

RARE HOSPITALITY INTERNATIONAL INC  
Form 10-Q  
November 13, 2002

---

**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 September 29, 2002**

---

**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**

---

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 November 8, 2002, there were 21,991,580 shares of common stock of the Registrant outstanding.

---

**RARE Hospitality International, Inc. and Subsidiaries**

**Index**

Part I - Financial Information

Item 1. Consolidated Financial Statements:

Consolidated Balance Sheets as of  
September 29, 2002 and December 30, 2001

Page  
----

1

Consolidated Statements of Earnings -  
for the quarters and nine months ended  
September 29, 2002 and September 30, 2001

2

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

Consolidated Statement of Shareholders' Equity and Comprehensive Income for the nine months ended September 29, 2002	3
Condensed Consolidated Statements of Cash Flows - for the nine months ended September 29, 2002 and September 30, 2001	4
Notes to the Consolidated Financial Statements	5-8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8-12
Item 3. Quantitative and Qualitative Disclosures About Market Risk	12
Item 4. Controls and Procedures	13
Part II - Other Information	
Item 1. Legal Proceedings	13
Item 2. Changes in Securities and Use of Proceeds	13
Item 3. Defaults Upon Senior Securities	13
Item 4. Submission of Matters to a Vote of Securities Holders	13
Item 5. Other Information	13
Item 6. Exhibits and Reports on Form 8-K	13
Signatures	14
Certifications	14-1

---

## Part I. Financial Information

### Item 1. Financial Statements

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

	September 29, 2002 ----	December 30, 2001 ----
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,355	\$ 25,979
Short-term investments at market value	15,000	-
Accounts receivable	8,333	6,710
Inventories	14,008	13,437
Prepaid expenses	3,820	3,069
Refundable income taxes	6,238	3,902
Deferred income taxes	7,101	6,643
	-----	-----

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

Total current assets	76,855	59,740
Property & equipment, less accumulated depreciation	287,097	269,323
Goodwill, net	19,187	19,187
Deferred income taxes	-	2,276
Other	2,961	2,871
	-----	-----
Total assets	\$386,100	\$353,397
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 17,059	\$ 27,189
Accrued expenses	37,145	37,424
Current installments of obligations under capital leases	53	58
	-----	-----
Total current liabilities	54,257	64,671
Debt, net of current installments	15,000	10,000
Deferred tax liability	2,128	--
Obligations under capital leases	20,814	20,867
	-----	-----
Total liabilities	92,199	95,538
Minority interest	1,370	1,329
Shareholders' equity:		
Preferred stock	-	-
Common stock	190,224	178,787
Unearned compensation-restricted stock	(895)	(522)
Retained earnings	104,299	79,007
Accumulated other comprehensive loss	(938)	(583)
Treasury stock at cost; 10,000 shares in 2002 and 2001	(159)	(159)
	-----	-----
Total shareholders' equity	292,531	256,530
Total liabilities and shareholders' equity	\$386,100	\$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)

Revenues:	Quarter Ended		Nine Mo Sept. 29, 2002
	Sept. 29, 2002	Sept. 30, 2001	
	-----	-----	-----
Restaurant sales:			
LongHorn Steakhouse	\$100,343	\$88,769	\$309,287
The Capital Grille	19,798	17,949	63,373
Bugaboo Creek Steak House	17,762	16,749	52,088
Specialty concepts	1,955	1,897	5,621
	-----	-----	-----
Total restaurant sales	139,858	125,364	430,369
	=====	=====	=====

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	84	79	257
	-----	-----	-----
Total revenues	139,942	125,443	430,626
Costs and expenses:	=====	=====	=====
Cost of restaurant sales	50,355	46,204	155,948
Operating expenses - restaurants	63,765	57,569	189,695
Depreciation and amortization			
- restaurants	5,934	5,438	17,535
Pre-opening expense	996	707	2,735
General and administrative expenses	8,771	7,918	25,456
	-----	-----	-----
Total costs and expenses	129,821	117,836	391,369
	=====	=====	=====
Operating income	10,121	7,607	39,257
Interest expense, net	528	491	1,398
Early termination of interest rate swap agreement	-	-	-
Minority interest	87	131	387
	-----	-----	-----
Earnings before income taxes	9,506	6,985	37,472
Income tax expense	3,090	2,304	12,180
	-----	-----	-----
Net earnings	\$6,416	\$4,681	\$25,292
	=====	=====	=====
Basic earnings per common share	\$0.29	\$0.22	\$1.17
	=====	=====	=====
Diluted earnings per common share	\$0.28	\$0.21	\$1.11
	=====	=====	=====
Weighted average common shares outstanding:			
Basic	21,820	21,337	21,681
	=====	=====	=====
Diluted	22,924	22,385	22,841
	=====	=====	=====

See accompanying notes to consolidated financial statements

**RARE Hospitality International, Inc. and Subsidiaries  
Consolidated Statement of Shareholders' Equity  
and Comprehensive Income  
(In thousands, unaudited)**

	Common Stock		Restricted Stock	Retained Earnings	Treasury Stock
	Shares	Amount			
Balance, December 30, 2001	21,522	\$178,787	\$(522)	\$79,007	\$ (159)
Comprehensive income:					
Net earnings	--	--	--	25,292	--
Change in unrealized loss from interest rate swaps	--	--	--	--	--
Total comprehensive income					
Amortization of restricted stock	--	--	317	--	--
Issuance of shares to retirement plans	11	219	--	--	--
Issuance of shares pursuant					

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

to restricted stock award	30	690	(690)	--	--
Issuance of shares pursuant to exercise of stock options	407	4,460	--	--	--
Tax benefit of stock options exercised	--	6,068	--	--	--
Balance, September 29, 2002	21,970	\$190,224	\$ (895)	\$104,299	\$ (159)

See accompanying notes to consolidated financial statements

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

	Nine Months E ----- Sept. 29, 2002 ----
Cash Flows from operating activities:	
Net earnings	\$ 25,292
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	18,825
Changes in working capital accounts	(6,421)
Minority interest	387
Deferred tax (benefit) expense	954
Issuance of common stock to employee retirement plans	219
Net cash provided by operating activities	39,256 -----
Cash flows from investing activities:	
Purchase of property and equipment	(36,201)
Purchase of short-term investments	(15,000)
Net cash used by investing activities	(51,201) -----
Cash flows from financing activities:	
Proceeds from (repayments of) credit facilities	5,000
Proceeds from issuance of common stock	-
Distributions to minority partners	(346)
Increase (Decrease) in bank overdraft included in accounts payable	(735)
Principal payments on capital leases	(58)
Purchase of common stock for treasury	-
Proceeds from exercise of stock options	4,460
Net cash provided by financing activities	8,321 -----
Net (decrease) increase in cash and cash equivalents	(3,624)
Cash and cash equivalents, beginning of period	25,979 -----
Cash and cash equivalents, end of period	\$ 22,355 =====
Supplemental disclosure of cash flow information	
Cash paid for income taxes	\$ 4,442 =====

Cash paid for interest

\$ 923

=====

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 September 29, 2002 and December 30, 2001 and for the quarters and nine months ended September 29, 2002 and September 30, 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 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 September 29, 2002 and September 30, 2001 each contained 13 weeks and 39 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 third quarter and first nine months of 2001 to conform to the new presentation requirement. Same store sales comparisons for each of the Company's restaurant concepts for the third quarter of 2002, consist of sales at restaurants opened prior to January 1, 2001 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 third 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 third 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

Nine Mo

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

	Sept. 29, 2002	Sept. 30, 2001	Sept. 29, 2002
Net earnings, as reported	\$ 6,416	\$ 4,681	\$ 25,292
Goodwill amortization, net of tax benefit	-	169	-
Net earnings, pro forma	\$ 6,416	\$ 4,850	\$ 25,292
Basic earnings per common share:			
Net earnings, as reported	\$ 0.29	\$ 0.22	\$ 1.17
Goodwill amortization, net of tax benefit	-	0.01	-
Net Earnings, pro forma	\$ 0.29	\$ 0.23	\$ 1.17
Diluted earnings per common share:			
Net earnings, as reported	\$ 0.28	\$ 0.21	\$ 1.11
Goodwill amortization, net of tax benefit	-	0.01	-
Net Earnings, pro forma	\$ 0.28	\$ 0.22	\$ 1.11

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 September 29, 2002, \$15.0 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 third quarter and first nine months of 2002 was 32.5% of earnings before income taxes, 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		Nine Mon
	Sept. 29, 2002	Sept. 30, 2001	Sept. 29, 2002
Basic weighted average shares outstanding	21,820	21,337	21,681
Dilutive effect of stock options	1,014	979	1,068

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

Dilutive effect of restricted stock	90	69	92
	-----	-----	-----
Diluted weighted average shares outstanding	22,924	22,385	22,841
	=====	=====	=====
Net earnings	\$ 6,416	\$ 4,681	\$ 25,292
	=====	=====	=====
Basic earnings per common share	\$ 0.29	\$ 0.22	\$ 1.17
	=====	=====	=====
Diluted earnings per common share	\$ 0.28	\$ 0.21	\$ 1.11
	=====	=====	=====

### 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 September 29, 2002 was a payable of \$1,503,000 (\$938,000 net of tax benefit). Approximately \$536,000 of the net payable was classified as current on September 29, 2002. A reconciliation of net earnings and total comprehensive income is as follows (in thousands):

	Quarter Ended		Nine
	Sept. 29, 2002	Sept. 30, 2001	Sept. 29, 2002
	-----	-----	-----
Net earnings	\$6,416	\$4,681	\$ 25,292
Cumulative effect of change in accounting principle	--	--	--
Change in unrealized loss from interest rate swap agreement	(210)	(224)	(355)
	-----	-----	-----
Total comprehensive income	\$6,206	\$4,457	\$ 24,937
	=====	=====	=====

### 7. Equity

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 11.6% and 11.7% for the quarter and nine months ended September 29, 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 September 29, 2002, consist of sales at restaurants opened prior to January 1, 2001 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 nine months ended September 29, 2002 increased 13.0% and 13.2%, respectively, as compared to the same periods of the prior year. The increases reflect a 9.0% and 10.2% increase in restaurant operating weeks in the quarter and nine months ended September 29, 2002, respectively, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 152 LongHorn Steakhouse restaurants at the end of the third quarter of 2001 to 166 at the end of the third



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

quarter of 2002 and an increase in average weekly sales. Average weekly sales for all LongHorn Steakhouse restaurants in the third quarter of 2002 were \$47,287, a 3.7% increase over the comparable period in 2001. Same store sales for the comparable LongHorn Steakhouse restaurants increased 1.8% in the third 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 nine months ended September 29, 2002, increased 10.3% and 11.2%, respectively, as compared to the same periods of the prior fiscal year. The increase reflects no increase in restaurant operating weeks for the quarter and a 7.1% increase in restaurant operating weeks for the nine months ended September 29, 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 third quarter of 2002 were \$101,528, a 10.3% increase from the comparable period in 2001. Same store sales for the comparable The Capital Grille restaurants increased 8.4% in the third quarter of 2002, primarily due to an increase in customer counts.

### *Bugaboo Creek:*

Sales in the Bugaboo Creek Steak House restaurants increased for the quarter and nine months ended September 29, 2002, by 6.0% and 4.8%, respectively, as compared to the same periods of the prior fiscal year. The increase reflects a 5.3% and 2.7% increase in restaurant weeks in the quarter and nine months ended September 29, 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 third quarter of 2001 to 20 restaurants at the end of the third quarter of 2002. Average weekly sales for all Bugaboo Creek Steak House restaurants in the third quarter of 2002 were \$68,315, a 0.7% increase from the comparable period for 2001. Same store sales for the comparable Bugaboo Creek Steak House restaurants in the third quarter of 2002 decreased 0.7% as compared to the same period in 2001, due to a decrease in customer counts.

### *Franchise Revenue:*

Franchise revenues increased to \$84,000 for the third quarter of 2002, from \$79,000 for the same period in 2001.

### **Costs and Expenses**

Cost of restaurant sales as a percentage of restaurant sales decreased to 36.0% for the third quarter of 2002 from 36.9% for the third quarter of 2001 and decreased to 36.2% for the nine months ended September 29, 2002 as compared to 36.5% during the same period of 2001. For the third quarter, this decrease resulted from favorable red meat pricing and menu mix shifts. For the nine month period ended September 29, 2002 favorable pricing on red meat was partially offset by higher produce costs. 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 decreased to 45.6% for the third quarter of 2002 from 45.9% for the third quarter of 2001 and increased to 44.1% for the first nine months of 2002, as compared to 43.8% for the same period of 2001. The decrease in restaurant operating expenses as a percentage of restaurant sales for the third quarter of 2002 as compared to the same period of the prior year was primarily due to decreases in advertising and promotional expenses and, to a lesser extent, decreases in utility and operating supply expense. The increase in restaurant operating expense, as a percentage of restaurant sales for the comparable nine month period, was primarily due to an increase in restaurant labor costs.

Restaurant depreciation as a percentage of restaurant sales remained essentially flat at 4.2% for the third quarter and 4.1% for the first nine months of 2002 as compared to 4.3% and 4.0%, respectively, for the same periods of the prior fiscal year.

Pre-opening expense for the first nine months of 2002 was \$2.7 million, a decrease from \$3.3 million in the same period of the prior year. This decrease was due to the 13 restaurants opened during the first nine 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, remained flat at 6.3% for the third quarter of 2002 and 2001, and decreased to 5.9% for the nine months ended September 29, 2002 from 6.1% for the same period of 2001. The decrease was principally due to greater leverage of fixed and semi-fixed general and administrative expenses resulting from the higher average weekly sales volumes.

As a result of the relationships between revenues and expenses discussed above, the Company's operating income increased to \$10.1 million for the third quarter of 2002 and increased to \$39.3 million for the first nine months of 2002 as compared to \$7.6 million and \$33.9 million, respectively, for the same periods of the prior year.

Interest expense, net increased slightly to \$528,000 in the third quarter of 2002 from \$491,000 in the same period of the prior year.

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

Minority interest expense decreased to \$87,000 for the third quarter of 2002 from \$131,000 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 third quarter and first nine months ended September 29, 2002 was 32.5% of earnings before income taxes, 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 nine months ended September 30, 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 \$6.4 million for the third quarter of 2002 from net earnings of \$4.7 million for the third quarter of 2001 and increased to \$25.3 million for the nine months ended September 29, 2002 from \$20.6 million for the nine months ended September 30, 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 nine months of 2002 the Company's principal sources of working capital were cash provided by operating activities (\$39.2 million), proceeds from borrowings under the Company's revolving credit facility (\$5.0 million) and proceeds from the exercise of employee stock options (\$4.5 million). For the first nine months of 2002, the principal uses of working capital were capital expenditures (\$36.2 million) for new and improved facilities and the purchase of short-term investments (\$15.0 million). As of September 29, 2002, the Company had \$15.0 million outstanding under the Company's \$100 million revolving credit facility.

The Company intends to open an aggregate 17 Company-owned LongHorn Steakhouse restaurants, and three Bugaboo Creek Steak House restaurants in fiscal year 2002. The Company estimates that its capital expenditures for fiscal year 2002 will be approximately \$50-55 million. During the first nine months of 2002, the Company opened 13 LongHorn Steakhouse restaurants and one Bugaboo Creek Steak House restaurant. Four additional LongHorn Steakhouse restaurants and two Bugaboo Creek 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 may operate 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 November 1, 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.

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

The Company has used an interest rate swap as a hedging agreement to effectively fix the interest rate at 6.52%, plus the margin on a notional principal amount of \$15.0 million from July 2002 through March 2003, and \$17.5 million from April 2003 through August 2004.

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 hedging 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 September 29, 2002, the Company had \$20.6 million invested in high-grade overnight repurchase agreements, and \$15.0 million in short-term investments in the form of Federal, state and municipal bonds. As of September 29, 2002, the Company has classified all short-term investments as trading securities.

### **Item 4. Controls and Procedures**

In October 2002, an evaluation was performed, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Our evaluation tested controls and other procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that information required to be disclosed in our reports that we file or submit under the Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate in a manner that allows timely decisions regarding required disclosure.

In addition, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their 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**

None

### **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.  
-----

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: November 13, 2002  
-----

---

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

November 13, 2002

/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):

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

- 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.

November 13, 2002

/s/ W. DOUGLAS BENN

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