

RARE HOSPITALITY INTERNATIONAL INC
Form 10-Q
August 05, 2004

**UNITED STATES
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 27, 2004

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 July 30, 2004, there were 33,881,221 shares of common stock of the Registrant outstanding.

RARE Hospitality International, Inc. and Subsidiaries

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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)

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Assets	June 27, 2004	December 28, 2003
-----	----	----
Current assets:		
Cash and cash equivalents	\$ 8,265	\$ 20,508
Short-term investments	26,251	24,036
Accounts receivable	8,803	8,730
Inventories	17,545	16,558
Prepaid expenses	4,617	5,039
Refundable income taxes	3,420	2,162
Deferred income taxes	6,901	4,887
	-----	-----
Total current assets	75,802	81,920
Property & equipment, less accumulated depreciation	397,418	354,448
Goodwill, net	19,187	19,187
Other	11,107	8,987
	-----	-----
Total assets	\$503,514 =====	\$464,542 =====
Liabilities and Shareholders' Equity		

Current liabilities:		
Accounts payable	\$ 16,155	\$ 18,729
Accrued expenses	52,878	55,218
Current installments of obligations under capital leases	205	124
	-----	-----
Total current liabilities	69,238	74,071
Obligations under capital leases, net of current installments	38,995	27,462
Deferred income taxes	11,101	5,452
Other	5,439	4,131
	-----	-----
Total liabilities	124,773	111,116
Minority interest	1,363	1,371
Shareholders' equity:		
Preferred stock	--	--
Common stock	209,182	203,624
Unearned compensation-restricted stock	(1,454)	(1,303)
Retained earnings	182,827	154,723
Treasury stock at cost; 593,000 shares in 2004 and 293,000 shares in 2003	(13,177)	(4,989)
	-----	-----
Total shareholders' equity	377,378	352,055
	-----	-----
Total liabilities and shareholders' equity	\$503,514 =====	\$464,542 =====

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 Ended	
	June 27, 2004	June 29, 2003	June 27, 2004	June 29, 2003
Revenues:				
Restaurant sales:				
LongHorn Steakhouse	\$147,183	\$121,661	\$292,342	\$240,000
The Capital Grille	31,113	24,653	60,950	48,000
Bugaboo Creek Steak House	23,615	20,249	47,901	40,000
Specialty concepts	2,052	1,959	3,788	3,000
Total restaurant sales	203,963	168,522	404,981	332,000
Franchise revenues	101	98	200	
Total revenues	204,064	168,620	405,181	332,000
Costs and expenses:				
Cost of restaurant sales	75,152	60,518	147,726	119,000
Operating expenses - restaurants	87,911	73,591	173,584	144,000
Depreciation and amortization				
- restaurants	7,457	6,460	14,636	12,000
Pre-opening expense	1,612	1,668	3,206	2,000
General and administrative expenses	11,746	10,024	23,406	19,000
Total costs and expenses	183,878	152,261	362,558	298,000
Operating income	20,186	16,359	42,623	34,000
Interest expense, net	207	213	323	
Minority interest	92	82	201	
Earnings before income taxes	19,887	16,064	42,099	33,000
Income tax expense	6,610	5,224	13,995	10,000
Net earnings	\$ 13,277	\$ 10,840	\$ 28,104	\$ 22,000
Basic earnings per common share	\$ 0.39	\$ 0.33	\$ 0.84	\$ 0.33
Diluted earnings per common share	\$ 0.37	\$ 0.31	\$ 0.79	\$ 0.31
Weighted average common shares outstanding:				
Basic	33,646	33,092	33,618	32,000
Diluted	35,585	34,763	35,551	34,000

See accompanying notes to consolidated financial statements

RARE Hospitality International, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity
And Comprehensive Income
For the six months ended June 27, 2004
(In thousands, unaudited)

	Common Stock		Restricted Stock	Retained Earnings	Treasury Stock	Tot Shareh Equ
	Shares	Amount				
Balance, December 28, 2003	34,042	\$203,624	\$ (1,303)	\$154,723	\$ (4,989)	\$35
Net earnings and comprehensive income	--	--	--	28,104	--	2
Amortization of restricted stock	--	--	509	--	--	--
Purchase of common stock for treasury	--	--	--	--	(8,188)	(
Issuance of shares pursuant to restricted stock award	26	660	(660)	--	--	--
Issuance of shares pursuant to exercise of stock options	297	3,031	--	--	--	--
Tax benefit of stock options exercised	--	1,867	--	--	--	--
Balance, June 27, 2004	34,365	\$209,182	\$ (1,454)	\$182,827	\$ (13,177)	\$37

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 27, 2004	June 29, 2003
Cash Flows from operating activities:		
Net earnings	\$ 28,104	\$ 22,541
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	15,856	13,494
Changes in working capital accounts	(8,727)	(5,580)
Minority interest	201	200
Deferred tax expense	3,635	3,428
Purchase of short-term investments	(2,215)	(5,228)
Net cash provided by operating activities	36,854	34,083

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Cash flows from investing activities:		
Purchase of property and equipment	(46,635)	(35,241)
	-----	-----
Net cash used by investing activities	(46,635)	(35,241)
	-----	-----
Cash flows from financing activities:		
Distributions to minority partners	(209)	(192)
Increase in bank overdraft included in accounts payable	2,958	1,665
Principal payments on capital leases	(54)	(37)
Purchase of common stock for treasury	(8,188)	(2,625)
Proceeds from exercise of stock options	3,031	3,816
	-----	-----
Net cash (used in) provided by financing activities	(2,462)	2,627
	-----	-----
Net (decrease) in cash and cash equivalents	(12,243)	(3,759)
Cash and cash equivalents, beginning of period	20,508	13,732
	-----	-----
Cash and cash equivalents, end of period	\$ 8,265	\$ 9,973
	=====	=====
Supplemental disclosure of cash flow information		
Cash paid for income taxes	\$ 9,745	\$ 6,285
	=====	=====
Cash paid for interest	\$ 1,284	\$ 1,007
	=====	=====
Supplemental disclosure of non-cash financing and investing activities:		
Assets acquired under capital lease	\$ 11,668	\$ --
	=====	=====

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 27, 2004 and December 28, 2003 and for the quarters and six months ended June 27, 2004 and June 29, 2003 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. Certain amounts for the prior year have been reclassified to conform with the current year's presentation. 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 28, 2003.

The Company records revenues for normal recurring sales upon the performance of services. Revenues from the sales of franchises are recognized as income when substantially all of the Company's material obligations under the franchise agreement have been performed. Continuing royalties, which are a percentage of net sales of franchised restaurants, are accrued as income when earned.

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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 27, 2004, and June 29, 2003 each contained 13 weeks and 26 weeks, respectively.

2. New Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, which addresses consolidation by business enterprises of variable interest entities (VIEs) either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB issued modifications to FIN 46 (Revised Interpretations) resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. However, the Revised Interpretations must be applied no later than the first quarter of 2004. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. Non-Special Purpose Entities created prior to February 1, 2003, should be accounted for under the revised interpretation s provisions no later than the first quarter of fiscal 2004. As of the beginning of 2004, the Company adopted FIN 46 and the Revised Interpretations, neither of which had an impact on the Company s consolidated financial statements.

3. Shareholders' Equity and Stock Based Compensation

During the second quarter of 2004, the Company purchased 300,000 shares of its common stock for a total purchase price of approximately \$8,188,000 (average price of \$27.29 per share). As of June 27, 2004, approximately \$16,812,000 remained available under the Company s \$25.0 million share repurchase authorization.

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 (in thousands, except per share data):

	Quarter Ended		Six Months Ended	
	June 27, 2004	June 29, 2003	June 27, 2004	June 29, 2003
	----	----	----	----
Net earnings, as reported	\$ 13,277	\$ 10,840	\$ 28,104	\$ 22,541
Stock-based compensation expense determined under fair value method for all awards, net of tax	1,098	958	2,087	1,793
	-----	-----	-----	-----
Proforma net earnings	\$ 12,179	\$ 9,882	\$ 26,017	\$ 20,748
	=====	=====	=====	=====
Earnings per share:				
Basic - as reported	\$ 0.39	\$ 0.33	\$ 0.84	\$ 0.68
	=====	=====	=====	=====
Basic - proforma	\$ 0.36	\$ 0.30	\$ 0.77	\$ 0.63
	=====	=====	=====	=====
Diluted - as reported	\$ 0.37	\$ 0.31	\$ 0.79	\$ 0.65
	=====	=====	=====	=====
Diluted - proforma	\$ 0.35	\$ 0.29	\$ 0.74	\$ 0.61
	=====	=====	=====	=====

4. Long-Term Debt

At June 27, 2004, no borrowings were outstanding under the Company s \$100 million revolving credit agreement, and the Company was in compliance with all of its compliance provisions. Interest expense is reported net of interest income, which equated to \$67,000 and \$96,000 for

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the second quarter of 2004 and 2003, respectively and to \$187,000 for the first six months of both 2004 and 2003. Interest capitalized in the second quarter of 2004 and 2003 was \$413,000 and \$274,000, respectively, and was \$829,000 and \$504,000, for the first six months of 2004 and 2003, respectively.

5. Income Taxes

Income tax expense for the second quarter and first six months of 2004 has been provided for based on an estimated 33.25% effective tax rate expected to be applicable for the full 2004 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 Ended	
	June 27, 2004	June 29, 2003	June 27, 2004	June 29, 2003
Basic weighted average shares outstanding	33,646	33,092	33,618	32,918
Dilutive effect of stock options	1,727	1,500	1,722	1,500
Dilutive effect of restricted stock	212	171	211	171
Diluted weighted average shares outstanding	35,585	34,763	35,551	34,763
Net earnings	\$ 13,277	\$ 10,840	\$ 28,104	\$ 22,500
Basic earnings per common share	\$ 0.39	\$ 0.33	\$ 0.84	\$ 0.66
Diluted earnings per common share	\$ 0.37	\$ 0.31	\$ 0.79	\$ 0.64

7. Comprehensive Income

For the quarter and six months ended June 27, 2004, there was no difference between the Company's net earnings and comprehensive income.

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 21.0% and 21.8% for the quarter and six months ended June 27, 2004, 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 27, 2004, consist of sales at restaurants opened prior to September 30, 2002.

LongHorn Steakhouse:

Sales in the LongHorn Steakhouse restaurants for the quarter and six months ended June 27, 2004 increased 21.0% and 21.6%, respectively, as compared to the same periods of the prior year. The increase reflects (i) a 13.5% and 12.3% increase in restaurant operating weeks in the quarter and six months ended June 27, 2004, respectively, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 177 LongHorn Steakhouse restaurants at the end of the second quarter of 2003 to 201 at the end of the second quarter of 2004 and (ii) an increase in average weekly sales. Average weekly sales for all LongHorn Steakhouse restaurants in the second quarter of 2004 were \$57,045, a 6.6% increase over the comparable period in 2003. Same store sales for the comparable LongHorn Steakhouse restaurants increased 6.0% in the second quarter of 2004 as compared to the same period in 2003, due primarily to an increase in average check.

The Capital Grille:

Sales in The Capital Grille restaurants for the quarter and six months ended June 27, 2004, increased 26.2% and 26.7%, respectively, as compared to the same periods of the prior fiscal year. The increase reflects (i) a 12.8% and 13.1% increase in restaurant operating weeks for the quarter and six months ended June 27, 2004, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 16 The Capital Grille restaurants at the end of the second quarter 2003 to 18 restaurants at the end of the second quarter of 2004 and (ii) an increase in average weekly sales. Average weekly sales for all The Capital Grille restaurants in the second quarter of 2004 were \$135,863, an 11.9% increase from the comparable period in 2003. Same store sales for the comparable The Capital Grille restaurants increased 13.2% in the second quarter of 2004, due to approximately equal increases in customer counts and average check.

Bugaboo Creek Steak House:

Sales in the Bugaboo Creek Steak House restaurants increased for the quarter and six months ended June 27, 2004, by 16.6% and 18.3%, respectively, as compared to the same periods of the prior fiscal year. The increase reflects (i) a 16.2% and 16.5% increase in restaurant weeks in the quarter and six months ended June 27, 2004, respectively, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 23 Bugaboo Creek Steak House restaurants at the end of the second quarter of 2003 to 26 restaurants at the end of the second quarter of 2004 and (ii) an increase in average weekly sales. Average weekly sales for all Bugaboo Creek Steak House restaurants in the second quarter of 2004 were \$69,866, a 0.4% increase from the comparable period for 2003. Same store sales for the comparable Bugaboo Creek Steak House restaurants in the second quarter of 2004 increased 2.5% as compared to the same period in 2003, due to an increase in average check partially offset by a decrease in customer counts.

Franchise Revenue:

Franchise revenues increased to \$101,000 for the second quarter of 2004, from \$98,000 for the same period in 2003 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 increased to 36.8% for the second quarter of 2004, from 35.9% for the second quarter of 2003, and increased to 36.5% for the first six months of 2004 as compared to 35.8% during the same period of 2003. This increase resulted primarily from higher contract pricing on commodities in 2004, particularly pricing with respect to new beef contracts, and was partially offset by a 2% - 3% increase in menu prices. The Company is currently under fixed price contracts with respect to its anticipated beef needs and these contracts are in effect for the remainder of 2004. The Company expects its cost of restaurant sales as a percentage of restaurant sales in the third quarter of 2004 to be higher than the comparable quarter of 2003 by 0.8% to 0.9%. Many of the food products, other than protein products, purchased by the Company are affected by commodity pricing and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties and other factors, which are outside the control of the Company.

Restaurant operating expense as a percentage of restaurant sales decreased to 43.1% for the second quarter of 2004 from 43.7% for the second quarter of 2003 and decreased slightly to 42.9% for the first six months of 2004, as compared to 43.1% for the same period of 2003. These decreases in restaurant operating expenses as a percentage of restaurant sales for the 2004 periods as compared to the prior year are primarily due to the favorable leveraging effect on labor, utilities and other fixed and semi-fixed expenses of increases in average weekly sales.

Restaurant depreciation as a percentage of restaurant sales decreased to 3.7% for the second quarter and 3.6% for the first six months of 2004, as compared to 3.8% 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 2004 was \$1,612,000, a decrease of \$56,000 from the same period of the prior year. Pre-opening expense for the first six months of 2004 was \$3.2 million as compared to \$2.7 million during the same period of the prior year. The increase in pre-opening expense for the first six months of 2004, as compared to the same period of the prior year, was primarily due to accelerated expenditures in the first quarter of 2004, resulting from a greater number of planned new restaurant openings in 2004, as compared to 2003.

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General and administrative expenses, as a percentage of total revenues, decreased to 5.8% for the second quarter of 2004 from 5.9% for the same period in 2003, and decreased to 5.8% for the first six months of 2004 from 6.0% for the same period of 2003. These decreases were principally due to 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 \$20.2 million for the second quarter of 2004 and increased to \$42.6 million for the first six months of 2004 as compared to \$16.4 million and \$34.1 million, respectively, for the same periods of the prior year.

Interest expense, net decreased to \$207,000 in the second quarter of 2004, and \$323,000 for the first six months of 2004, from \$213,000 and \$459,000 during the same periods of the prior year, primarily due to an increase in the level of capitalized interest associated with the Company's new restaurant construction program. The Company had no amounts outstanding under the revolving credit facility during 2004 or 2003.

Minority interest expense increased to \$92,000 for the second quarter and \$201,000 for the first six months of 2003, from \$82,000 and \$200,000 for the same periods of the prior year, which reflects the joint venture partner's share of the increased profitability of the Company's three joint venture restaurants.

Income tax expense for the second quarter and first six months of 2004 was 33.25% of earnings before income taxes, which reflects the effective tax rate expected to be applicable for the full 2004 fiscal year. These rates in 2004 compared to a rate of 32.5% for the second quarter and first six months of 2003, which reflected the effective income tax rate for the full 2003 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 \$13.3 million for the second quarter of 2004 from net earnings of \$10.8 million for the second quarter of 2003 and increased to \$28.1 million for the six months ended June 27, 2004 from \$22.5 million for the six months ended June 29, 2003, 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 2004 the Company's principal sources of working capital were cash provided by operating activities (\$36.8 million) and proceeds from the exercise of employee stock options (\$3.0 million). For the first six months of 2004, the principal uses of working capital were capital expenditures (\$46.6 million) for new and improved facilities, the purchase of short-term investments (\$2.2 million) and the purchase of common stock for treasury (\$8.2 million). As of June 27, 2004, the Company had no borrowings outstanding under its \$100 million revolving credit facility.

The Company intends to open an aggregate 23 to 24 Company-owned LongHorn Steakhouse restaurants, three Bugaboo Creek Steak House restaurants and three The Capital Grille restaurants in fiscal year 2004. The Company estimates that its capital expenditures for fiscal year 2004 will be approximately \$83-\$88 million. During the first six months of 2004, the Company opened 14 LongHorn Steakhouse restaurants, one The Capital Grille restaurant and one Bugaboo Creek Steak House restaurant. 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 liquidity and capital resources and future operating results contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements regarding the intent, belief or current expectations of the Company and members of its management team, as well as assumptions on which such statements are based. All forward-looking statements in this Form 10-Q are based upon information available to the Company on the date of this report. Forward-looking statements involve a number of risks and uncertainties, and in addition to the factors discussed elsewhere in this Form 10-Q, other factors that could cause actual results, performance or developments to differ materially from those expressed or implied by those forward-looking statements include the following: failure of facts to conform to necessary management estimates and assumptions regarding financial and operating matters; the Company's ability to identify and secure suitable locations for new restaurants on acceptable terms, open the anticipated number of new restaurants on time and within budget, achieve anticipated rates of same store sales, hire and train additional restaurant personnel and integrate new restaurants into its operations; the continued implementation of the Company's business discipline over a large restaurant base; unexpected increases in cost of sales or employee, pre-opening or other expenses; the economic conditions in the new markets into which the Company expands and possible uncertainties in the customer base in these areas; fluctuations in quarterly operating results; seasonality; unusual weather patterns or events; changes in customer dining patterns;

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the impact of any negative publicity or public attitudes related to the consumption of beef; disruption of established sources of product supply or distribution; competitive pressures from other national and regional restaurant chains; legislation affecting the restaurant industry; business conditions, such as inflation or a recession, or other negative effect on dining patterns, or some other negative effect on the economy, in general, including (without limitation) war, insurrection and/or terrorist attacks on United States soil; growth in the restaurant industry and the general economy; changes in monetary and fiscal policies, laws and regulations; and the risks identified from time to time in the Company's SEC reports, including the Company's Annual Report on Form 10-K for 2003, registration statements and public announcements. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

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 27, 2004, the Company had no borrowings outstanding under its \$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 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.

Cash Equivalents and Investment Portfolio

The Company invests portions of its excess cash, if any, in highly liquid investments. At June 27, 2004, the Company had \$6.2 million invested in high-grade overnight repurchase agreement cash equivalents, and \$26.3 million in short-term investments in the form of Federal, state and municipal bonds. As of June 27, 2004, the Company has classified all short-term investments as trading securities. The market risk on such investments is minimal due to their short-term nature.

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's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's 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 2004 Annual Meeting of Shareholders of the Company was held on May 10, 2004 at which the following proposals were voted upon by the shareholders: (i) election of three Class III directors to serve until the 2007 Annual Meeting of Shareholders and the election of one Class I director to serve until the 2005 Annual Meeting of Shareholders; (ii) approval of amendments to 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

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auditors for the fiscal year ending December 26, 2004. Holders of 33,964,193 shares of the Company's common stock were entitled to vote at that meeting. The shareholders elected three Class III directors with a term expiring at the 2007 Annual Meeting and one Class I director with a term expiring at the 2005 Annual Shareholder 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	Shares Withholding
Class III	Voting For:	Authority:
James D. Dixon	30,709,728	893,295
Eugene I. Lee, Jr.	28,809,735	2,793,288
Ronald W. San Martin	16,076,522	15,526,501
Class I		
Roger L. Boeve	30,611,785	991,238

Carolyn H. Byrd, Philip J. Hickey, Jr., Dick R. Holbrook, Don L. Chapman, Lewis H. Jordan and George W. McKerrow, Sr. continued their terms as directors. Amendments to the RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan were approved as follows: 22,100,880 shares voted in favor of approval; 7,749,874 shares voted against approval; 10,242 shares abstained; and there were 1,742,027 broker non-votes. The selection of KPMG LLP as independent auditors for the Company for the fiscal year ending December 26, 2004 was ratified as follows: 29,132,565 shares voted in favor of ratification; 2,448,323 shares voted against the ratification; 22,134 shares abstained; and there was 1 broker non-vote.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits Filed.

31(a) -- Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.

31(b) -- Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.

32(a) -- Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1).

32(b) -- Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1).

(1) These exhibits are deemed to accompany this report and are not "filed" as part of the report.

(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/ W. Douglas Benn

W. Douglas Benn

Executive Vice President, Finance
and Chief Financial Officer

(Principal Financial and
Accounting Officer)

Date: August 5, 2004

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

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-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this Quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly report based on such evaluation; and
 - c) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

August 5, 2004

Exhibit 31(b)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

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-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this Quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly report based on such evaluation; and
 - c) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ W. Douglas Benn

W. Douglas Benn

Executive Vice President, Finance and
Chief Financial Officer

August 5, 2004

Exhibit 32(a)

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of RARE Hospitality International, Inc. (the Company) on Form 10-Q for the period ended June 27, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Philip J. Hickey, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Philip J. Hickey, Jr.

Philip J. Hickey, Jr.

Chief Executive Officer

August 5, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to RARE Hospitality International, Inc. and will be retained by RARE Hospitality International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of RARE Hospitality International, Inc. (the Company) on Form 10-Q for the period ended June 27, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, W. Douglas Benn, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W. Douglas Benn

W. Douglas Benn

Chief Financial Officer
August 5, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to RARE Hospitality International, Inc. and will be retained by RARE Hospitality International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.