of the Registrant outstanding.

RARE Hospitality International, Inc. and Subsidiaries

Index

Part I - Financial Information

Item 1. Consolidated Financial Statements:

Edgar Filing: RARE HOSPITALITY INTERNATIONAL INC - Form 10-Q

Consolidated Balance Sheets as of
June 29, 2003 and December 29, 2002

Consolidated Statements of Earnings
for the quarters and six months ended
June 29, 2003 and June 30, 2002

Consolidated Statement of Shareholders' Equity
for the six months ended June 29, 2003

Condensed Consolidated Statements of Cash Flows
for the six months ended June 29, 2003
and June 30, 2002

Notes to the Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	5
Item 3. Quantitative and Qualitative Disclosures About Market Risk	9
Item 4. Controls and Procedures	12
Part II - Other Information	1
Item 1. Legal Proceedings	1
Item 2. Changes in Securities and Use of Proceeds	1
Item 3. Defaults Upon Senior Securities	1
Item 4. Submission of Matters to a Vote of Securities Holders	13
Item 5. Other Information	1
Item 6. Exhibits and Reports on Form 8-K	1
Signatures	1

Part I. Financial Information

Item 1. Financial Statements

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

	June 29, 2003	December 29, 2002
Assets	----	----
Current assets:		
Cash and cash equivalents	\$ 9,973	\$ 13,732
Short-term investments	22,963	17,735
Accounts receivable	7,202	6,576
Inventories	15,203	14,309
Prepaid expenses	3,533	3,477

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

Edgar Filing: RARE HOSPITALITY INTERNATIONAL INC - Form 10-Q

Refundable income taxes	4,903	4,124
Deferred income taxes	4,281	4,484
	-----	-----
Total current assets	68,058	64,437
Property & equipment, less accumulated depreciation	321,854	299,773
Goodwill, net	19,187	19,187
Other	4,145	3,510
	-----	-----
Total assets	\$413,244	\$386,907
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 15,489	\$ 17,727
Accrued expenses	43,004	44,015
Current installments of obligations under capital leases	111	78
	-----	-----
Total current liabilities	58,604	61,820
Deferred tax liability	4,363	1,138
Obligations under capital leases, net of current installments	22,336	22,406
	-----	-----
Total liabilities	85,303	85,364
Minority interest	1,419	1,411
Shareholders' equity:		
Preferred stock	-	-
Common stock	197,826	191,174
Unearned compensation-restricted stock	(1,302)	(1,124)
Retained earnings	134,987	112,446
Treasury stock at cost; 195,000 and 95,000 shares in 2003 and 2002, respectively	(4,989)	(2,364)
	-----	-----
Total shareholders' equity	326,522	300,132
Total liabilities and shareholders' equity	\$413,244	\$386,907
	=====	=====

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 29, 2003	June 30, 2002	June 29, 2003
Revenues:			
Restaurant sales:			
LongHorn Steakhouse	\$121,661	\$104,559	\$240,320
The Capital Grille	24,653	21,721	48,107
Bugaboo Creek Steak House	20,249	17,080	40,484
Specialty concepts	1,959	1,938	3,669
Total restaurant sales	168,522	145,298	332,580

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

Edgar Filing: RARE HOSPITALITY INTERNATIONAL INC - Form 10-Q

Franchise revenues	98	88	189
Total revenues	168,620	145,386	332,769
Costs and expenses:			
Cost of restaurant sales	60,518	52,781	119,158
Operating expenses - restaurants	73,591	63,650	144,217
Depreciation and amortization			
- restaurants	6,460	5,841	12,717
Pre-opening expense	1,668	825	2,725
General and administrative expenses	10,024	8,312	19,895
Total costs and expenses	152,261	131,409	298,712
Operating income	16,359	13,977	34,057
Interest expense, net	213	421	459
Minority interest	82	120	200
Earnings before income taxes	16,064	13,436	33,398
Income tax expense	5,224	4,295	10,857
Net earnings	\$10,840	\$9,141	\$22,541
Basic earnings per common share	\$0.49	\$0.42	\$1.03
Diluted earnings per common share	\$0.47	\$0.40	\$0.97
Weighted average common shares outstanding:			
Basic	22,061	21,732	21,987
Diluted	23,175	23,000	23,133

See accompanying notes to consolidated financial statements

RARE Hospitality International, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity
For the quarter ended June 29, 2003
(In thousands, unaudited)

	Common Stock		Restricted Stock	Retained Earnings	Treasury Stock	To Shareh Equ
	Shares	Amount				
Balance, December 29, 2002	22,066	\$191,174	\$(1,124)	\$112,446	\$ (2,364)	\$300
Comprehensive income:						
Net earnings	--	--	--	22,541	--	22
Total comprehensive income						22
Amortization of restricted stock	--	--	312	--	--	
Purchase of common stock for treasury	--	--	--	--	(2,625)	(2)
Issuance of shares pursuant to restricted stock award	18	490	(490)	--	--	
Issuance of shares pursuant to exercise of stock options	362	3,816	--	--	--	3
Tax benefit of stock options exercised	--	2,346	--	--	--	2
Balance, June 29, 2003	22,446	\$197,826	\$(1,302)	\$134,987	\$ (4,989)	\$326

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 29,	----- J
	2003	

Cash Flows from operating activities:		
Net earnings	\$ 22,541	
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	13,494	
Changes in working capital accounts	(5,580)	
Minority interest	200	
Deferred tax (benefit) expense	3,428	
Issuance of common stock to employee retirement plans	--	

Net cash provided by operating activities	34,083	

Cash flows from investing activities:		
Purchase of property and equipment	(35,241)	
Purchase of short-term investments	(5,228)	

Net cash used by investing activities	(40,469)	

Cash flows from financing activities:		
Distributions to minority partners	(192)	
Increase (decrease) in bank overdraft included in accounts payable	1,665	
Principal payments on capital leases	(37)	
Purchase of common stock for treasury	(2,625)	
Proceeds from exercise of stock options	3,816	

Net cash provided by financing activities	2,627	

Net (decrease) increase in cash and cash equivalents	(3,759)	
Cash and cash equivalents, beginning of period	13,732	

Cash and cash equivalents, end of period	\$ 9,973	
	=====	
Supplemental disclosure of cash flow information		
Cash paid for income taxes	\$ 6,285	
	=====	
Cash paid for interest	\$ 108	
	=====	

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 29, 2003 and December 29, 2002 and for the quarters and six months ended June 29, 2003 and June 30, 2002 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 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 29, 2002.

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 29, 2003 and June 30, 2002 each contained 13 weeks and 26 weeks, respectively.

On July 23, 2003, the Company's Board of Directors approved a 3-for-2 stock split, which will be effected in the form of a 50% stock dividend to shareholders of record as of the close of business on August 12, 2003. The new stock certificates will be distributed on September 2, 2003. Although the financial statements and related footnotes included herein have not been adjusted to reflect the stock split, beginning in the third quarter of fiscal year 2003, operating results will be retroactively restated to give effect for the stock split for all periods presented.

The table below reflects the Company's earnings per share on a comparative pre-split and post-split basis:

	Quarter Ended		Six Months Ended	
	June 29, 2003	June 30, 2002	June 29, 2003	June 2002
Net earnings (in thousands)	\$10,840	\$9,141	\$22,541	\$18,541
Earnings per share:				
Basic - pre-split	\$ 0.49	\$ 0.42	\$ 1.03	\$ 0.85
Basic - post-split	\$ 0.33	\$ 0.28	\$ 0.68	\$ 0.57
Diluted - pre-split	\$ 0.47	\$ 0.40	\$ 0.97	\$ 0.80
Diluted - post-split	\$ 0.31	\$ 0.26	\$ 0.65	\$ 0.54

2. New Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145). SFAS Nos. 4 and 64 required gains and losses from extinguishment of debt to be classified as extraordinary items. SFAS 145 rescinds this requirement and stipulates that gains or losses on extinguishment of debt would have to meet the criteria of APB Opinion No. 30 to be classified as an extraordinary item. In addition, any extraordinary gains or losses on extinguishment of debt in prior periods presented would require reclassification. The Company adopted SFAS 145 as of the beginning of fiscal 2003. The initial adoption of SFAS 145 did not have an impact on the Company's consolidated results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized only when the liability is incurred and measured at fair value. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The initial adoption of this statement did not have an impact on the Company's consolidated results of operations or financial position.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. Interpretation No. 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a

Edgar Filing: RARE HOSPITALITY INTERNATIONAL INC - Form 10-Q

liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company adopted the provisions of Interpretation No. 45 as of the beginning of fiscal 2003. The Company does not have any guarantees that would require additional disclosure as required by Interpretation No. 45.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148). SFAS 148 amends SFAS 123, Accounting for Stock-Based Compensation , and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require more prominent and frequent disclosures in financial statements about the effects of stock-based compensation. The Company adopted the disclosure provisions of SFAS 148 as of the beginning of fiscal 2003.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The Company does not have any interests that would change the current consolidated reporting entity or require additional disclosures required by Interpretation No. 46.

3. Shareholders' Equity and Stock Based Compensation

During the first quarter of 2003, the Company purchased 100,000 shares of its common stock for a total purchase price of approximately \$2,625,000 (average price of \$26.25 per share).

The Company has stock option plans that provide for the granting of incentive and non-qualified stock options to employees, officers, directors, consultants, and advisors. Under the plans, options are granted at an exercise price equal to the fair market value of the underlying common stock on the date of grant. The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans as permitted under SFAS 123 and SFAS 148. Accordingly, no compensation cost has been recognized for the Company's stock option plans. Had the compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the fair value methodology of SFAS 123, the Company's net income and earnings per share would have been as follows:

	Quarter Ended		Six Months
	June 29, 2003	June 30, 2002	June 29, 2003
Net earnings, as reported	\$10,840	\$9,141	\$22,541
Stock-based compensation expense determined under fair value method for all awards, net of tax	958	768	1,793
Proforma net earnings	\$9,882	\$8,373	\$20,748
Earnings per share:			
Basic - as reported	\$ 0.49	\$ 0.42	\$ 1.03
Basic - proforma	\$ 0.45	\$ 0.39	\$ 0.94
Diluted - as reported	\$ 0.47	\$ 0.40	\$ 0.97
Diluted - proforma	\$ 0.43	\$ 0.36	\$ 0.90

4. Long-Term Debt

At June 29, 2003, no borrowings were outstanding under the Company's \$100.0 million revolving credit agreement, and the Company was in compliance with all of its compliance provisions.

5. Income Taxes

Edgar Filing: RARE HOSPITALITY INTERNATIONAL INC - Form 10-Q

Income tax expense for the second quarter and first six months of 2003 has been provided for based on an estimated 32.5% effective tax rate expected to be applicable for the full 2003 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.

6. 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 29, 2003	June 30, 2002	June 29, 2003
	----	----	----
Basic weighted average shares outstanding	22,061	21,732	21,987
Dilutive effect of stock options	1,000	1,178	1,034
Dilutive effect of restricted stock	114	90	112
	-----	-----	-----
Diluted weighted average shares outstanding	23,175	23,000	23,133
	=====	=====	=====
Net earnings	\$ 10,840	\$ 9,141	\$ 22,541
	=====	=====	=====
Basic earnings per common share	\$ 0.49	\$ 0.42	\$ 1.03
	=====	=====	=====
Diluted earnings per common share	\$ 0.47	\$ 0.40	\$ 0.97
	=====	=====	=====

7. Derivative Instruments and Comprehensive Income

In 2002 and prior years, the Company used an interest rate swap agreement to effectively fix the interest rate on variable rate borrowings under the Company's \$100.0 million revolving credit facility. This interest rate swap agreement was classified as a hedge of a cash flow exposure and, accordingly, the initial fair value and subsequent changes therein were reported as a component of other comprehensive loss and subsequently reclassified into earnings when the forecasted cash flows affect earnings. Concurrent with the November 2002 amendment and extension of the Company's \$100.0 million revolving credit facility, all amounts outstanding under the credit facility were repaid and the interest rate swap agreement was terminated.

For the quarter and six months ended June 29, 2003, there was no difference between the Company's net earnings and comprehensive income. A reconciliation of net earnings and total comprehensive income for the fiscal 2002 periods is as follows (in thousands):

	Quarter	Six Months
	Ended June 30, 2002	Ended June 30, 2002
	----	----
Net earnings	\$ 9,141	\$ 18,876
Change in unrealized loss from interest Rate swap	(225)	(145)
	-----	-----
Total comprehensive income	\$ 8,916	\$ 18,731
	=====	=====

8. Subsequent Events

On July 23, 2003, the Company's Board of Directors approved a 3-for-2 stock split, which will be effected in the form of a 50% stock dividend to shareholders of record as of the close of business on August 12, 2003. The new stock certificates will be distributed on September 2, 2003. The

Edgar Filing: RARE HOSPITALITY INTERNATIONAL INC - Form 10-Q

financial statements and related footnotes included herein have been adjusted retroactively and restated to give effect for the stock split for all periods presented.

Additionally, on July 23, 2003, the Company's Board of Directors authorized the Company to purchase up to an additional \$25.0 million of its common stock from time-to-time through May 2005.

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 16.0% and 14.5% for the quarter and six months ended June 29, 2003, 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 29, 2003, consist of sales at restaurants opened prior to October 1, 2001.

LongHorn Steakhouse:

Sales in the LongHorn Steakhouse restaurants for the quarter and six months ended June 29, 2003 increased 16.4% and 15.0%, respectively, as compared to the same periods of the prior year. The increases reflect a 8.9% and 9.1% increase in restaurant operating weeks in the quarter and six months ended June 29, 2003, respectively, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 162 LongHorn Steakhouse restaurants at the end of the second quarter of 2002 to 177 at the end of the second quarter of 2003 and an increase in average weekly sales. Average weekly sales for all LongHorn Steakhouse restaurants in the second quarter of 2003 were approximately \$53,500, a 6.8% increase over the comparable period in 2002. Same store sales for the comparable LongHorn Steakhouse restaurants increased 4.9% in the second quarter of 2003 as compared to the same period in 2002, due to approximately equal increases in customer counts and average check.

The Capital Grille:

Sales in The Capital Grille restaurants for the quarter and six months ended June 29, 2003, increased 13.5% and 10.4%, respectively, as compared to the same periods of the prior fiscal year. The increase reflects i) a 4.1% and 2.1% increase in restaurant operating weeks for the quarter and six months ended June 29, 2003, as compared to the same periods of the prior fiscal year, resulting from the opening of one The Capital Grille restaurant during the second quarter of 2003 and ii) an increase in average weekly sales. Average weekly sales for all The Capital Grille restaurants in the second quarter of 2003 were approximately \$121,400, a 9.0% increase from the comparable period in 2002. Same store sales for the comparable The Capital Grille restaurants increased 10.2% in the second quarter of 2003, 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 29, 2003, by 18.6% and 17.9%, respectively, as compared to the same periods of the prior fiscal year. The increase reflects i) a 14.6% and 15.2% increase in restaurant weeks in the quarter and six months ended June 29, 2003, respectively, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 20 Bugaboo Creek Steak House restaurants at the end of the second quarter of 2002 to 23 restaurants at the end of the second quarter of 2003 and ii) an increase in average weekly sales. Average weekly sales for all Bugaboo Creek Steak House restaurants in the second quarter of 2003 were approximately \$69,600, a 3.5% increase from the comparable period for 2002. Same store sales for the comparable Bugaboo Creek Steak House restaurants in the second quarter of 2003 increased 3.7% as compared to the same period in 2002, due primarily to an increase in average check and, to a lesser extent, an increase in customer counts.

Franchise Revenue:

Franchise revenues increased to \$98,000 for the second quarter of 2003, from \$88,000 for the same period in 2002 due to sales increases at the three franchised LongHorn Steakhouse restaurants in Puerto Rico.

Costs and Expenses

Cost of restaurant sales as a percentage of restaurant sales decreased to 35.9% for the second quarter of 2003, from 36.3% for the second quarter of 2002, and decreased to 35.8% for the first six months of 2003 as compared to 36.3% during the same period of 2002. Favorable contract pricing on red meat more than offset higher seafood costs related to the LongHorn steak and lobster promotion. The Company is currently under fixed price contracts with respect to approximately 90% of its beef products and these contracts are in effect for the remainder of 2003.

Restaurant operating expense as a percentage of restaurant sales decreased slightly to 43.7% for the second quarter of 2003 from 43.8% for the second quarter of 2002 and increased slightly to 43.4% for the first six months of 2003, as compared to 43.3% for the same period of 2002. The fluctuations in restaurant operating expenses as a percentage of restaurant sales for the 2003 periods as compared to the prior year are primarily due to the favorable leveraging effect of increases in average weekly sales offset by higher utility costs.

Restaurant depreciation as a percentage of restaurant sales decreased to 3.8% for both the second quarter and first six months of 2003 as compared to 4.0% for the same periods of the prior fiscal year due to the favorable leveraging effect of higher average weekly sales.

Pre-opening expense for the second quarter of 2003 was \$1,668,000, an increase of \$843,000 from the same period of the prior year. This increase was due primarily to the five LongHorn Steakhouse restaurants, one Bugaboo Creek Steak House restaurant and one The Capital Grille restaurant opened during the second quarter of 2003 as compared to only four LongHorn Steakhouse restaurants opened in the same period of the prior year. The increase in pre-opening expense for the first six months of 2003 as compared to the same period of the prior year was primarily due to the accelerated expenditures in the second quarter of 2003.

General and administrative expenses, as a percentage of total revenues, increased to 5.9% for the second quarter of 2003 from 5.7% for the same period in 2002, and increased to 6.0% for the first six months of 2003 from 5.7% for the same period of 2002. These increases were principally due to the full period impact of new hires made in 2002 and full bonus accruals in the 2003 periods as compared to only partial bonus accruals in the 2002 periods, partially offset by greater leverage of fixed and semi-fixed general and administrative expenses resulting from higher average weekly sales volumes.

As a result of the relationships between revenues and expenses discussed above, the Company's operating income increased to \$16.4 million for the second quarter of 2003 and increased to \$34.1 million for the first six months of 2003 as compared to \$14.0 million and \$29.1 million, respectively, for the same periods of the prior year.

Interest expense, net decreased to \$213,000 in the second quarter of 2003, and \$459,000 for the first six months of 2003, from \$421,000 and \$870,000 during the same periods of the prior year, due to the November 2002 repayment of the \$10.0 million, then outstanding under the Company's revolving credit facility during the 2002 periods. The Company had no amount outstanding under the revolving credit facility during 2003.

Minority interest expense decreased to \$82,000 for the second quarter and \$200,000 for the first six months of 2003, from \$120,000 and \$300,000 for the same periods 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 and first six months of 2003 was 32.5% of earnings before income taxes, which reflects the effective tax rate expected to be applicable for the full 2003 fiscal year. These rates in 2003 compare to rates of 32.0% for the second quarter of 2002, which brought the effective income tax rate for the first six months of 2002 to 32.5%, which reflected the effective income tax rate then expected for the full 2002 fiscal year. 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 \$10.8 million for the second quarter of 2003 from net earnings of \$9.1 million for the second quarter of 2002 and increased to \$22.5 million for the six months ended June 29, 2003 from \$18.9 million for the six months ended June 30, 2002, 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 2003 the Company's principal sources of working capital were cash provided by operating activities (\$34.1 million) and proceeds from the exercise of employee stock options (\$3.8 million). For the first six months of 2003, the principal uses of working capital were capital expenditures (\$35.2 million) for new and improved facilities, the purchase of short-term investments (\$5.2 million) and the purchase of common stock for treasury (\$2.6 million). As of June 29, 2003, the Company had no borrowings outstanding under the Company's \$100.0 million revolving credit facility.

Edgar Filing: RARE HOSPITALITY INTERNATIONAL INC - Form 10-Q

The Company intends to open an aggregate 20-21 Company-owned LongHorn Steakhouse restaurants, three Bugaboo Creek Steak House restaurants and one or two The Capital Grille restaurants in fiscal year 2003. The Company estimates that its capital expenditures for fiscal year 2003 will be approximately \$75-80 million. During the first six months of 2003, the Company opened 13 LongHorn Steakhouse restaurants, one The Capital Grille restaurant and one Bugaboo Creek Steak House restaurant. As of August 12, 2003, the Company has opened three additional LongHorn Steakhouse restaurants in the third quarter 2003. Management believes that available cash, cash provided by operations, and available borrowings under the Company's \$100.0 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 29, 2002, its quarterly report on Form 10-Q for the quarter ended March 30, 2003, and the Company's press releases and other communications.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company may be exposed to market risk from changes in interest rates on debt.

As of June 29, 2003, the Company had no borrowings outstanding under its \$100.0 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 may be exposed to the impact of interest rate fluctuations. To achieve the Company's objective of managing its exposure to interest rate changes, the Company may from time to time use interest rate swaps.

Investment Portfolio

The Company invests portions of its excess cash, if any, in highly liquid investments. At June 29, 2003, the Company had \$8.0 million invested in high-grade overnight repurchase agreements, and \$23.0 million in short-term investments in the form of Federal, state and municipal bonds. As of June 29, 2003, the Company has classified all short-term investments as trading securities.

Item 4. Controls and Procedures

In accordance with the Securities Exchange Act Rules 13a-15 and 15d-15, the Company's management, under the supervision of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Company concluded that the design and operation of its disclosure controls and procedures were effective. There have been no significant changes in internal controls over financial reporting or in other factors that could significantly affect internal controls over financial reporting subsequent to the date of such evaluation.

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 2003 Annual Meeting of Shareholders of the Company was held on May 12, 2003 at which the following proposals were voted upon by the shareholders: (i) election of three Class II directors to serve until the 2006 Annual Meeting of Shareholders; (ii) approval of the RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan; and (iii) ratification of the selection of KPMG LLP as the Company's independent auditors for the fiscal year ending December 28, 2003. Holders of 22,076,617 shares of the Company's common stock were entitled to vote at that meeting. The shareholders elected three Class II directors with a term expiring at the 2006 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 for:	Shares Withholding Authority:
Carolyn H. Byrd	18,567,061	1,145,845
Philip J. Hickey, Jr.	18,886,692	826,214
Dick R. Holbrook	19,288,290	424,616

Ronald W. San Martin, Eugene I. Lee, Jr., Don L. Chapman, Lewis H. Jordan and George W. McKerrow, Sr. continued their terms as directors. The RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan was approved as follows: 15,777,695 shares voted in favor of approval; 3,843,826 shares voted against approval; and 91,384 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 28, 2003 was ratified as follows: 19,277,127 shares voted in favor of ratification; 428,925 shares voted against the ratification; and 6,853 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.

- 10.1 Employment Agreement dated April 28, 2003 between the Registrant and Philip J. Hickey, Jr.
- 10.2 Employment Agreement dated April 28, 2003 between the Registrant and Eugene I. Lee.
- 10.3 Employment Agreement dated April 28, 2003 between the Registrant and W. Douglas Benn.
- 10.4 Employment Agreement dated April 28, 2003 between the Registrant and Joia M. Johnson.
- 10.5 Employment Agreement dated April 28, 2003 between the Registrant and Thomas W. Gathers.
- 32.1 Written Statement of the Chief Executive Officer of RARE Hospitality International, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Written Statement of the Chief Financial Officer of RARE Hospitality International, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(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.

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

/s/ W. Douglas Benn

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

Date: August 12, 2003

CERTIFICATIONS

I, Philip J. Hickey, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of RARE Hospitality International, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls

Edgar Filing: RARE HOSPITALITY INTERNATIONAL INC - Form 10-Q

subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

August 12, 2003

/s/ PHILIP J. HICKEY, JR.

Philip J. Hickey, Jr.
Chairman of the Board and
Chief Executive Officer

I, W. Douglas Benn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RARE Hospitality International, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

August 12, 2003

/s/ W. DOUGLAS BENN

W. Douglas Benn
Executive Vice President, Finance and
Chief Financial Officer