

RARE HOSPITALITY INTERNATIONAL INC  
Form 10-K  
March 29, 2002

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

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**FORM 10-K**

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

**FOR THE FISCAL YEAR ENDED DECEMBER 30, 2001  
COMMISSION FILE NUMBER 0-19924**

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**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**

**Securities Registered Pursuant to Section 12(b) of the Act:**

**NONE**

**Securities Registered Pursuant to Section 12(g) of the Act:**

**COMMON STOCK, NO PAR VALUE**

(Title of Class)

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form

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10-K or any amendment to this Form 10-K. [X]

As of March 1, 2002, the aggregate market value of the voting stock held by non-affiliates (assuming for these purposes, but not conceding, that all executive officers and directors are affiliates of the Registrant) of the Registrant was \$553,976,386 based upon the last reported sale price in the Nasdaq National Market on March 1, 2002 of \$26.29.

As of March 1, 2002, the number of shares outstanding of the Registrant's Common Stock, no par value, was 21,691,123.

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## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 13, 2002 are incorporated by reference in Part III hereof.

## FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in the following pages, particularly regarding estimates of the number and locations of new restaurants that RARE Hospitality International, Inc. and its subsidiaries (the "Company") intend to open during fiscal 2002, constitute "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-K 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-K, 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; 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 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; changes in customer dining patterns; the impact of any negative publicity or public attitudes related to the consumption of beef; competitive pressures from other national and regional restaurant chains; 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 set forth in Exhibit 99(a) to this Form 10-K which are hereby incorporated by reference and other risks identified from time to time in the Company's SEC reports, 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.

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## PART I

### ITEM 1. BUSINESS

#### GENERAL

RARE Hospitality International, Inc. and subsidiaries (the Company) operates and franchises 197 restaurants as of March 1, 2002, including 161 LongHorn Steakhouse restaurants, 15 The Capital Grille restaurants and 19 Bugaboo Creek Steak House restaurants, as well as two additional restaurants (the specialty restaurants), Hemenway's Seafood Grille & Oyster Bar (Hemenway's) and The Old Grist Mill Tavern. The Company was incorporated in Georgia in December 1982.

#### CONCEPTS

LongHorn Steakhouse restaurants are casual dining, full-service establishments serving both lunch and dinner amidst an attractive and inviting atmosphere. With locations spread throughout the Eastern half of the United States, LongHorn Steakhouse restaurants feature a variety of top quality menu items including signature steaks, as well as salmon, shrimp, chicken, ribs, pork chops, burgers and prime rib. Designed with an inviting decor reminiscent of the classic American West, LongHorn Steakhouse restaurants appeal to all ages with a unique combination of hospitable, attentive service, moderate price, high quality dishes and a comfortable atmosphere.

The Capital Grille, with locations in major metropolitan cities in the Eastern and Central United States, boasts an atmosphere of power dining, relaxed elegance and style. Nationally acclaimed for dry aging steaks on premises, The Capital Grille serves classic steak house offerings such as chops, large North Atlantic lobsters and fresh seafood. The restaurants feature an award-winning wine list offering over 300 selections, personalized service, comfortable club-like atmosphere and premiere private dining rooms. The Capital Grille is the ideal dining choice for business meeting and social occasions.

Bugaboo Creek Steak House restaurants are designed as attractive, friendly establishments featuring moderately priced, flavorful food items and an offering of full liquor service. Primarily located in the Northeast and Mid-Atlantic regions of the United States, Bugaboo Creek Steak House restaurants attract guests of all ages with a rustic decor reminiscent of a Canadian Rocky Mountain lodge. Stressing a friendly and attentive service style, Bugaboo Creek Steak House restaurants offer a variety of menu offerings including signature seasoned steaks, prime rib, pork loin, smoked baby-back ribs, spit roasted half chicken, grilled salmon and shrimp.

## RESTAURANT LOCATIONS

The following tables set forth the location of each existing restaurant and restaurant under construction by concept at March 1, 2002 and the number of restaurants in each area.

### LONGHORN STEAKHOUSE RESTAURANTS

#### EXISTING COMPANY-OWNED/JOINT VENTURE RESTAURANTS

ALABAMA  
Birmingham  
Dothan  
Huntsville  
Mobile  
Montgomery

FLORIDA  
Daytona Beach  
Destin  
Ft. Myers  
Jacksonville  
Miami/Ft. Lauderdale  
Ocala  
Orlando  
St. Augustine  
Tallahassee  
Tampa/ St. Petersburg  
West Palm Beach

GEORGIA  
Albany  
Athens  
Atlanta  
Augusta  
Cartersville  
Columbus  
Dalton  
Macon  
Rome  
Savannah  
Statesboro  
Valdosta  
Warner Robbins

ILLINOIS  
Fairview Heights

INDIANA  
Indianapolis

KANSAS  
Leawood

KENTUCKY  
Bowling Green  
Florence

MASSACUSETTS  
Boston

MISSOURI  
Kansas City  
St. Louis

NEW HAMPSHIRE  
Concord

NEW JERSEY

Rochelle Park  
NORTH CAROLINA  
Burlington  
Charlotte  
Greensboro/High Point/Winston-Salem  
OHIO  
Cincinnati  
Cleveland  
Columbus  
Toledo  
PENNSYLVANIA  
Erie  
Philadelphia  
RHODE ISLAND  
Warwick  
SOUTH CAROLINA  
Columbia  
Greenville/Spartanburg  
Hilton Head  
Mt. Pleasant  
Rock Hill  
TENNESSEE  
Chattanooga  
Nashville  
VIRGINIA  
McLean  
WEST VIRGINIA  
Charleston

Total Existing Company-Owned/Joint Venture Restaurants

## **EXISTING FRANCHISEE-OWNED RESTAURANTS**

PUERTO RICO  
Bayamon  
Carolina  
San Patricio

Total Existing Franchisee-Owned Restaurants

Total LongHorn Steakhouse Restaurants

## **BUGABOO CREEK RESTAURANTS**

### **EXISTING COMPANY-OWNED RESTAURANTS**

CONNECTICUT  
Manchester  
DELAWARE  
Newark  
GEORGIA  
Atlanta  
MAINE  
Bangor  
Portland  
MARYLAND  
Gaithersburg  
MASSACHUSETTS  
Boston

Seekonk  
NEW HAMPSHIRE  
Newington  
NEW YORK  
Albany  
Poughkeepsie  
Rochester  
PENNSYLVANIA  
Philadelphia  
RHODE ISLAND  
Warwick

Total Bugaboo Creek Restaurants

## **THE CAPITAL GRILLE RESTAURANTS**

### **EXISTING COMPANY-OWNED RESTAURANTS**

DISTRICT OF COLUMBIA  
Washington  
FLORIDA  
Miami  
GEORGIA  
Atlanta  
ILLINOIS  
Chicago  
MASSACHUSETTS  
Boston  
MICHIGAN  
Troy  
MINNESOTA  
Minneapolis  
MISSOURI  
Kansas City  
NORTH CAROLINA  
Charlotte  
PENNSYLVANIA  
Philadelphia  
RHODE ISLAND  
Providence  
TEXAS  
Dallas  
Houston  
VIRGINIA  
McLean

Total The Capital Grille Restaurants

## **SPECIALTY RESTAURANTS**

### **EXISTING COMPANY-OWNED RESTAURANTS**

MASSACHUSETTS  
The Old Grist Mill Tavern, Seekonk  
RHODE ISLAND  
Hemenway's Seafood Grille & Oyster Bar, Providence

Total Specialty Restaurants

## RESTAURANTS UNDER CONSTRUCTION

### FLORIDA

LongHorn Steakhouse, Delray

### GEORGIA

LongHorn Steakhouse, McDonough

LongHorn Steakhouse, Tifton

Bugaboo Creek Steak House, Lithonia

### MARYLAND

LongHorn Steakhouse, Bowie

LongHorn Steakhouse, Germantown

### NEW HAMPSHIRE

LongHorn Steakhouse, Nashua

Total Restaurants Under Construction

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## UNIT ECONOMICS

### LongHorn Steakhouse

The Company's prototypical LongHorn Steakhouse has an average seating capacity of 190 seats in approximately 5,100 square feet of space. The prototype has been modified over the years to increase its average seating capacity from approximately 150 seats for LongHorn Steakhouse restaurants open prior to 1994. The objective of these modifications was to increase the Company's return on investment on new LongHorn Steakhouse restaurants through increasing the sales capacity and reducing capital expenditures as a percentage of revenue. The Company intends to continue to use leasing as its preferred arrangement for LongHorn Steakhouse sites and currently leases all but 39 of its LongHorn Steakhouse restaurants in operation. The Company also owns two sites for restaurants under construction and owns three sites for restaurants to go under construction later in 2002. The Company purchases land only in those circumstances it believes are cost-effective. Five of the 19 LongHorn Steakhouse restaurants opened in 2001 were located on property purchased at an average cost of approximately \$935,000 per location. The average cash investment to construct a LongHorn Steakhouse restaurant in 2001 was approximately \$1,620,000, excluding real estate costs and excluding pre-opening expenses of approximately \$185,000. Through December 27, 1998, the Company amortized pre-opening expenses over the first 12 months of a restaurant's operation. After December 27, 1998, in accordance with Statement of Position 98-5 Reporting on the Costs of Start-up Activities (SOP 98-5), the Company began to expense pre-opening costs as incurred.

### The Capital Grille

The Capital Grille restaurant development strategy includes the use of sites that are historic or unique in nature. Accordingly, the Company utilizes methods to balance control of the construction costs with the retention of the unique ambiance of each location. The Company intends to continue to emphasize leasing as its preferred arrangement for The Capital Grille sites and currently leases all of its The Capital Grille sites. The Company intends to purchase land only in those circumstances it believes are cost-effective. The average cash investment to construct a Capital Grille restaurant in 2001 was approximately \$3,046,000 (net of landlord allowances) and excluding pre-opening expenses of approximately \$358,000. All three The Capital Grille restaurants opened in 2001 were located on leased property. Through December 27, 1998, the Company amortized pre-opening expenses over the first 12 months of each restaurant's operation. After December 27, 1998, in accordance with SOP 98-5, the Company began to expense pre-opening costs as incurred.

### Bugaboo Creek Steak House

The Company developed a Bugaboo Creek Steak House restaurant design, which served as the prototype for the two Bugaboo Creek restaurants constructed in 1999 and 2000. This modified design is smaller than earlier designs and utilizes approximately 7,400 square feet with a capacity of approximately 230 seats. The Company has further refined the prototype, with the objective of reducing the capital expenditure required for new restaurant construction and reducing ongoing operating costs at new restaurants to be opened in 2002 and future years.

The Company intends to continue to emphasize leasing as its preferred arrangement for Bugaboo Creek Steak House sites and currently leases all but one of its Bugaboo Creek Steak House sites. The company also owns one site for a restaurant under construction. The Company purchases land only in those circumstances it believes are cost-effective. The Bugaboo Creek Steak House restaurant opened in 2000 was located on leased property. No Bugaboo Creek Steak House restaurants were opened in 2001. The cash investment to construct the Bugaboo Creek Steak House restaurant opened in 2000 was approximately \$2,145,000, excluding pre-opening expenses of approximately \$209,000. Through December 27, 1998, the Company amortized pre-opening expenses over the first 12 months of a restaurant's operation. After December 27, 1998, in accordance with SOP 98-5, the Company began to expense pre-opening costs as incurred.

## **EXPANSION STRATEGY**

### ***LongHorn Steakhouse and Bugaboo Creek Steak House restaurants:***

The Company plans to expand through the development of additional Company-owned LongHorn Steakhouse and Bugaboo Creek restaurants in existing markets and in selected new markets in the Eastern half of the United States. The Company believes that clustering in existing and new markets enhances its ability to supervise operations, market the Company's concepts and distribute supplies. The Company, however, also intends to open single restaurants in smaller markets in sufficiently close proximity to the Company's other markets to enable the Company to efficiently supervise operations and distribute supplies. LongHorn Steakhouse restaurants are currently located in the Eastern half of the United States, and Bugaboo Creek restaurants are located primarily in the Northeastern and Mid-Atlantic sections of the United States.

### ***The Capital Grille:***

The Company plans to expand through the development of additional Company-owned The Capital Grille restaurants in selected metropolitan markets nationwide.

### ***Overall:***

The Company's restaurant development objective is to increase earnings by expanding market share in existing markets and by developing restaurants in new markets. The Company currently plans to open 20 to 24 Company-owned restaurants in 2002: 17 to 20 LongHorn Steakhouse restaurants; two or three Bugaboo Creek Steak House restaurants and one The Capital Grille restaurant. Of the restaurants proposed for 2002, the Company has opened four LongHorn Steakhouse restaurants and has seven restaurants under construction in Florida, Georgia, Maryland and New Hampshire, and has signed leases, purchased land, or agreement to purchase land for 13 additional restaurants as of March 1, 2002. The Company expects that all of the restaurants to be opened in 2002 will be Company-owned.

The Company will continue to evaluate suitable acquisitions in the restaurant industry as they are identified. The Company will continue to evaluate franchising of either LongHorn Steakhouse restaurants or Bugaboo Creek restaurants in markets in which the Company would not otherwise expand.

## **SITE SELECTION AND RESTAURANT LAYOUT**

The Company considers the location of a restaurant to be a critical factor to the unit's long-term success and devotes significant effort to the investigation and evaluation of potential sites. The site selection process focuses on trade area demographics, target population density and household income level as well as specific site characteristics, such as visibility, accessibility and traffic volumes. The Company also reviews potential competition and the sales of national chain restaurants operating in the area. Senior management inspects and approves each restaurant site. It typically takes approximately 100 to 120 days to construct and open a new LongHorn Steakhouse restaurant, approximately 130 to 140 days to construct and open a new Bugaboo Creek restaurant and approximately 170 to 185 days to construct and open a new The Capital Grille restaurant. While the Company will consider the option of purchasing sites for its new restaurants where it is cost-effective to do so, currently all but 47 of the Company's restaurant sites are leased (including three Company owned sites for restaurants currently under construction and three



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Company owned sites for restaurants to go under construction later in 2002).

The Company has modified its LongHorn Steakhouse prototype restaurant design, increasing its average seating capacity from approximately 150 seats for LongHorn Steakhouse restaurants open prior to 1994 to an average of 190 seats in approximately 5,100 square feet of space for prototypical LongHorn Steakhouse restaurants opened in 2001. An expanded kitchen design incorporating equipment needed for a broader menu is also part of the prototype. The Company believes its kitchen design simplifies training, lowers costs and improves the consistency and quality of the food. The prototype restaurant design also includes cosmetic changes that provide a total restaurant concept intended to be inviting and comfortable while maintaining the ambiance of a Texas-style steakhouse.

The Company has renovated and remodeled some of the older LongHorn Steakhouse restaurants to include cosmetic improvements such as repainting and refinishing, new booths, new lighting and various decor adjustments. Exterior improvements encompassed repainting and additional lighting designed to convey a more inviting image.

The Company developed a Bugaboo Creek Steak House restaurant design, which served as the prototype for the two Bugaboo Creek restaurants constructed in 1999 and 2000. This modified design is smaller than earlier designs and utilizes approximately 7,400 square feet with a capacity of approximately 230 seats. The Company has further refined the prototype, with the objective of reducing the capital expenditure required for new restaurant construction and reducing ongoing operating costs at new restaurants to be opened in 2002 and future years.

### RESTAURANT OPERATIONS

*Management and Employees.* The management staff of a typical Company restaurant consists of one general manager or managing partner, one to four assistant managers and one or two kitchen managers. In addition, a typical LongHorn Steakhouse restaurant employs approximately 40 to 80 staff members, a typical Bugaboo Creek restaurant employs approximately 50 to 85 staff members, and a typical The Capital Grille restaurant employs approximately 60 to 80 staff members. The general manager or managing partner of each restaurant has primary responsibility for the day-to-day operation of the restaurant and is responsible for maintaining Company-established operating standards. The Company employs LongHorn Steakhouse regional managers, who each have responsibility for the operating performance of two to eight Company-owned LongHorn Steakhouse restaurants or joint venture restaurants, and report directly to one of the five Regional Vice Presidents for the LongHorn Steakhouse concept. The Regional Vice Presidents report to the Senior Vice President of Operations of the LongHorn Steakhouse division. The Company employs Bugaboo Creek Steak House regional managers, who have responsibility for the operating performance of from four to six Bugaboo Creek Steak House restaurants and The Old Grist Mill Tavern. All of these regional managers report directly to the Vice President of Operations for the Bugaboo Creek Steak House concept. The Company also employs regional managers who have responsibility for from three to five The Capital Grille restaurants and Hemenway's, all reporting directly to the Vice President of Operations for The Capital Grille.

The Company seeks to recruit managers with substantial restaurant experience. The Company selects its restaurant personnel utilizing a selection process which includes psychological and analytical testing which is designed to identify individuals with those traits the Company believes are important to achieving success in the restaurant industry. The Company requires new managers to complete an intensive training program focused on both on-the-job training as well as a rigorous in-house classroom-based educational course. The program is designed to encompass all phases of restaurant operations, including the Company's philosophy, management strategy, policies, procedures and operating standards. Through its management information systems, senior management receives daily reports on sales, and weekly reports on guest counts, payroll, cost of sales and other restaurant operating expenses. Based upon these reports, management believes that it is able to closely monitor the Company's operations.

The Company maintains performance measurement and incentive compensation programs for its management-level employees. The performance programs reward restaurant management teams with cash bonuses for meeting sales and profitability targets. The Company has also implemented a managing partner program in which qualifying general managers receive cash compensation and restricted stock awards based upon individual performance. During 2001, restricted stock awards were made to 42 restaurant-level managing partners in compliance

with their respective managing partner agreements.

*Management Information Systems.* The Company utilizes a Windows-based accounting software package and a network that enables electronic communication throughout the Company. In addition, all of the Company's restaurants utilize touch screen POS systems and the LongHorn Steakhouse and Bugaboo Creek Steak House restaurants employ a theoretical food costing program. The Company utilizes these management information systems to develop pricing strategies, identify food cost issues, monitor new product reception and evaluate restaurant-level productivity. The Company expects to continue to develop its management information systems in each concept to assist restaurant management in analyzing their business and to improve efficiency.

*Purchasing.* The Company establishes product quality standards for beef and other protein products, then negotiates directly with suppliers to obtain the lowest possible prices for the required quality. The Company also utilizes long-term contracts on certain items to avoid short-term cost fluctuations. For the LongHorn Steakhouse and Bugaboo Creek Steak House restaurants, beef is aged at the facility of the Company's largest distributor, who delivers the beef to the LongHorn Steakhouse and Bugaboo Creek Steak House restaurants when the age reaches specified guidelines. This arrangement is closely monitored by Company personnel and management believes it provides for efficient and cost-effective meat processing and distribution, while maintaining the Company's control and supervision of purchasing and aging. The Company's management negotiates directly with suppliers for most other food and beverage products to ensure uniform quality and adequate supplies and to obtain competitive prices. The Company purchases its meat, food and other supplies from a sufficient number of suppliers such that the loss of any one supplier would not have a material effect on the Company. The Company generally utilizes the same distribution system for each of its restaurant concepts.

*Seasonality.* Although individual restaurants have seasonal patterns of performance that depend on local factors, aggregate sales by the Company's restaurants have not displayed pronounced seasonality, other than lower sales during the back-to-school season, which falls in the Company's third fiscal quarter, and higher sales during the Christmas holiday season, which falls in the Company's fourth fiscal quarter. Extreme weather, especially during the winter months, may adversely affect sales.

## **OWNERSHIP STRUCTURES**

The Company's interests in its restaurants are divided into three categories: (1) Company-owned restaurants, (2) joint venture restaurants and (3) franchised restaurants.

*Company-owned restaurants.* As of March 1, 2002, 150 LongHorn Steakhouse restaurants, all Bugaboo Creek Steak House restaurants, all The Capital Grille restaurants, Hemenway's Seafood Grille and Oyster Bar and The Old Grist Mill Tavern are owned and operated by the Company. The general manager or managing partner of each of these restaurants is employed and compensated by the Company. See *Restaurant Operations - Management and Employees* above.

*Joint Venture Restaurants.* The Company is a partner in various joint ventures and limited partnerships that, in the aggregate, operate eight LongHorn Steakhouse restaurants as of March 1, 2002. Three of these restaurants are in and around the Daytona Beach market and owned by joint ventures managed by the Company. Five of these restaurants are owned by single-purpose limited partnerships with an experienced restaurant operator, as limited partner, who owns 10% of the partnership. The joint venture and limited partnerships pay fees to the Company at the rate of \$3,000 to \$6,500 per restaurant per month.

The Company either controls its joint ventures' use of its service marks or the joint ventures operate under franchise agreements with the Company. As of March 1, 2002, six of the eight restaurants operated by joint ventures and limited partnerships are operated under franchise

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agreements. Franchise agreements for joint ventures are modified by an addendum that provides that no franchise fee is payable and sets the royalty rate at 1.5% to 4% of gross sales. In the event that the Company's partner in the joint venture, or any other entity, should acquire the joint venture's restaurants, this addendum to the franchise agreement would terminate and the operation of the restaurants would continue under the terms of the franchise agreement. The joint ventures are terminable by either joint venture partner upon default by the other partner.

*Franchised Restaurants.* The Company has one unaffiliated franchisee with an area development agreement with the right to operate franchised LongHorn Steakhouse restaurants in Puerto Rico. As of March 1, 2002, this franchisee operated three LongHorn Steakhouse restaurants in Puerto Rico.

The franchise agreements are granted with respect to individual restaurants and are either for a term of ten years with a right of the franchisee to acquire a successor franchise for an additional ten-year period if specified conditions are met or for a period of twenty years. The franchise agreements provide for a franchise fee of \$60,000, which amount is reduced for subsequent franchises acquired by the same franchisee. The franchise fees are payable in full upon execution. The franchise agreements provide for royalties with respect to each restaurant of 4% of gross sales and require the franchisee to expend on local advertising during each calendar month an amount equal to at least 1.5% of gross sales and, if the Company establishes an advertising fund, to contribute an additional amount of 0.5% of gross sales to such fund or up to 4.5% of the restaurant's gross sales during the conduct of a market, regional or national advertising campaign.

Each franchisee has the right to terminate its franchise agreement upon default by the Company. The Company also retains the right to terminate a franchise for a variety of reasons, including the franchisee's failure to pay amounts due under the agreement or to otherwise comply with the terms of the franchise agreement.

An important element of the Company's franchise program is the training the Company provides for each franchisee. With respect to each new franchisee, the Company provides the same training program provided to the Company's management and employees. In addition to this initial training, the Company provides supervision at the opening of the franchisee's first restaurant, beginning one week prior to opening and routine supervision thereafter.

Franchisees are required to operate their restaurants in compliance with the Company's methods, standards and specifications regarding such matters as menu items, ingredients, materials, supplies, services, fixtures, furnishings, decor and signs. The franchisee has full discretion to determine the prices to be charged to all customers. In addition, all franchisees are required to purchase food, ingredients, supplies and materials that meet standards established by the Company or which are provided by suppliers approved by the Company. The Company does not receive fees or profits on sales by third-party suppliers to franchisees.

The franchise laws of many jurisdictions limit the ability of a franchisor to terminate or refuse to renew a franchise.

### **SERVICE MARKS**

The Company has registered LONGHORN STEAKS and design, LONGHORN STEAKHOUSE and design, BUGABOO CREEK STEAK HOUSE and design, THE CAPITAL GRILLE and design, and HEMENWAY'S SEAFOOD GRILLE AND OYSTER BAR and design as service marks with the United States Patent and Trademark Office. The Company has additional registered marks used in connection with the operations of its various restaurants. The Company regards its service marks as having significant value and as being important factors in the marketing of its restaurants. The Company is aware of names and marks similar to the service marks of the Company used by other persons in certain geographic areas; however, the Company believes such uses will not adversely affect the Company. It is the Company's policy to pursue registration of its marks whenever possible and to oppose vigorously any infringement of its marks.

## COMPETITION

The restaurant industry is intensely competitive with respect to price, service, location and food quality, and there are many well-established competitors, both steakhouses and non-steakhouses, with substantially greater financial and other resources than the Company. Such competitors include a large number of national and regional restaurant chains. Some of the Company's competitors have been in existence for a substantially longer period than the Company and may be better established in the markets where the Company's restaurants are or may be located. The restaurant business is often affected by changes in consumer tastes, national, regional or local economic conditions, demographic trends, traffic patterns, and the type, number and location of competing restaurants. In addition, factors such as inflation, increased food, labor and benefits costs and the lack of experienced management and hourly employees may adversely affect the restaurant industry in general and the Company's restaurants in particular.

## GOVERNMENT REGULATION

The Company is subject to various federal, state and local laws affecting its business. Each of the Company's restaurants is subject to licensing and regulation by a number of governmental authorities, which may include alcoholic beverage control, health, safety, sanitation, building and fire agencies in the state or municipality in which the restaurant is located. In addition, most municipalities in which the Company's restaurants are located require local business licenses. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development of a new restaurant in a particular area. The Company is also subject to federal and state environmental regulations, but they have not had a material effect on the Company's operations.

During 2001, approximately 14.7% of the Company's restaurant sales are attributable to the sale of alcoholic beverages. Alcoholic beverage control regulations require each of the Company's restaurants to apply to a state authority and, in certain locations, county or municipal authorities for a license or permit to sell alcoholic beverages on the premises and to provide service for extended hours and on Sundays. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. The Company has not experienced and does not presently anticipate experiencing any significant delays or other problems in obtaining or renewing licenses or permits to sell alcoholic beverages; however, the failure of a restaurant to obtain or retain liquor or food service licenses would adversely affect the restaurant's operations.

The Company and its franchisees are subject in each state in which they operate restaurants to dram shop statutes or case law interpretations, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment which wrongfully served alcoholic beverages to the intoxicated person. The Company carries liquor liability coverage as part of its existing comprehensive general liability insurance.

The Company is also subject to federal and state laws regulating the offer and sale of franchises administered by the Federal Trade Commission and various similar state agencies. Such laws impose registration and disclosure requirements on franchisors in the offer and sale of franchises. These laws often apply substantive standards to the relationship between franchisor and franchisee and limit the ability of a franchisor to terminate or refuse to renew a franchise.

The Federal Americans With Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. The Company designs its restaurants to be accessible to the disabled and believes that it is in substantial compliance with all current applicable regulations relating to restaurant accommodations for the disabled.

The Company's restaurant operations are also subject to federal and state laws governing such matters as wages, working conditions, citizenship requirements, overtime and tip credits. A significant number of the Company's food service and preparation personnel receive gratuities and are paid at rates related to the federal minimum wage. Significant additional government-imposed increases in minimum wages, paid

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leaves-of-absence, mandated health benefits or increased tax reporting and tax payment requirements with respect to employees who receive gratuities would have an adverse effect on the profitability of the Company.

### EMPLOYEES

As of March 1, 2002, the Company employed approximately 11,605 persons, 166 of whom were corporate personnel, 882 of whom were restaurant management personnel and the remainder of whom were hourly personnel. Of the 166 corporate employees, 97 are in management positions and 69 are administrative or office employees. None of the Company's employees are covered by a collective bargaining agreement. The Company considers its employee relations to be good.

### ITEM 2. PROPERTIES

As of March 1, 2002, all but 47 of the Company's restaurants were located in leased space (including three sites for restaurants under construction and three sites for restaurants to go under construction later in 2002). Initial lease expirations typically range from ten to fifteen years, with the majority of these leases providing for an option to renew for at least one additional term of three to 15 years. All of the Company's leases provide for a minimum annual rent, and approximately half of the leases call for additional rent based on sales volume (generally 2.0% to 8.0%) at the particular location over specified minimum levels. Generally the leases are net leases, which require the Company to pay the costs of insurance, taxes and a portion of lessors' operating costs.

The leases on the existing Company-owned restaurants will expire over the period from 2002 through 2032 (assuming exercise of all renewal options).

The Company owns two office buildings aggregating 15,000 square feet and leases a 15,000 square foot office building in which its corporate offices are headquartered. All three office buildings are located in Atlanta, Georgia. In addition, the Company leases approximately 1,500 square feet of space in East Providence, Rhode Island to house staff to support the operation of Bugaboo Creek Steak House restaurants.

### ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal actions incidental to the normal conduct of its business. Management does not believe that the ultimate resolution of these incidental actions will have a material adverse effect on the Company's financial position or results of operations.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted for a vote of security holders during the fourth quarter of 2001.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock trades on the Nasdaq National Market under the symbol RARE. The table below sets forth the high and low sales prices of the Company's common stock, as reported on the Nasdaq National Market, during the periods indicated, adjusted to give retroactive effect to the Company's 50% stock dividend in 2000 (see Note 1 to the consolidated financial statements):

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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FISCAL YEAR ENDED DECEMBER 30, 2001	HIGH	LOW
-----	-----	-----
First Quarter	\$32.0000	\$20.0625
Second Quarter	28.4300	19.7000
Third Quarter	23.6300	14.8400
Fourth Quarter	23.6000	14.1500

FISCAL YEAR ENDED DECEMBER 31, 2000	HIGH	LOW
-----	-----	-----
First Quarter	\$14.8750	\$9.8333
Second Quarter	23.8333	12.7500
Third Quarter	21.3333	16.4167
Fourth Quarter	29.0000	19.1250

The closing price of a share of the Company's common stock on March 1, 2002, was \$26.29. As of March 1, 2002, there were approximately 462 holders of record of the Company's common stock.

Since the Company's initial public offering in 1992, the Company has not declared or paid any cash dividends on its capital stock. The Company does not intend to pay any cash dividends on its common stock in the foreseeable future, as the current policy of the Company's Board of Directors is to retain all earnings to support operations and finance expansion. The Company's existing revolving line of credit restricts the payment of cash dividends without prior lender approval. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources. Future declaration and payment of dividends, if any, will be determined in light of then current conditions, including the Company's earnings, operations, capital requirements, financial condition, restrictions in financing arrangements and other factors deemed relevant by the Board of Directors.

## ITEM 6. SELECTED FINANCIAL DATA

Following is selected consolidated financial data as of and for each of the fiscal years in the five-year period ended December 30, 2001. The Consolidated Financial Statements as of December 30, 2001 and December 31, 2000 and for each of the years in the three-year period ended December 30, 2001 and the independent auditors' report thereon are included in this Form 10-K. All share and per share amounts have been restated to give retroactive effect to the Company's 50% stock dividend in 2000 (see Note 1 to consolidated financial statements). The data should be read in conjunction with the Consolidated Financial Statements of the Company and related notes in this Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations, also included in this Form 10-K.

	FISCAL YEARS END		
	DEC 30, 2001	DEC 31, 2000	DEC 26, 1999
	-----		
	(in thousands, except per share data)		
STATEMENT OF OPERATIONS DATA:			
Revenues:			
Restaurant sales	\$532,879	\$463,648	\$382,275
Franchise revenues	328	380	195
	-----	-----	-----
Total revenues	533,207	464,028	382,470
Costs and expenses:			
Cost of restaurant sales	189,869	166,421	137,416
Operating expenses-- restaurants	240,510	204,652	171,943
Provision for asset impairments, restaurant closings, and other charges	2,802	--	1,800
Depreciation and amortization--restaurants	21,248	17,022	15,249

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Pre-opening expense	3,764	3,318	3,051
General and administrative expenses	32,386	31,309	26,052
	-----	-----	-----
Total costs and expenses	490,579	422,722	355,511
	-----	-----	-----
Operating income (loss)	42,628	41,306	26,959
Interest expense, net	2,128	4,159	3,866
Early termination of interest rate swap agreement	1,100	--	--
Provision for litigation settlement	--	1,000	--
Minority interest	639	1,407	1,609
	-----	-----	-----
Earnings (loss) before income taxes and cumulative effect of change in accounting principle	38,761	34,740	21,484
Income tax expense (benefit)	12,603	11,480	7,060
	-----	-----	-----
Earnings (loss) before cumulative effect of change in accounting principle	26,158	23,260	14,424
Cumulative effect of change in accounting principle (net of tax benefit of \$760)	--	--	1,587
	-----	-----	-----
Net earnings (loss)	\$ 26,158	\$ 23,260	\$ 12,837
	=====	=====	=====
Basic earnings (loss) per common share before cumulative effect of change in accounting principle	\$ 1.25	\$ 1.27	\$ 0.80
Cumulative effect per common share of change in accounting principle	--	--	0.09
	-----	-----	-----
Basic earnings (loss) per common share	\$ 1.25	\$ 1.27	\$ 0.71
	=====	=====	=====
Diluted earnings (loss) per common share before cumulative effect of change in accounting principle	\$ 1.18	\$ 1.20	\$ 0.76
Cumulative effect per common share of change in accounting principle	--	--	0.08
	-----	-----	-----
Diluted earnings (loss) per common share	\$ 1.18	\$ 1.20	\$ 0.68
Weighted average common shares outstanding (basic)	21,002	18,271	18,048
Weighted average common shares outstanding (diluted)	22,144	19,416	18,819
	=====	=====	=====

FISCAL YEARS END

	DEC 30, 2001	DEC 31, 2000	DEC 26, 1999
	-----	-----	-----

(in thousands)

BALANCE SHEET DATA:

Working capital (deficit)	\$ (4,931)	\$ (23,114)	\$ (11,031)
Total assets	353,397	295,381	237,118
Debt, net of current installments	10,000	51,000	40,000
Obligations under capital leases, net of current installments	20,867	20,925	9,732
Minority interest	1,329	1,469	3,982
Total shareholders' equity	256,530	167,257	137,584

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

The Company's revenues are derived primarily from restaurant sales from Company-owned and joint venture restaurants. The Company also derives a small percentage of its total revenue from franchise revenues from unaffiliated franchised restaurants. Cost of restaurant sales consists of food and beverage costs for Company-owned and joint venture restaurants. Restaurant operating expenses consist of all other restaurant-level costs. These expenses include the cost of labor, advertising, operating supplies, rent, and utilities. Depreciation and amortization includes only the depreciation attributable to restaurant-level capital expenditures, and for fiscal years prior to 1999, amortization associated with pre-opening expenditures.

General and administrative expenses include finance, accounting, management information systems, restaurant supervision expenses, and other administrative overhead related to support functions for Company-owned, joint venture, and franchise restaurant operations. Minority interest consists of the partners' share of earnings in joint venture restaurants.

The Company defines the comparable restaurant base to include those restaurants open for a full 18 months prior to the beginning of each fiscal quarter. Average weekly sales are defined as total restaurant sales divided by restaurant weeks. A restaurant week is one week during which a single restaurant is open, so that two restaurants open during the same week constitutes two restaurant weeks.

The Company's revenues and expenses can be affected significantly by the number and timing of the opening of additional restaurants. The timing of restaurant openings also can affect the average sales and other period-to-period comparisons.

The following table sets forth the percentage relationship to total revenues of the listed items included in the Company's consolidated statements of operations, except as indicated:

	FISCAL
	DECEMBER 30, 2001
Revenues:	
Restaurant sales:	
LongHorn Steakhouse	70.5%
The Capital Grille	15.3
Bugaboo Creek Steak House	12.7
Other restaurants	1.4
Total restaurant sales	99.9
Franchise revenues	0.1
Total revenues	100.0
Costs and expenses:	
Cost of restaurant sales(1)	35.6
Operating expenses--restaurants(1)	45.1
Provision for asset impairments, restaurant closings, and other charges	0.5
Depreciation and amortization--restaurants(1)	4.0
Pre-opening expense - restaurants(1)	0.7



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General and administrative expenses	6.1
	-----
Total costs and expenses	92.0
	-----
Operating income	8.0
Interest expense, net	0.4
Early termination of interest rate swap agreement	0.2
Provision for litigation settlement	--
Minority interest	0.1
	-----
Earnings before income taxes and cumulative effect of change in accounting principle	7.3
Income tax expense	2.4
	-----
Earnings before cumulative effect of change in accounting principle	4.9
Cumulative effect of change in accounting principle (net of tax benefit)	--
	-----
Net earnings	4.9%
	=====

(1) Cost of restaurant sales, restaurant operating expenses, depreciation and amortization and pre-opening expense are expressed as a percentage of total restaurant sales.

## RESULTS OF OPERATIONS

Year Ended December 30, 2001 Compared to Year Ended December 31, 2000

### REVENUES

Total revenues increased 14.9% to \$533.2 million for 2001, compared to \$464.0 million for 2000. The Company's fiscal year is a 52- or 53-week year ending on the last Sunday in each calendar year. Each of the four quarters is typically made up of 13 weeks; however, since fiscal 2000 was a 53-week period, the first quarter of 2000 contained 14 weeks compared to 13 operating weeks in the first quarter of 2001. This differential in the number of operating weeks had an unfavorable effect on the Company's revenue comparisons and operating results for 2001 compared to 2000.

#### ***LongHorn Steakhouse:***

Sales in the LongHorn Steakhouse restaurants increased 14.6% to \$375.7 million for 2001, compared to \$327.8 million for 2000. The increase reflects a 13.1% increase in restaurant operating weeks in 2001 as compared to 2000, resulting from an increase in the restaurant base from 135 Company-owned and joint venture LongHorn Steakhouse restaurants at the end of 2000 to 154 restaurants at the end of 2001. Total operating weeks for 2001 were negatively affected by the additional week in the 2000 53-week operating period as compared to the 52-week operating period in 2001. Excluding the additional operating week in the 53-week fiscal year 2000, total restaurant operating weeks would have increased by 15.3% in 2001 as compared to the same period in 2000. Average weekly sales for all Company-owned and joint venture LongHorn Steakhouse restaurants in 2001 were \$49,037, a 1.3% increase over 2000. Sales for the comparable LongHorn Steakhouse restaurants increased 1.8% in 2001 as compared to 2000. The increase in comparable restaurant sales for 2001 at LongHorn Steakhouse was attributable to an increase in average check.

***The Capital Grille:***

Sales in The Capital Grille restaurants increased 25.1% to \$81.8 million for 2001, compared to \$65.4 million for 2000. The increase reflects a 25.8% increase in restaurant operating weeks in 2001 as compared to 2000, resulting from an increase in the restaurant base from 12 The Capital Grille restaurants at the end of 2000 to 15 restaurants at the end of 2001. Total operating weeks for 2001 were negatively affected by the additional week in the 2000 53-week operating period as compared to the 52-week operating period in 2001. Average weekly sales for all The Capital Grille restaurants in 2001 were \$110,394, a 0.6% decrease from 2000. This decrease in average weekly sales volume is due to the opening of three new The Capital Grille restaurants. The Capital Grille restaurants have historically opened at lower sales volumes and not experienced the drop off in sales after an initial honeymoon period commonly characteristic in the restaurant industry. Sales for the comparable The Capital Grille restaurants increased 1.8% in 2001, as compared to 2000. The increase in comparable restaurant sales at The Capital Grille restaurants is attributable to an increase in average check. Excluding the additional operating week in the 53-week fiscal year 2000, total restaurant operating weeks would have increased by 28.2% in 2001 as compared to the same period in 2000.

***Bugaboo Creek Steak House:***

Sales in the Bugaboo Creek Steak House restaurants increased 7.9% to \$68.0 million for 2001, compared to \$63.0 million for 2000. The increase reflects a 3.2% increase in restaurant weeks in 2001 as compared to 2000, resulting from the operation of 19 Bugaboo Creek Steak House restaurants during all of 2001 compared to 2000 when the 19th Bugaboo Creek Steak House restaurant was opened in the fourth quarter. Total operating weeks for 2001 were negatively affected by the additional week in the 2000 53-week operating period as compared to the 52-week operating period in 2001. Average weekly sales for all Bugaboo Creek Steak House restaurants in 2001 were \$68,850, a 4.6% increase from 2000. Excluding the additional operating week in the 53-week fiscal year 2000, total restaurant operating weeks would have increased by 5.2% in 2001 as compared to the same period in 2000. Sales for the comparable Bugaboo Creek Steak House restaurants increased 2.9% in 2001, as compared to 2000. The increase in comparable restaurant sales at Bugaboo Creek Steak House restaurants is attributable to an increase in average check and guest counts.

***Franchise Revenue:***

The Company has a Franchisee that operates three LongHorn Steakhouse restaurants in Puerto Rico. The Company's franchisee opened one franchise LongHorn Steakhouse in each of 2000, 1999 and 1998. The Company earned \$328,000 and \$380,000 in franchise revenue in 2001 and 2000, respectively.

**COSTS AND EXPENSES**

Cost of restaurant sales, as a percentage of restaurant sales, decreased to 35.6% in 2001 from 35.9% in 2000. Favorable pricing on certain non-red meat products during 2001 more than offset higher red meat costs during the year.

Restaurant operating expenses increased as a percentage of restaurant sales in 2001 to 45.1%, from 44.1% in 2000. This was due to an increase in restaurant management and hourly labor as a percentage of restaurant sales, and an increase in advertising and promotions expense, partially offset by greater sales leverage of fixed and semi-fixed expenses (principally rent).

The provision for asset impairments, restaurant closings, and other charges of \$2.8 million in 2001 consisted primarily of the write down of five LongHorn Steakhouse restaurants. The amount of the charge was determined under SFAS No. 121 by comparing discounted future cash flows to the carrying value of impaired assets.

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Depreciation and amortization restaurants increased to \$21.2 million in 2001, from \$17.0 million in 2000, and as a percent of total restaurant sales due to the Company's new restaurant construction, capital lease accounting treatment associated with the three new The Capital Grille restaurants opened during 2001 and acceleration of the Company's remodeling programs.

Pre-opening expense increased to \$3.7 million in 2001, from \$3.3 million in 2000, principally due to the opening of 22 Company-owned restaurants in 2001 compared to the opening of 19 Company-owned restaurants in 2000.

General and administrative expenses increased to \$32.4 million in 2001, from \$31.3 million in 2000, but decreased as a percent of total revenues to 6.1% from 6.7% in 2000. The increased costs in 2001 were primarily payroll related, associated with building the infrastructure necessary to support the Company's growth partially offset by reduced accruals for management bonuses. General and administrative expenses, as a percent of total revenues, decreased principally due to greater leverage of fixed and semi-fixed expenses resulting from increased sales at existing restaurants and new restaurants.

Interest expense decreased to \$2.1 million in 2001, from \$4.2 million in 2000. The decrease in interest expense is principally due to the Company's common stock offering in February 2001, the proceeds of which were used to pay down borrowings under the Company's revolving credit facility. The Company's weighted average interest rate on borrowings, including the amortization of debt issue costs, under its revolving credit facility was approximately 8.6% in 2001 and 2000.

Concurrent with the completion of the February 2001 common stock offering, the Company amended its interest rate swap agreements to fix the interest rate on future amounts borrowed under the Company's credit facility. The Company paid \$1.1 million resulting in an after-tax expense of \$682,000 associated with amending the interest rate swap agreements to reduce the notional principal to amounts equal to the variable rate debt expected to be outstanding in the future under the Company's credit facility. The repayment of amounts outstanding under the credit agreement combined with the termination of the associated hedge created an ineffective hedge relationship, which resulted in the \$1.1 million charge to earnings in 2001.

Minority interest decreased to \$0.6 million in 2001, from \$1.4 million in 2000. This reflects a decrease in the number of joint venture restaurants in 2001 compared to 2000 due to the purchase of a joint venture partner's interest in one restaurant during 2001 and 19 joint venture restaurants during 2000.

Income tax expense in 2001 was 32.5% of earnings before income taxes. The Company's effective income tax rate differs from applying the statutory Federal income tax rate of 35% to earnings before income taxes primarily due to employee FICA tip tax credits partially offset by state income taxes.

Net income of \$26.2 million in 2001, as compared to net income of \$23.3 million in 2000, reflects the net effect of the items discussed above.

### **RESULTS OF OPERATIONS**

Year Ended December 31, 2000 Compared to Year Ended December 26, 1999

## REVENUES

Total revenues increased 21.3% to \$464.0 million for 2000 compared to \$382.5 million for 1999. The Company's fiscal year is a 52- or 53-week year ending on the last Sunday in each calendar year. Each of the four quarters is typically made up of 13 weeks; however, since fiscal 2000 was a 53-week period, the first quarter of 2000 contained 14 weeks. This additional week had a favorable effect on the Company's revenue comparisons and operating results for 2000.

### ***LongHorn Steakhouse:***

Sales in the LongHorn Steakhouse restaurants increased 25.8% to \$327.8 million for 2000, compared to \$260.5 million for 1999. The increase reflects a 17.2% increase in restaurant operating weeks in 2000 as compared to 1999, resulting from an increase in the restaurant base from 118 Company-owned and joint venture LongHorn Steakhouse restaurants at the end of 1999 to 135 restaurants at the end of 2000. Total operating weeks for 2000 were positively affected by the additional week in the 2000 53-week operating period as compared to 52 weeks in 1999. Average weekly sales for all Company-owned and joint venture LongHorn Steakhouse restaurants in 2000 were \$48,408, a 7.4% increase over 1999. Sales for the comparable LongHorn Steakhouse restaurants increased 5.6% in 2000 as compared to 1999. The increase in comparable restaurant sales for 2000 at LongHorn Steakhouse was attributable primarily to an increase in guest counts.

### ***The Capital Grille:***

Sales in The Capital Grille restaurants increased 13.0% to \$65.4 million for 2000, compared to \$57.9 million for 1999. The increase reflects a 3.0% increase in restaurant operating weeks in 2000 as compared to 1999, resulting from an increase in the restaurant base from 11 The Capital Grille restaurants at the end of 1999 to 12 restaurants at the end of 2000. Total operating weeks for 2000 were positively affected by the additional week in the 2000 53-week operating period as compared to 52 weeks in 1999. Average weekly sales for all The Capital Grille restaurants in 2000 were \$111,025, a 9.7% increase from 1999. Sales for the comparable The Capital Grille restaurants increased 10.3% in 2000, as compared to 1999. The increase in comparable restaurant sales at The Capital Grille restaurants is attributable primarily to an increase in guest counts.

### ***Bugaboo Creek Steak House:***

Sales in the Bugaboo Creek Steak House restaurants increased 10.6% to \$63.0 million for 2000, compared to \$56.9 million for 1999. The increase reflects a 6.1% increase in restaurant weeks in 2000 as compared to 1999, resulting from an increase in the restaurant base from 18 Bugaboo Creek Steak House restaurants at the end of 1999 to 19 restaurants at the end of 2000. Total operating weeks for 2000 were positively affected by the additional week in the 2000 53-week operating period as compared to 52 weeks in 1999. Average weekly sales for all Bugaboo Creek Steak House restaurants in 2000 were \$65,793, a 4.3% increase from 1999. Sales for the comparable Bugaboo Creek Steak House restaurants increased 4.5% in 2000, as compared to 1999. The increase in comparable restaurant sales at Bugaboo Creek Steak House restaurants is attributable primarily to an increase in guest counts.

### ***Franchise Revenue:***

During 1997, the Company acquired all of the LongHorn Steakhouse restaurants that were then paying franchise revenues. In September 1998, a franchise LongHorn Steakhouse restaurant opened in Puerto Rico. The franchisee began paying royalties in January 1999. No franchise revenues were earned during 1998. The Company's franchisee opened one franchise LongHorn Steakhouse in Puerto Rico in each of 2000 and 1999. The Company earned \$380,000 and \$195,000 in franchise revenue in 2000 and 1999, respectively.

## COSTS AND EXPENSES

Cost of restaurant sales, as a percentage of restaurant sales, remained constant at 35.9% in 2000 as compared to 1999.

Restaurant operating expenses decreased as a percentage of restaurant sales in 2000 to 44.1% from 45.0% in 1999. This was due to greater sales leverage of fixed and semi-fixed expenses (principally management labor and rent), partially offset by an increase in management incentives and advertising expense.

Depreciation and amortization restaurants increased to \$17.0 million in 2000 from \$15.2 million in 1999 due to the Company's new restaurant construction and remodeling programs, but decreased as a percent of total restaurant sales due to the effect of higher average weekly sales leveraging this relatively fixed expense item.

Pre-opening expense increased to \$3.3 million in 2000 from \$3.1 million in 1999, principally due to the opening of 19 Company-owned restaurants in 2000 compared to the opening of 16 Company-owned restaurants in 1999.

General and administrative expenses increased to \$31.3 million in 2000 from \$26.1 million in 1999, but decreased as a percent of total revenues to 6.7% from 6.8% in 1999. The increased costs in 2000 were primarily payroll related, associated with building the infrastructure necessary to support the Company's growth and increased goodwill amortization associated with the acquisition of the joint venture partners' ownership interest in 19 LongHorn Steakhouse restaurants in July 2000. General and administrative expenses, as a percent of total revenues, decreased slightly principally due to greater leverage of fixed and semi-fixed expenses.

Interest expense increased to \$4.2 million in 2000, from \$3.9 million in 1999. The increase in interest expense is due to higher average balances outstanding under the Company's obligations under capital leases as well as additional expenses associated with amending the Company's \$100 million revolving credit facility. The Company's weighted average interest rate on borrowings, including the amortization of debt issue costs, under its revolving credit facility was approximately 8.6% in 2000, compared to 8.7% in 1999.

In March 2000, an ongoing legal dispute with a former joint venture partner was resolved by an arbitrator, resulting in a judgment against the Company in the amount of \$2.0 million. The Company's consolidated statement of earnings for 2000 reflects a nonrecurring charge of \$1.0 million (\$670,000 net of income taxes) for amounts not previously reserved for this dispute.

Minority interest decreased to \$1.4 million in 2000 from \$1.6 million in 1999. This reflects a decrease in the number of joint venture restaurants for most of 2000 compared to 1999 due to the purchase of joint venture partners' partnership interests in 19 joint venture restaurants during 2000 and 14 joint venture restaurants during 1999, partially offset by the overall improved performance of the joint ventures prior to their sale in 2000 and improved performance at the remaining eight joint venture restaurants.

Income tax expense in 2000 was 33.0% of earnings before income taxes. The Company's effective income tax rate differs from applying the statutory Federal income tax rate of 35% to earnings before income taxes primarily due to employee FICA tip tax credits partially offset by state income taxes.

Net income of \$23.3 million in 2000, as compared to net income of \$12.8 million in 1999, reflects 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 refurbishment of existing restaurants. The Company's principal financing sources in 2001 were proceeds from the issuance of 2.3 million shares of common stock in a registered public offering (\$57.6 million), cash flow from operations (\$57.4 million), and proceeds from the exercise of employee stock options (\$4.3 million). The primary uses of funds consisted of costs associated with expansion, principally leasehold improvements, equipment, land and buildings associated with the construction of new restaurants (\$55.5 million) and the repayment of amounts outstanding under the Company's revolving credit facility (\$41.0 million).

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.

The significant increase in cash and cash equivalents at December 30, 2001, as compared to the end of the prior year, is due to i) \$10.0 million in borrowings that the Company maintains to support an interest rate swap agreement, and ii) proceeds from the Company's holiday gift certificate sales program. The increases in accounts receivable, inventory, prepaid expenses, accounts payable, and accrued expenses are principally due to the new restaurants which were opened during 2001 and the result of generally higher average unit volumes experienced during 2001. Further increases in current asset and liability accounts are expected as the Company continues its restaurant development program.

Under the Company's amended and restated \$100.0 million revolving credit facility, beginning with the last day of the quarter ending September 2004, the amount available under the revolving credit facility will be reduced each quarter by \$10.0 million, reducing the commitment to \$50.0 million as of the termination date in September 2005. The terms of the revolving credit facility, as amended, require the Company to pay interest on outstanding borrowings 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, and pay a commitment fee of 0.3% to 0.5% per year on any unused portion of the facility. As of December 30, 2001, interest on the revolving credit facility accrued at LIBOR plus 1.25% or the prime rate. As of December 30, 2001, the Company was required to pay a commitment fee of 0.30% per year on any unused portion of the facility. The revolving credit facility contains various covenants and restrictions which, among other things, require the maintenance of stipulated leverage and fixed charge coverage ratios and minimum consolidated net worth, as defined, and also limit additional indebtedness in excess of specified amounts. The Company is currently in compliance with such covenants.

In February 2001, the Company completed an offering of 2,300,000 shares of its no par value common stock at \$26 per share. Total net proceeds to the Company were approximately \$57.6 million. The Company used approximately \$56.5 million of those proceeds to repay amounts outstanding under its \$100.0 million revolving line of credit, and approximately \$1.1 million to pay a nonrecurring pre-tax expense associated with amending its interest rate swap agreements to fix the interest rate on amounts expected to be outstanding under the Company's credit facility following its application of these proceeds. The \$1.1 million (\$682,000 after-tax) nonrecurring, separately stated expense associated with amending the interest rate swap agreements resulted in a decrease of approximately \$0.03 in diluted earnings per share for the first quarter of 2001. After amending the interest rate swap agreements, the Company had effectively fixed the interest rate at 6.52%, plus the applicable margin on \$10.0 million from July 2001 through June 2002; \$15.0 million from July 2002 through March 2003; and \$17.5 million from April 2003 through August 2004. At December 30, 2001, \$10.0 million was outstanding and \$90.0 million was available under the Company's \$100.0 million revolving credit agreement at a weighted average interest rate of 7.77% after considering the effect of the interest rate swap agreement.

The Company currently plans to open 17 to 20 Company-owned LongHorn Steakhouse restaurants, two or three Bugaboo Creek Steak House restaurants and one The Capital Grille restaurant in 2002. The Company estimates that its capital expenditures will be approximately \$60.0 to \$65.0 million in 2002. The capital expenditure estimate for 2002 includes the estimated cost of developing 20 to 24 new restaurants, ongoing refurbishment in existing restaurants, costs associated with obtaining real estate for year 2003 planned openings, and continued investment in improved management information systems. In September 2001, the Company's Board of Directors authorized the Company to use up to \$15.0 million to purchase shares of its common stock through open market transactions, block purchases or in privately negotiated transactions. During the third quarter of 2001, the Company purchased 10,000 shares of its common stock for a total purchase price of approximately \$159,000 (average price of \$15.90 per share).

The Company expects that available borrowings under the Company's revolving credit facility, together with cash on hand and cash provided by operating activities, will provide sufficient funds to finance its expansion and share repurchase plans through the year 2004.

The preceding discussion of liquidity and capital resources contains certain forward-looking statements. Forward-looking statements involve a number of risks and uncertainties, and in addition to the factors discussed elsewhere in this Form 10-K, other factors that could cause actual results to differ materially include the following: failure of facts to conform to necessary management estimates and assumptions; the Company's ability to identify and secure suitable restaurant locations on acceptable terms, open new restaurants in a timely manner, 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 of cost of sales 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; changes in customer dining patterns; competitive pressures from other national and regional restaurant chains; business conditions, such as inflation or a recession, 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; the risks set forth in Exhibit 99(a) to this Form 10-K, which are hereby incorporated by reference and other risks identified from time to time in the Company's SEC reports, registration statements and public announcements. See the description of forward-looking statements found in Forward Looking Statements.

## CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The table below summarizes the Company's significant contractual obligations other than hedging contracts, by maturity, as of December 30, 2001 (in thousands):

	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS
	-----	-----	-----
Bank revolving credit facility	\$10,000	\$ --	\$ --
Capital lease obligations	49,594	1,951	4,019
Operating leases	93,660	13,856	25,279
Other purchase obligations	13,002	13,002	--
	-----	-----	-----
Total contractual cash obligations	\$166,256	\$28,809	\$29,298
	=====	=====	=====

## EFFECT OF INFLATION

Management believes that inflation has not had a material effect on earnings during the past several years. Inflationary increases in the cost of labor, food and other operating costs could adversely affect the Company's restaurant operating margins. In the past, however, the Company generally has been able to modify its operations and increase menu prices to offset increases in its operating costs.

A majority of the Company's employees are paid hourly rates related to federal and state minimum wage laws and various laws that allow for credits to that wage. Although the Company has been able to and will continue to attempt to pass along increases in the minimum wage and in other costs through food and beverage price increases, there can be no assurance that all such increases can be reflected in its prices or that increased prices will be absorbed by customers without diminishing, to some degree, customer spending at its restaurants.

## RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, beginning fiscal year 2002, the Company will no longer amortize goodwill and intangible assets with indefinite lives, but instead will test those assets for impairment at least annually. The Company is required to adopt SFAS 142 at the beginning of fiscal 2002 and assess in accordance with the provisions of the Statement whether there is an indication that any goodwill or other intangible assets with indefinite lives are impaired as of that date.

As soon as possible after a determination that any goodwill or other intangible assets may be impaired, but not later than December 29, 2002, the Company must determine the fair value of such goodwill or other intangible asset with an indefinite life in accordance with the provisions of the Statement. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle.

As of the date of adoption, the Company had unamortized goodwill in the amount of \$19.2 million, which will be subject to the transition provisions of SFAS 142. Amortization expense related to goodwill was approximately \$1.1 million for fiscal year 2001. 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 approximately \$1.1 million of annual amortization.

In October 2001, the FASB 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 will adopt SFAS No. 144 beginning in fiscal 2002. Management does not believe that the adoption of SFAS No. 144 will have a material impact on the Company's consolidated financial statements.

In November 2001, the Emerging Issues Task Force (EITF) of the 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 by submitting a claim for a refund or rebate. Under EITF 01-9, the reduction in or refund of the selling price of the product resulting from any sales incentives should be classified as a reduction of revenue. Currently, the Company recognizes certain sales incentives as restaurant operating expense. Although this pronouncement will not have any impact on the Company's consolidated results of operations or financial position, the presentation prescribed will have an effect of reducing net sales and restaurant operating expense. Upon adoption of EITF 01-9, prior years' sales and restaurant operating expenses will be restated to conform to the new presentation requirement. The Company will adopt EITF 01-9 for fiscal 2002. Sales incentives included in restaurant operating expense for 2001 and 2000 amounted to \$8,228,000 and \$6,420,000, respectively.

## DISCUSSION OF CRITICAL ACCOUNTING POLICIES

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes that the following discussion addresses the Company's most critical accounting policies, the judgements and uncertainties affecting the application of those policies, and the likelihood that materially different amounts would be reported under different conditions or using different assumptions.



Property, plant and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in circumstances such as technological advances, changes to the Company's business model or changes in the Company's capital strategy can result in the actual useful lives differing from the Company's estimates. In those cases where the Company determines that the useful life of property, plant and equipment should be shortened, the Company would depreciate the net book value in excess of the salvage value, over its revised remaining useful life thereby increasing depreciation expense. Factors such as changes in the planned use of fixtures or software or closing of facilities could also result in shortened useful lives.

Long-lived assets, including fixed assets, intangibles and goodwill are reviewed by the Company for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The estimate of cash flow is based upon, among other things, certain assumptions about expected future operating performance. The Company's estimates of undiscounted cash flow may differ from actual cash flow due to, among other things, technological changes, economic conditions, changes to its business model or changes in its operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

Income taxes are accounted for by the Company in accordance with Statement of Financial Accounting Standards No. 109 (SFAS No. 109), Accounting for Income Taxes, which requires that deferred tax assets and liabilities be recognized for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company reviews the recoverability of any deferred tax assets recorded on the balance sheet and provides any necessary allowances as required. An adjustment to the deferred tax asset would be charged to income in the period such determination was made.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **INTEREST RATE RISK**

As of December 30, 2001, \$10.0 million was outstanding under the Company's \$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% (the applicable margin 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 movements. To achieve the Company's objective of managing its exposure to interest rate changes, the Company from time to time uses interest rate swaps.

As of December 30, 2001, the Company had interest rate swap agreements with a commercial bank, which effectively fixed the interest rate at 6.52%, plus the applicable margin on \$10.0 million through June 2002; \$15.0 million from July 2002 through March 2003; and \$17.5 million from April 2003 through August 2004. The applicable margin on December 30, 2001 was 1.25%. The Company is exposed to credit losses on this interest rate swap in the event of counterparty non-performance, but does not anticipate any such losses.

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

## INVESTMENT PORTFOLIO

The Company invests portions of its excess cash, if any, in highly liquid investments. At December 30, 2001, the Company had \$21.0 million in overnight repurchase agreements. The market risk on such investment is minimal.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES

#### CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 30, 2001, DECEMBER 31, 2000, AND DECEMBER 26, 1999

#### WITH INDEPENDENT AUDITORS' REPORT THEREON

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### RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES

#### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
RARE Hospitality International, Inc.

We have audited the accompanying consolidated balance sheets of RARE Hospitality International, Inc. and subsidiaries (the Company) as of December 30, 2001 and December 31, 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RARE Hospitality International, Inc. and subsidiaries as of December 30, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001.

KPMG LLP

Atlanta, Georgia  
February 8, 2002

**RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS  
DECEMBER 30, 2001 AND DECEMBER 31, 2000  
(in thousands)**

	2001
	-----
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 25,979
Accounts receivable	6,710
Inventories	13,437
Prepaid expenses	3,069
Refundable income taxes	3,902
Deferred income taxes (note 7)	6,643
	-----
Total current assets	59,740
Property and equipment, less accumulated depreciation and amortization (notes 4 and 9)	269,323
Goodwill, less accumulated amortization	19,187
Deferred income taxes (note 7)	2,276
Other	2,871
	-----
Total assets	\$ 353,397
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$ 27,189
Accrued expenses (note 5)	37,424
Current installments of obligations under capital leases (note 9)	58
	-----
Total current liabilities	64,671

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Debt, net of current installments (note 6)	10,000
Obligations under capital leases, net of current installments (note 9)	20,867
	-----
Total liabilities	95,538