RARE HOSPITALITY INTERNATIONAL INC
Form 10-K
March 27, 2003

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act. Yes [X] No [ ]

As of March 18, 2003, 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 $614,290,354 based upon the last reported sale price in the Nasdaq National Market on March 18, 2003 of $28.49.

As of March 18, 2003, the number of shares outstanding of the Registrant s Common Stock, no par value, was 22,076,617 (excluding 195,000 shares held in the Company s treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 12, 2003 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 2003 and the section of Management s Discussion and Analysis of Financial Condition and Results of Operations entitled OUTLOOK FOR FUTURE OPERATING RESULTS , 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 employee, pre-opening or other expenses; the economic conditions in the new markets into which the Company expands and possible uncertainties in the customer base in these areas; fluctuations in quarterly operating results; seasonality; changes in customer dining patterns; the impact of any negative publicity or public attitudes related to the consumption of beef; disruption of established sources of product supply or distribution; competitive pressures from other national and regional restaurant chains; 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.

RARE HOSPITALITY INTERNATIONAL, INC.

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PART I

ITEM 1. BUSINESS

GENERAL

RARE Hospitality International, Inc. and subsidiaries (the Company) operates and franchises 213 restaurants as of March 3, 2003, including 174 LongHorn Steakhouse restaurants, 15 The Capital Grille restaurants and 22 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 décor 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 décor 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, 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 restaurants under construction by concept at March 3, 2003 and the number of restaurants in each area.

LONGHORN STEAKHOUSE RESTAURANTS

EXISTING COMPANY-OWNED/JOINT VENTURE RESTAURANTS

ALABAMA	
Birmingham	1
Dothan	1
Huntsville	1
Mobile	1
Montgomery	2
FLORIDA	
Daytona Beach	1
Destin	1
Ft. Myers	2
Jacksonville	5
Miami/Ft. Lauderdale	6
Ocala	1
Orlando	7
St. Augustine	1
Tallahassee	1
Tampa/ St. Petersburg	8
West Palm Beach	4
GEORGIA	
Albany	1
Athens	1
Atlanta	29
Augusta	1
Cartersville	1
Columbus	1
Dalton	1
Macon	1
Rome	1
Savannah	1
Statesboro	1
Tifton	1
Valdosta	1
Warner Robbins	1
ILLINOIS	
Fairview Heights	1
INDIANA	
Indianapolis	3
KANSAS	
Leawood	1
KENTUCKY	
Bowling Green	1
Florence	1
Louisville	1
MARYLAND	
Baltimore	3

Waldorf	1
MASSACHUSETTS	
Boston	6
MISSOURI	
Kansas City	3
St. Louis	5
NEW HAMPSHIRE	
Concord	2
Nashua	1
NEW JERSEY	
Parsippany	1
Rochelle Park	1
NORTH CAROLINA	
Burlington	1
Charlotte	7
Greensboro	1
Hickory	1
High Point	1
Winston-Salem	1
OHIO	
Cincinnati	4
Cleveland	10
Columbus	5
Dayton	1
Toledo	1
PENNSYLVANIA	
Erie	1
Philadelphia	3
RHODE ISLAND	
Warwick	1
SOUTH CAROLINA	
Columbia	3
Greenville	1
Spartanburg	1
Hilton Head	1
Mt. Pleasant	1
Rock Hill	1
TENNESSEE	
Chattanooga	1
Jackson	1
Nashville	5
VIRGINIA	
McLean	1
WEST VIRGINIA	
Charleston	1
Total Existing Company-Owned/ Joint Venture Restaurants	171

EXISTING FRANCHISEE-OWNED RESTAURANTS

PUERTO RICO	
Bayamon	1
Carolina	1
San Patricio	1
Total Existing Franchisee-Owned Restaurants	3
Total LongHorn Steakhouse Restaurants	174

BUGABOO CREEK RESTAURANTS

EXISTING COMPANY-OWNED RESTAURANTS

CONNECTICUT	
Manchester	1
DELAWARE	
Newark	1
GEORGIA	
Atlanta	3
MAINE	
Bangor	1
Portland	1
MARYLAND	
Gaithersburg	1
MASSACHUSETTS	
Boston	6
Seekonk	1
Shrewsbury	1
NEW HAMPSHIRE	
Newington	1
NEW YORK	
Albany	1
Poughkeepsie	1
Rochester	1
PENNSYLVANIA	
Philadelphia	1
RHODE ISLAND	
Warwick	1
Total Bugaboo Creek Steak House Restaurants	22

THE CAPITAL GRILLE RESTAURANTS

EXISTING COMPANY-OWNED RESTAURANTS

DISTRICT OF COLUMBIA	
Washington	1
FLORIDA	
Miami	1
GEORGIA	
Atlanta	1
ILLINOIS	
Chicago	1
MASSACHUSETTS	
Boston	2
MICHIGAN	
Troy	1
MINNESOTA	
Minneapolis	1
MISSOURI	
Kansas City	1
NORTH CAROLINA	
Charlotte	1
PENNSYLVANIA	
Philadelphia	1
RHODE ISLAND	
Providence	1
TEXAS	

Dallas	1
Houston	1
VIRGINIA	
McLean	1
Total The Capital Grille Restaurants	15

SPECIALTY RESTAURANTS

EXISTING COMPANY-OWNED RESTAURANTS

MASSACHUSETTS	
The Old Grist Mill Tavern, Seekonk	1
RHODE ISLAND	
Hemenway s Seafood Grille & Oyster Bar, Providence	1
Total Specialty Restaurants	2

RESTAURANTS UNDER CONSTRUCTION

ARIZONA	
The Capital Grille, Phoenix	1
FLORIDA	
LongHorn Steakhouse, Hollywood	1
LongHorn Steakhouse, Jacksonville	1
LongHorn Steakhouse, Winterhaven	1
GEORGIA	
LongHorn Steakhouse, Atlanta	1
KENTUCKY	
LongHorn Steakhouse, Lexington	1
MAINE	
LongHorn Steakhouse, Portland	1
MASSACHUSETTS	
Bugaboo Creek Steak House, Dedham	1
MISSOURI	
LongHorn Steakhouse, Belton	1
NEW JERSEY	
LongHorn Steakhouse, Mt. Olive	1
LongHorn Steakhouse, North Brunswick	1
LongHorn Steakhouse, Piscataway	1
OHIO	
LongHorn Steakhouse, Cincinnati	1
Total Restaurants Under Construction	13

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 with the objective of increasing the Company s return on investment on new LongHorn Steakhouse restaurants by 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 45 of its LongHorn Steakhouse restaurants in operation. The Company also owns two sites for restaurants under construction and owns one site for a restaurant to go under construction later in 2003. The Company purchases land in those circumstances it believes are cost-effective. Seven of the 17 LongHorn Steakhouse restaurants opened in 2002 were located on property purchased at an average cost of approximately $991,000 per location. The average cash investment to construct a LongHorn Steakhouse restaurant in 2002 was approximately $1,637,000, excluding real estate costs and excluding pre-opening expenses of approximately $190,000. 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 Company did not open any The Capital Grille restaurants in 2002; however, three The Capital Grille restaurants were opened in 2001. 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. 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 has continued to develop and refine the Bugaboo Creek Steak House restaurant design with the objective of reducing the capital expenditure required for new restaurant construction and reducing ongoing operating costs at new restaurants opened in 2002. This modified design is smaller than earlier designs and utilizes approximately 6,400 square feet with a capacity of approximately 230 seats. The Company is further refining the prototype for restaurants to be opened in 2004 and future years.

Three Bugaboo Creek Steak House restaurants were opened in 2002. The average cash investment to construct a Bugaboo Creek Steak House in 2002 was approximately $2,219,000, excluding real estate costs and excluding pre-opening expenses of approximately $214,000. Two of the three Bugaboo Creek Steak House restaurants opened in 2002 were located on leased property. The Company paid approximately $1.5 million for the one property purchased for a Bugaboo Creek Steak House site in 2002.

The Company intends to continue to emphasize leasing as its preferred arrangement for Bugaboo Creek Steak House sites and currently leases all but two of its Bugaboo Creek Steak House sites. The Company also owns one site for a restaurant to go under construction later in 2003. The Company purchases land in those circumstances it believes are cost-effective.

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 Steak House 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 Steak House 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 23 to 26 Company-owned restaurants in 2003; 20 to 21 LongHorn Steakhouse restaurants; two or three Bugaboo Creek Steak House restaurants and one or two The Capital Grille restaurants. Of the restaurants proposed for 2003, the Company has opened two LongHorn Steakhouse restaurants and has 13 restaurants under construction in Arizona, Florida, Georgia, Kentucky, Maine, Massachusetts Missouri, New Jersey and Ohio, and has signed leases, purchased land, or signed agreements to purchase land for seven additional restaurants as of March 3, 2003. The Company expects that all of the restaurants to be opened in 2003 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 Steak House 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 the Company 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 120 to 140 days to construct and open a new LongHorn Steakhouse restaurant, approximately 140 to 160 days to construct and open a new Bugaboo Creek Steak House 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 52 of the Company s restaurant sites are leased (including two Company owned sites for restaurants currently under construction and one Company owned site for a restaurant to go under construction later in 2003).

The Company has modified its LongHorn Steakhouse prototype restaurant design over the years to an average of 190 seats in approximately 5,100 square feet of space for prototypical LongHorn Steakhouse restaurants opened in 2002. 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 Western-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 three Bugaboo Creek Steak House restaurants constructed in 2002. This modified design is smaller than earlier designs and utilizes approximately 6,400 square feet with a capacity of approximately 230 seats. The Company is further refining 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 2004 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 Steak House 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 four to seven 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 three to five 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 Vice President of Operations for the Bugaboo Creek Steak House concept reports to the President of the Bugaboo Creek Steak House division. The Company also employs regional directors who have responsibility for from four to five The Capital Grille restaurants and Hemenway s Seafood Grille & Oyster Bar, all reporting directly to the Vice President of Operations for The Capital Grille concept.

The Company seeks to recruit managers with appropriate 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 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 2002, restricted stock awards were made to 89 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 supplier or 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 approved suppliers such that the loss of any one supplier would not have a material adverse effect on the Company's results of operations or financial condition.

The Company utilizes one primary distributor for all of its restaurants, which delivers approximately 70-75% of the products (other than alcoholic beverages) and supplies that the Company utilizes in the operation of its restaurants. In the event of a disruption of service from the Company s primary distributor, management believes that alternative distribution channels could be arranged such that there would not be a material adverse effect on the Company s financial condition.

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 Company's third 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 3, 2003, 171 LongHorn Steakhouse restaurants, all Bugaboo Creek Steak House restaurants, all The Capital Grille restaurants, Hemenway s Seafood Grille & 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 joint ventures that, in the aggregate, operate three LongHorn Steakhouse restaurants as of March 3, 2003. These restaurants are located in Central Florida and owned by joint ventures managed by the Company. The joint venture pays management fees to the Company at the rate of 4% of monthly restaurant sales.

The Company controls its joint ventures use of the Company s service marks, and the joint ventures operate under franchise agreements with the Company. As of March 3, 2003, all three restaurants operated by joint ventures are operated under franchise agreements with the Company. Franchise agreements for joint ventures are modified by an addendum that provides that no franchise fee or royalty is payable. 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, which sets the royalty rate at 4% of gross sales. 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 3, 2003, 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.

The franchisee has the right to terminate its franchise agreements 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 & 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 2002, approximately 14.5% 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 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.

The Company operates under a Tip Rate Alternative Commitment (TRAC) agreement with the Internal Revenue Service. Through increased educational and other efforts in the restaurants, the TRAC agreement reduces the likelihood of potential Company-wide employer-only FICA assessments for unreported tips.

EMPLOYEES

As of March 3, 2003, the Company employed approximately 13,387 persons, 190 of whom were corporate personnel, 998 of whom were restaurant management personnel and the remainder of whom were hourly personnel. Of the 190 corporate employees, 109 are in management positions and 81 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.

AVAILABLE INFORMATION

The Company s Internet address is www.rarehospitality.com. The Company makes available, free of charge, on or through its website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the Securities Exchange Commission.

ITEM 2. PROPERTIES

As of March 3, 2003, all but 52 of the Company s restaurants were located in leased space (including two sites for restaurants under construction and two sites for restaurants to go under construction later in 2003). 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 2003 through 2033 (assuming exercise of all renewal options).

The Company owns three office buildings aggregating 25,000 square feet and leases a 15,000 square foot office building in which its corporate offices are headquartered. All four 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 results of operations or financial condition.

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 2002.

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:

FISCAL YEAR ENDED DECEMBER 29, 2002	HIGH	LOW
First Quarter	$27.54	$21.20
Second Quarter	29.75	23.44
Third Quarter	28.01	20.75
Fourth Quarter	28.70	21.90

FISCAL YEAR ENDED DECEMBER 30, 2001	HIGH	LOW
First Quarter	$32.00	$20.06
Second Quarter	28.43	19.70
Third Quarter	23.63	14.84
Fourth Quarter	23.60	14.15

The closing price of a share of the Company s common stock on March 18, 2003, was $28.49. As of March 18, 2003, there were approximately 479 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.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about the common stock that may be issued under all of the Company s existing equity compensation plans as of December 29, 2002. Details of the plans are discussed in Note 11 to the Company s Consolidated Financial Statements. The table does not include information with respect to shares subject to outstanding options granted under the Bugaboo Creek Steak House, Inc. 1994 Stock Option Plan that was assumed by the Company in connection with its acquisition of Bugaboo Creek Steak House, Inc. in September 1996.

	Number of Securities to be Issued Upon Exercise of Outstanding Options (5)	Weighted Average Exercise Price of Outstanding Options	Number of Secur Remaining Avai for Future Iss
Equity Compensation	337,756 (1)	$25.13	562,244
Plans Approved by	1,300,197 (2)	$16.50	33,385
Stockholders	65,625 (3)	$15.34	63,750
	762,418 (4)	$11.37	--
Equity Compensation Plans not Approved by Stockholders	155,400	$12.58	--
Total	2,621,396	$15.86	659,379

1. RARE Hospitality International, Inc. 2002 Stock Option Plan.
2. RARE Hospitality International, Inc. 1997 Long-Term Incentive Plan.
3. Amended and Restated RARE Hospitality International, Inc. 1996 Stock Plan for Outside Directors.
4. LongHorn Steaks, Inc. Amended and Restated 1992 Incentive Plan. No options may be granted under the terms of this plan after February 12, 2002.
5. In connection with its acquisition of Bugaboo Creek Steak House, Inc. in September 1996, the Company assumed stock options under the Bugaboo Creek Steak House, Inc. 1994 Stock Option Plan. As of December 29, 2002, options were exercisable for 4,722 shares of Company common stock under this plan. No further awards will be made under this plan. At a weighted average exercise price of $14.22.

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 29, 2002. The Consolidated Financial Statements as of December 29, 2002 and December 30, 2001 and for each of the years in the three-year period ended December 29, 2002 and the independent auditors report thereon are included in this Form 10-K. All sales, restaurant operating expenses, and general and administrative expenses have been restated to conform to the presentation requirements of the consensus of the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board on EITF Issue 01-9, Accounting for Consideration Given by a Vendor to a Customer (see Note 1 to consolidated financial statements). 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 ENDED			
	DEC 29, 2002	DEC 30, 2001	DEC 31, 2000	DEC 26, 1999
	(in thousands, except per share data)			
STATEMENT OF OPERATIONS DATA:				
Revenues:				
Restaurant sales	$584,159	$519,998	$453,284	$371,751
Franchise revenues	345	328	380	195
Total revenues	584,504	520,326	453,664	371,946
Costs and expenses:				
Cost of restaurant sales	211,006	189,869	166,421	137,416
Operating expenses-- restaurants	257,252	228,340	194,874	161,924
Provision for asset impairments, restaurant closings, and other charges	495	2,802	--	1,800
Depreciation and amortization --restaurants	23,920	21,248	17,022	15,249
Pre-opening expense	3,802	3,764	3,318	3,051
General and administrative expenses	34,933	31,675	30,723	25,547
Total costs and expenses	531,408	477,698	412,358	344,987
Operating income	53,096	42,628	41,306	26,959
Interest expense, net	1,718	2,128	4,159	3,866
Early termination of interest rate swap agreement	1,540	1,100	--	--
Provision for litigation settlement	--	--	1,000	--
Minority interest	448	639	1,407	1,609
Earnings before income taxes and cumulative effect of change in accounting principle	49,390	38,761	34,740	21,484
Income tax expense	15,951	12,603	11,480	7,060
Earnings before cumulative effect of change in accounting principle	33,439	26,158	23,260	14,424
Cumulative effect of change in accounting principle (net of tax benefit of $760)	--	--	--	1,587

Net earnings	$33,439	$ 26,158	$ 23,260	$ 12,837
Basic earnings per common share before cumulative effect of change in accounting principle	$ 1.54	$ 1.25	$ 1.27	$ 0.80
Cumulative effect per common share of change in accounting principle	--	--	--	0.09
Basic earnings per common share	$ 1.54	$ 1.25	$ 1.27	$ 0.71
Diluted earnings per common share before cumulative effect of change in accounting principle	$ 1.46	$ 1.18	$ 1.20	$ 0.76
Cumulative effect per common share of change in accounting principle	--	--	--	0.08
Diluted earnings per common share	$ 1.46	$ 1.18	$ 1.20	$ 0.68
Weighted average common shares outstanding (basic)	21,724	21,002	18,271	18,048
Weighted average common shares outstanding (diluted)	22,845	22,144	19,416	18,819

	FISCAL YEARS ENDED			
	Dec 29, 2002	DEC 30, 2001	DEC 31, 2000	DEC 26, 1999
			(in thousands)	
BALANCE SHEET DATA:				
Working capital (deficit)	$2,617	$(4,931)	$(23,114)	$(11,031)
Total assets	386,907	352,456	295,381	237,118
Debt, net of current installments	--	10,000	51,000	40,000
Obligations under capital leases, net of current installments	22,406	20,867	20,925	9,732
Minority interest	1,411	1,329	1,469	3,982
Total shareholders' equity	300,132	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.

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 and are calculated using sales prior to being reduced for discounts, coupons, free products or services. 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 YEARS ENDED		
	DECEMBER 29, 2002	DECEMBER 30, 2001	D
Revenues:			
Restaurant sales:			
LongHorn Steakhouse	71.3%	70.5%	
The Capital Grille	15.2	15.3	
Bugaboo Creek Steak House	12.2	12.8	
Other restaurants	1.2	1.4	
Total restaurant sales	99.9	99.9	
Franchise revenues	0.1	0.1	
Total revenues	100.0	100.0	
Costs and expenses:			
Cost of restaurant sales(1)	36.1	36.5	
Operating expenses--restaurants(1)	44.0	43.9	
Provision for asset impairments, restaurant closings, and other charges	0.1	0.5	
Depreciation and amortization--restaurants(1)	4.1	4.1	
Pre-opening expense - restaurants(1)	0.7	0.7	
General and administrative expenses	6.0	6.1	
Total costs and expenses	90.9	91.8	
Operating income	9.1	8.2	
Interest expense, net	0.3	0.4	
Early termination of interest rate swap agreement	0.3	0.2	
Provision for litigation settlement	--	--	
--			
Minority interest	0.1	0.1	
Earnings before income taxes	8.5	7.4	
Income tax expense	2.7	2.4	

Net earnings	5.7%	5.0%
	======	======

(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 29, 2002 Compared to Year Ended December 30, 2001

REVENUES

Total revenues increased 12.3% to $584.5 million for 2002, compared to $520.3 million for 2001.

LongHorn Steakhouse:

Sales in the LongHorn Steakhouse restaurants increased 13.8% to $416.9 million for 2002, compared to $366.5 million for 2001. The increase reflects a 10.2% increase in restaurant operating weeks in 2002 as compared to 2001, resulting from an increase in the restaurant base from 154 Company-owned and joint venture LongHorn Steakhouse restaurants at the end of 2001 to 170 restaurants at the end of 2002. Average weekly sales for all company-owned and joint venture LongHorn Steakhouse restaurants in 2002 were $49,392, a 3.2% increase over 2001. Sales for the comparable LongHorn Steakhouse restaurants increased 2.7% in 2002 as compared to 2001. The increase in comparable restaurant sales for 2002 at LongHorn Steakhouse was attributable to an increase in average check and guest counts.

The Capital Grille:

Sales in The Capital Grille restaurants increased 10.6% to $88.6 million for 2002, compared to $80.1 million for 2001. The increase reflects a 5.3% increase in restaurant operating weeks in 2002 as compared to 2001, resulting from the full-year 2002 impact of the three The Capital Grille restaurants that opened in 2001. Average weekly sales for all The Capital Grille restaurants in 2002 were $113,637, a 5.1% increase from 2001. Sales for the comparable The Capital Grille restaurants increased 4.9% in 2002, as compared to 2001. 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 7.7% to $71.2 million for 2002, compared to $66.1 million for 2001. The increase reflects a 7.7% increase in restaurant weeks in 2002 as compared to 2001, resulting from an increase in the restaurant base from 19 Bugaboo Creek Steak House restaurants at the end of 2001 to 22 restaurants at the end of 2002. Average weekly sales for all Bugaboo Creek Steak House restaurants in 2002 were $68,609, a 2.5% increase from 2001. Sales for the comparable Bugaboo Creek Steak House restaurants increased 1.9% in 2002, as compared to 2001. The increase in comparable restaurant sales at Bugaboo Creek Steak House restaurants is attributable primarily to an increase in average check.

Franchise Revenue:

The Company has a Franchisee that operates three LongHorn Steakhouse restaurants in Puerto Rico. The Company s franchisee opened its third franchise LongHorn Steakhouse in 2000. The Company earned $345,000 and $328,000 in franchise revenue in 2002 and 2001, respectively.

COSTS AND EXPENSES

Cost of restaurant sales, as a percentage of restaurant sales, decreased to 36.1% in 2002 from 36.5% in 2001. Contract pricing on certain protein and other products during 2002 were favorable as compared to the prior year.

Restaurant operating expenses increased as a percentage of restaurant sales in 2002 to 44.0%, from 43.9% in 2001. This was due to an increase in restaurant management and hourly labor as a percentage of restaurant sales, partially offset by greater sales leverage of fixed and semi-fixed expenses (principally advertising and rent).

The provision for asset impairments, restaurant closings, and other charges of $495,000 in 2002 consisted of the write down of one LongHorn Steakhouse restaurant. The amount of the charge was determined under SFAS No. 144 by comparing discounted future cash flows to the carrying value of impaired assets.

Depreciation and amortization restaurants increased to $23.9 million in 2002, from $21.2 million in 2001, due to the Company s new restaurant construction and depreciation of capital expenditures associated with the Company s remodeling of older restaurants.

> Pre-opening expense remained flat at $3.8 million or 0.7% of total restaurant sales in both 2002 and 2001. The amounts charged to pre-opening expense in any year is dependent upon the number of restaurants opened and the restaurant concept.

General and administrative expenses increased to $34.9 million in 2002, from $31.7 million in 2001, but decreased as a percent of total revenues to 6.0% in 2002 from 6.1% in 2001. The increased costs in 2002 were primarily compensation related, associated with increased accruals for management bonuses, payroll and the cost of building the infrastructure necessary to support the Company s growth. 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, net decreased to $1.7 million in 2002, from $2.1 million in 2001. The decrease in interest expense, net is due to the repayment of amounts outstanding under the Company s revolving credit facility and an increase in interest income in 2002.

Concurrent with amending and restating the Company s $100.0 million revolving credit agreement, the Company repaid all amounts outstanding under the credit agreement and terminated an associated interest rate swap agreement that had been accounted for as a hedge. The Company paid $1,540,000 resulting in an after-tax expense of $961,000 associated with terminating the interest rate swap agreement. 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 $1,540,000 charge to earnings in 2002.

Minority interest decreased to $448,000 in 2002, from $639,000 in 2001. This reflects a decrease in the number of joint venture restaurants in 2002 compared to 2001 resulting primarily from the purchase of the joint venture partner s interest in seven restaurants during 2002 and one joint venture restaurant during 2001.

Income tax expense in 2002 was 32.3% 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 $33.4 million in 2002, as compared to net income of $26.2 million in 2001, reflects the net effect of the items discussed above.

RESULTS OF OPERATIONS

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

REVENUES

Total revenues increased 14.7% to $520.3 million for 2001, compared to $453.7 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 14.5% to $366.5 million for 2001, compared to $320.2 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 week comparisons 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 $47,838, a 1.2% 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 24.5% to $80.1 million for 2001, compared to $64.4 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 week comparisons 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 $108,139, a 1.0% 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 primarily 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 7.7% to $66.1 million for 2001, compared to $61.4 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 week comparisons 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 $66,944, a 4.3% 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 primarily 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 36.5% in 2001 from 36.7% 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 43.9%, from 43.0% 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 Steakhouses 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.

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 $31.7 million in 2001, from $30.7 million in 2000, but decreased as a percent of total revenues to 6.1% from 6.8% 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 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.

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 2002 were proceeds from cash flow from operations ($53.1 million), and proceeds from the exercise of employee stock options ($5.3 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 ($54.4 million) and the repayment of amounts outstanding under the Company s revolving credit facility ($10.0 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 increases in accounts receivable, inventory, prepaid expenses, and accrued expenses are principally due to the new restaurants which were opened during 2002 and the result of generally higher average unit volumes experienced during 2002. Further increases in current asset and liability accounts are expected as the Company continues its restaurant development program.

In November 2002, the Company amended and restated its $100.0 million revolving credit facility, including extending its maturity to November 2007. 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 1.75% (depending on the Company s leverage ratio) or the administrative agent s prime rate of interest, at the Company s option, and pay a commitment fee of 0.3% to 0.4% (depending on the Company s leverage-ratio) per year on any unused portion of the facility. No amounts were outstanding under the Company s revolving credit agreement on December 29, 2002. As of December 29, 2002, interest on the revolving credit facility provided for interest to be accrued at LIBOR plus 1.25% or the prime rate. 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.

The $1,540,000 ($961,000 after-tax) separately stated expense associated with terminating the interest rate swap agreement resulted in an approximately $0.04 decrease in diluted earnings per share for the fourth quarter of 2002. At December 29, 2002, no amounts were outstanding and $100.0 million was available under the Company s $100.0 million revolving credit agreement.

The Company currently plans to open 20 to 21 Company-owned LongHorn Steakhouse restaurants, two or three Bugaboo Creek Steak House restaurants and one or two The Capital Grille restaurants in 2003. The Company estimates that its capital expenditures will be approximately $75.0 to $80.0 million in 2003. The capital expenditure estimate for 2003 includes the estimated cost of developing 23 to 26 new restaurants, ongoing refurbishment in existing restaurants, costs associated with obtaining real estate for year 2004 planned openings, installation of a new point of sale system in all existing restaurants 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 fourth quarter of 2002, the Company purchased 85,000 shares of its common stock for a total purchase price of $2,205,000 (average price of $25.96 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 2005.

OUTLOOK FOR FUTURE OPERATING RESULTS

Revenues. The Company plans to grow revenues by opening additional restaurants and increasing average unit volumes. The Company's new restaurant development plans for 2003 are summarized in the section entitled "LIQUIDITY AND CAPITAL RESOURCES". Based upon current economic conditions, the Company is targeting same store sales growth in 2003 of 2% to 3% for all three concepts, compared with 2002. The Company anticipates that the same store sales increase will be comprised of approximately equal percentage increases in average check and customer counts.

Cost of restaurant sales. The Company is anticipating flat to slightly favorable commodity prices in 2003 based primarily on favorable protein pricing. The Company is under a fixed price contract with its primary supplier for the majority of its anticipated purchases of protein products in 2003; however, the Company pays market prices for other products such as produce and fresh seafood. Accordingly, the Company does not expect its costs of goods sold to increase materially as a percentage of sales in 2003 as compared with 2002.

Operating expenses restaurants. For the last several years, the Company has experienced wage rate pressure for both restaurant management and hourly positions, resulting from a tight labor market for skilled positions in the restaurant industry. Based upon labor market conditions that exist today, the Company expects this trend to continue in 2003. In addition, the Company expects that the cost of employee health insurance coverage will contribute to the upward pressure on labor costs as a percentage of restaurant sales. The Company also expects increased energy costs in 2003, as compared with 2002, particularly with respect to natural gas costs.

Pre-opening expense. Pre-opening costs are expensed as incurred and approximate $190,000 for each LongHorn Steakhouse restaurant, $214,000 for each Bugaboo Creek Steak House restaurant, and $358,000 for each The Capital Grille restaurant. Restaurant pre-opening expenses may vary materially from period to period depending on when restaurants open. As a result of the planned opening of more new restaurants in 2003, as compared to 2002, the Company anticipates that pre-opening expenses will be higher in 2003.

Depreciation and amortization restaurants. The Company expects depreciation to increase as it invests in the development of new restaurants, the ongoing refurbishment in existing restaurants, and the installation of a new point of sale system in all existing restaurants. Due to greater leverage of this fixed expense resulting from expected sales increases in 2003, the Company expects depreciation and amortization restaurants to remain flat as a percentage of restaurant sales.

General and administrative expenses. To support the Company s expected increase in the number of new restaurants in 2003, the Company plans to increase total general and administrative expenses by approximately 15% to 16%, compared with 2002. This percentage growth in general and administrative expense approximates the anticipated percentage growth in revenue.

Interest expense, net. Due to the repayment of all amounts outstanding under the Company s revolving credit facility, the Company expects net interest expense to decrease significantly in 2003 compared with 2002.

Income tax expense. The Company expects the effective income tax rate for 2003 to be approximately 32.5% of earnings before income taxes.

Earnings per share. Based upon the net effect of the items discussed above, the Company expects 2003 diluted earnings per common share in a range of $1.74 to $1.77.

The preceding discussion of liquidity and capital resources and outlook for future operating results contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements regarding the intent, belief or current expectations of the Company and members of its management team, as well as assumptions on which such statements are based. All forward-looking statements in this Form 10-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 employee, pre-opening or other expenses; the economic conditions in the new markets into which the Company expands and possible uncertainties in the customer base in these areas; fluctuations in quarterly operating results; seasonality; changes in customer dining patterns; the impact of any negative publicity or public attitudes related to the consumption of beef; disruption of established sources of product supply or distribution; competitive pressures from other national and regional restaurant chains; 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.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The table below summarizes the Company s significant contractual obligations, by maturity, as of December 29, 2002 (in thousands):

	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	A
Bank revolving credit facility	$ --	$ --	$ --	$ --	$
Capital lease obligations	51,268	2,096	4,393	4,576	40
Operating leases	113,008	15,679	29,932	24,041	43
Other purchase obligations	13,502	13,502	--	--	
Total contractual cash obligations	$177,778	$31,277	$34,325	$28,617	$83

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 June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142). The Company adopted SFAS 142 effective as of the beginning of fiscal year 2002. SFAS 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 required 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 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 approximately $1.1 million and $0.9 million for fiscal year 2001 and 2000, respectively. In accordance with SFAS 142, no goodwill amortization expense was recorded in the Company s financial statements for 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 proforma effects of the adoption of SFAS 142 on net earnings and basic and diluted earnings per share is as follows (in thousands, except per share amounts):

	Year Ended		
	2002	2001	2000
Net earnings, as reported	$ 33,439	$ 26,158	$ 23,260
Goodwill amortization, net of tax benefit	--	679	549
Net earnings, pro forma	$ 33,439	$ 26,837	$ 23,809
Basic earnings per common share:			
Net earnings, as reported	$ 1.54	$ 1.25	$ 1.27
Goodwill amortization, net of tax benefit	--	0.03	0.03
Net earnings, pro forma	$ 1.54	$ 1.28	$ 1.30
Diluted earnings per common share:			
Net earnings, as reported	$ 1.46	$ 1.18	$ 1.20
Goodwill amortization, net of tax benefit	--	0.03	0.03
Net earnings, pro forma	$ 1.46	$ 1.21	$ 1.23

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment of Long-Lived Assets (SFAS 144), 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 Accounting Principles Board Opinion 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 144 retains many of the provisions of SFAS 121, but addresses certain implementation issues associated with that statement. The Company adopted SFAS 144 effective as of the beginning of fiscal 2002. The adoption of SFAS 144 did not have a material impact on the Company s consolidated financial statements.

In April 2002. the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145), SFAS Nos. 4 and 64 required gains and losses from extinguishment of debt to be classified as extraordinary items. SFAS 145 rescinds this requirement and stipulates that gains or losses on extinguishment of debt would have to meet the criteria of APB Opinion No. 30 to be classified as an extraordinary item. In addition, any extraordinary gains or losses on extinguishment of debt in prior periods presented would require reclassification. SFAS 145 is effective for fiscal years beginning after May 15, 2002. The Company is currently evaluating the impact of the adoption of SFAS 145.

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

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. Interpretation No. 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company s financial statements. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148). SFAS 148 amends SFAS No. 123, Accounting for Stock-Based Compensation , and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of SFAS No. 123 to require more prominent and frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS 148 are effective for financial statements issued for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company is currently evaluating SFAS 148 to determine if it will adopt SFAS 123 to account for employee stock options using the fair value method and, if so, when to begin transition to that method.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31,2003. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The application of this Interpretation is not expected to have a material effect on the Company s financial statements.

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 judgments 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 AND EQUIPMENT

Property 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 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.

The Company s accounting policies regarding property and equipment include judgments by management regarding the estimated useful lives of these assets, the residual values to which the assets are depreciated, and the determination as to what constitutes enhancing the value of or increasing the life of existing assets. These judgments and estimates may produce materially different amounts of depreciation and amortization expense than would be reported if different assumptions were used. As discussed further below, these judgments may also impact the Company s need to recognize an impairment charge on the carrying amount of these assets as the cash flows associated with the assets are realized.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including restaurant sites, 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. Expected cash flows associated with an asset is a key factor in determining the recoverability of the asset. 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 is less than the carrying value of the asset, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

Judgments made by the Company related to the expected useful lives of long-lived assets and the Company s ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions, and changes in operating performance. As the ongoing expected cash flows and carrying amounts of long-lived assets are assessed, these factors could cause the Company to realize a material impairment charge. In 2002, the Company recognized a $495,000 charge for the writedown of one LongHorn Steakhouse restaurant and in 2001 recognized a $2,802,000 charge for the writedown of five LongHorn steakhouse restaurants based on an evaluation of expected cash flows.

SELF-INSURANCE RESERVES

The Company self-insures for a significant portion of expected losses under its workers compensation, employee medical and general liability programs. Accrued liabilities have been recorded based on estimates of the ultimate costs to settle incurred and incurred but not reported claims.

The accounting policies regarding self-insurance programs include certain management judgments and assumptions regarding the frequency or severity of claims and claim development patterns, and claim reserve, management, and settlement practices. Unanticipated changes in these factors may produce materially different amounts of expense that would be reported under these programs.

INCOME TAXES

Income taxes are accounted for by the Company in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 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 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 and assesses 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

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

As of December 29, 2002, the Company had no borrowings outstanding under its $100.0 million revolving credit facility. Amounts outstanding under such credit facility bear interest at LIBOR plus a margin of 1.25% to 1.75% (the applicable margin depending on the Company s leverage ratio), or the administrative agent s prime rate of interest 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 may from time to time use interest rate swaps.

INVESTMENT PORTFOLIO

The Company invests portions of its excess cash, if any, in highly liquid investments. At December 29, 2002, the Company had $9.8 million in high-grade overnight repurchase agreements, and $17.7 million in short-term investments in the form of federal, state, and municipal bonds. As of December 29, 2002, the Company has classified all short-term investments as trading securities. The market risk on such investments is minimal due to their short-term nature.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 29, 2002, DECEMBER 30, 2001 AND DECEMBER 31, 2000

WITH INDEPENDENT AUDITORS' REPORT THEREON

RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES

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Independent Auditors' Report

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Shareholders' Equity
and Comprehensive Income

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

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 29, 2002 and December 30, 2001, and the related consolidated statements of operations, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 29, 2002. 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.

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 29, 2002 and December 30, 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 29, 2002 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 goodwill and other intangible assets in 2002 and its method of accounting for derivative instruments and hedging activities in 2001.

KPMG LLP

Atlanta, Georgia
February 7, 2003

RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 29, 2002 AND DECEMBER 30, 2001
(in thousands)

	2002
ASSETS	-----
Current assets:	

Cash and cash equivalents	$ 13,732
Short-term investments	17,735
Accounts receivable	6,576
Inventories	14,309
Prepaid expenses	3,477
Refundable income taxes (note 7)	4,124
Deferred income taxes (note 7)	4,484
Total current assets	64,437
Property and equipment, less accumulated depreciation and amortization (notes 4 and 9)	299,773
Goodwill	19,187
Deferred income taxes (note 7)	--
Other	3,510
Total assets	$ 386,907
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 17,727
Accrued expenses (note 5)	44,015
Current installments of obligations under capital leases (note 9)	78
Total current liabilities	61,820
Debt, net of current installments (note 6)	-
Deferred income taxes (note 7)	1,138
Obligations under capital leases, net of current installments (note 9)	22,406
Total liabilities	85,364
Minority interest	1,411
Shareholders' equity (notes 2, 6, 10, and 11):	
Preferred stock, no par value. Authorized 10,000 shares, none issued	--
Common stock, no par value. Authorized 60,000 shares; issued 22,066 shares and 21,522 shares at December 29, 2002 and December 30, 2001, respectively	191,174
Unearned compensation - restricted stock	(1,124)
Retained earnings	112,446
Accumulated other comprehensive loss	--
Treasury shares at cost; 95 shares and 10 shares at December 29, 2002 and December 30, 2001, respectively	(2,364)
Total shareholders' equity	300,132
Commitments and contingencies (notes 4, 6, 8, 9, and 12)	
Total liabilities and shareholders' equity	$ 386,907

See accompanying notes to consolidated financial statements.

RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 29, 2002, DECEMBER 30, 2001AND DECEMBER 31, 2000
(in thousands, except per share data)

	2002	2001	20
Revenues:			
Restaurant sales:			
LongHorn Steakhouse	$416,917	$ 366,538	$ 320
The Capital Grille	88,637	80,131	64
Bugaboo Creek Steak House	71,216	66,141	61
Other restaurants	7,389	7,188	7
Total restaurant sales	584,159	519,998	453
Franchise revenues	345	328	
Total revenues	584,504	520,326	453
Costs and expenses:			
Cost of restaurant sales	211,006	189,869	166
Operating expenses-- restaurants	257,252	228,340	194
Provision for asset impairments, restaurant closings, and other charges (note 3)	495	2,802	
Depreciation and amortization-- restaurants	23,920	21,248	17
Pre-opening expense	3,802	3,764	3
General and administrative expenses	34,933	31,675	30
Total costs and expenses	531,408	477,698	412
Operating income	53,096	42,628	41
Interest expense, net	1,718	2,128	4
Early termination of interest rate swap agreement	1,540	1,100	
Provision for litigation settlement (note 13)	--	--	1
Minority interest (note 2)	448	639	1
Earnings before income taxes	49,390	38,761	34
Income tax expense (note 7)	15,951	12,603	11
Net earnings	$ 33,439	$ 26,158	$ 23
Basic earnings per common share	$ 1.54	$ 1.25	$
Diluted earnings per common share	$ 1.46	$ 1.18	$
Weighted average common shares outstanding (basic)	21,724	21,002	18
Weighted average common shares outstanding (diluted)	22,845	22,144	19

RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME YEARS ENDED DECEMBER 29, 2002, DECEMBER 30, 2001 AND DECEMBER 31, 2000

(in thousands)

	COMMON STOCK		RESTRI
	SHARES	DOLLARS	STOC
BALANCE, DECEMBER 26, 1999	18,576	$ 110,258	$ (3
Net earnings	--	--	

Issuance of shares in connection with purchase of minority interest	356	6,827	
Issuance of shares pursuant to restricted stock awards	7	127	(1
Amortization of restricted stock	--	--	1
Purchase of common stock for treasury	--	--	
(7,864)			
Issuance of shares pursuant to exercise of stock options	688	6,406	
Tax benefit of stock options exercised	--	879	
	---------	----------	------
BALANCE, DECEMBER 31, 2000	19,627	124,497	(3
Comprehensive income (net of tax):			
Net earnings	--	--	
Cumulative effect of change in accounting principle, net of taxes	--	--	
Change in unrealized loss from interest rate swaps, net of taxes	--	--	
Total comprehensive income			
Issuance of shares pursuant to public offering	1,429	47,872	
57,623			
Purchase of common stock for treasury	--	--	
Issuance of shares pursuant to restricted stock awards	18	414	(4
Amortization of restricted stock	--	--	2
Issuance of shares to retirement plans	28	656	-
Issuance of shares pursuant to exercise of stock options	420	4,303	-
Tax benefit of stock options exercised	--	1,045	-
	---------	----------	------
BALANCE, DECEMBER 30, 2001	21,522	178,787	(52
Comprehensive income (net of tax):			
Net earnings	--	--	-
Other comprehensive income, change in unrealized loss from interest rate swaps	--	--	-
Total comprehensive income			
Purchase of common stock for treasury	--	--	-
Issuance of shares to retirement plans	11	219	-
Issuance of shares pursuant to restricted stock awards	44	1,038	(1,03
Amortization of restricted stock	--	--	43
Issuance of shares pursuant to exercise of stock options	489	5,262	-
Tax benefit of stock options exercised	--	5,868	-
	---------	----------	-------
BALANCE, DECEMBER 29, 2002	22,066	$ 191,174	$ (1,12
	=========	==========	=======

See accompanying notes to consolidated financial statements.

RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 29, 2002, DECEMBER 30, 2001 AND DECEMBER 31, 2000

(in thousands)

	2002	2001
Cash flows from operating activities:	-------	-------
Net earnings	$33,439	$26,158
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	25,597	24,067
Non-cash portion of provision for asset impairments,		

restaurant closings and other charges	495	2,802
Minority interest	448	639
Deferred tax expense (benefit)	5,573	(823)
Issuance of common stock to employee retirement plans	219	656
Changes in assets and liabilities:		
Purchase of short-term investments, net	(17,735)	--
Accounts receivable	(807)	(1,114)
Inventories	(872)	(2,284)
Prepaid expenses	(408)	(1,823)
Other assets	(731)	(796)
Refundable income taxes	5,646	1,187
Accounts payable	(5,943)	6,550
Accrued expenses	8,190	2,164
Net cash provided by operating activities	53,111	57,383
Cash flows from investing activities:		
Purchase of property and equipment	(54,397)	(55,497)
Purchase of joint venture and franchise interests	--	--
Net cash used in investing activities	(54,397)	(55,497)
Cash flows from financing activities:		
Proceeds from (repayments of) debt, net	(10,000)	(41,000)
Proceeds from issuance of common stock	-	57,623
Principal payments on capital leases	(58)	(44)
Proceeds from minority partner contributions	156	--
Distributions to minority partners	(522)	(779)
Increase (decrease) in bank overdraft included in accounts payable and accrued liabilities	(3,594)	378
Purchase of common stock for treasury	(2,205)	(159)
Proceeds from exercise of stock options	5,262	4,303
Net cash provided by (used in) financing activities	(10,961)	20,322
Net increase (decrease) in cash and cash equivalents	(12,247)	22,208
Cash and cash equivalents at beginning of year	25,979	3,771
Cash and cash equivalents at end of year	$ 13,732	$ 25,979
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 6,243	$ 11,914
Cash paid for interest	$ 2,912	$ 3,137
Supplemental disclosure of non-cash financing and investing activities:		
Assets acquired under capital lease	$ 1,617	$ --
Issuance of common stock in purchase of minority interest	$ --	$ --

See accompanying notes to consolidated financial statements.

RARE HOSPITALITY INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 29, 2002, DECEMBER 30, 2001 AND DECEMBER 31, 2000

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

RARE Hospitality International, Inc., including its wholly owned subsidiaries (the Company), is a multi-concept restaurant company operating primarily in the Eastern half of the United States. At December 29, 2002, the Company operated the following restaurants:

CONCEPT	NUMBER IN OPERATION
LongHorn Steakhouse	170
Bugaboo Creek Steak House	22
The Capital Grille	15
Other specialty concepts	2

> The Company is a partner in several joint ventures and limited partnerships organized for the purpose of operating LongHorn Steakhouse restaurants. As of December 29, 2002, three of the Company s restaurants operate in joint ventures managed by the Company.

BASIS OF PRESENTATION

The consolidated financial statements include the financial statements of RARE Hospitality International, Inc., its wholly owned subsidiaries, and joint ventures over which the Company exercises control. All significant intercompany balances and transactions have been eliminated in consolidation.

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 fiscal quarters is typically made up of 13 weeks; however, since fiscal 2000 was a 53-week period, the first quarter of 2000 contained 14 operating weeks.

The Company effected a three-for-two stock split in the form of a 50% stock dividend paid on September 5, 2000 to shareholders of record on August 15, 2000. All references to the number of common shares and per share amounts prior to the stock split have been restated to give retroactive effect to the stock split for all periods presented.

ACCOUNTING CHANGE

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 or refund of the selling price of the product resulting from any sales incentives should be classified as a reduction of revenue. Prior to adopting the provisions of EITF 01-9, the Company recognized certain sales incentives as either general and administrative or restaurant operating expense. 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 net sales and operating expenses. The Company adopted EITF 01-9 as of the beginning of 2002 and has reclassified prior years sales and operating expenses to conform to the new presentation requirement. The reduction in net sales and operating expenses resulting from the adoption of EITF 01-9 amounted to $12,881,000 and $10,364,000 for 2001 and 2000, respectively.

CASH EQUIVALENTS

The Company considers all highly liquid investments which have original maturities of three months or less to be cash equivalents. Cash equivalents are comprised of overnight repurchase agreements and totaled approximately $9.8 million at December 29, 2002 and $21.0 million at December 30, 2001. There were no cash equivalents held by the Company on December 31, 2000. The carrying amount of these instruments approximates their fair market values. All overdraft balances have been reclassified as current liabilities.

SHORT TERM INVESTMENTS

Short term investments consist of federal, state and municipal bonds. The Company accounts for its investments under the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). Pursuant to the provisions of SFAS 115, the Company has classified its investment portfolio as trading. Trading securities are bought and held principally for the purpose of selling them in the near term and are recorded at fair value. Unrealized gains and losses on trading securities are included in the determination of net earnings.

INVENTORIES

Inventories, consisting principally of food and beverages, are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Property under capital leases is stated at the present value of minimum lease payments. Leasehold improvements and property held under capital leases are amortized on the straight-line method over the shorter of the term of the lease, which may include renewals, or the estimated useful life of the assets (generally 15 years for non-ground lease sites and 25 years for ground lease sites). Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the related assets, which approximates 25 years for buildings and land improvements, seven years for restaurant equipment, and three years for computer hardware and software.

PRE-OPENING AND ORGANIZATION COSTS

The Company accounts for pre-opening and organization costs in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 98-5, Reporting on the Costs of Start-Up Activities . SOP 98-5 requires entities to expense as incurred all organization and pre-opening costs.

COMPUTER SOFTWARE FOR INTERNAL USE

At the beginning of fiscal 1999, the Company adopted the AICPA SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. SOP 98-1 identifies the characteristics of internal-use software and specifies that once the preliminary project stage is complete, certain external direct costs, certain direct internal payroll and payroll-related costs and interest costs incurred during the development of computer software for internal use should be capitalized and amortized. Prior to fiscal 1999 the Company expensed all such costs as incurred. The adoption of SOP 98-1 did not have a material impact on the Company s results of operations or financial position.

UNREDEEMED GIFT CERTIFICATES

The Company records a liability for outstanding gift certificates at the time they are issued. Upon redemption, sales are recorded and the liability is reduced by the amount of certificates redeemed.

GOODWILL

The Company adopted SFAS 142, Goodwill and Other Intangible Assets , effective as of the beginning of fiscal year 2002. SFAS 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 fair value of each reporting unit was compared to its carrying value to determine whether there is an indication that 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 for impairment 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 142.

As of the date of adoption of SFAS 142, the Company had unamortized goodwill in the amount of approximately $19.2 million. Amortization expense related to goodwill was approximately $1.1 million and $0.9 million for fiscal years 2001 and 2000, respectively. In accordance with SFAS 142, no goodwill amortization expense was recorded in the Company s financial statements for fiscal 2002.

OTHER ASSETS

Other assets consist of debt issuance costs, trademarks, deposits, and purchased liquor licenses. Trademarks are amortized on a straight-line basis over five years. The Company applies the provisions of SFAS 142 to purchased liquor licenses; accordingly, in the first quarter of fiscal 2002, the Company ceased amortizing purchased liquor licenses. Debt issuance costs are amortized on a straight-line basis over the term of the debt.

RESTAURANT CLOSING COSTS

Upon the decision to close or relocate a restaurant, estimated unrecoverable costs are charged to expense. Such costs include the write-down of buildings and/or leasehold improvements, equipment, and furniture and fixtures, to the estimated fair market value less costs of disposal, and a provision for future lease obligations, less estimated subrental income. The Company provided for the closure of one restaurant in each of fiscal year 2002 and 2001.

RECOVERABILITY OF LONG-LIVED ASSETS

The Company accounts for long-lived assets in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets, which requires the Company to review its long-lived assets related to each restaurant periodically or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Considerable management judgment is required to estimate cash flows and fair value less costs to sell. Accordingly, actual results could vary significantly from such estimates.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Income tax benefits credited to equity relate to tax benefits associated with amounts that are deductible for income tax purposes but do not affect net earnings. These benefits are principally generated from employee exercises of stock options and vesting of employee restricted stock awards.

STOCK-BASED COMPENSATION

Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation , which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant.

Times, Serif" SIZE=2> Alternatively, SFAS 123 also allows entities to continue to apply the provisions of APB 25 and provide pro forma net earnings (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS 123 had been applied. The Company has elected to continue to apply the provisions of APB 25 and provide the pro forma disclosures required by SFAS 123. The fair value of the options granted during 2002, 2001 and 2000 is estimated at approximately $4.9 million, $8.6 million, and $7.0 million, respectively, on the date of grant, using the Black-Scholes option pricing model with the following assumptions:

	2002	2001	2000
Dividend yield	0	0	0
Volatility	46%	51%	50%
Risk-free interest rate	4%	4%	6%
Average expected life	5 yrs	6 yrs	6 yrs

In accordance with the provisions of APB25, the Company did not recognize any compensation expense from the issuance of employee stock options. The following table represents the effect on net income and earnings per share if the Company had applied the fair value based method and recognition provisions of SFAS 123 (in thousands except per share amounts):

	2002	2001	2000
Net earnings, as reported	$ 33,439	$ 26,158	$ 23,260
Total stock-based employee compensation expense determined under fair value methods for all awards, net of related tax effects	$ 3,275	$ 3,261	$ 2,505

Pro forma net earnings	$ 30,164	$ 22,897	$ 20,755
Basic earnings per common share:			
Net earnings, as reported	$ 1.54	$ 1.25	$ 1.27
Net earnings, pro forma	$ 1.39	$ 1.09	$ 1.14
Diluted earnings per common share:			
Diluted earnings, as reported	$ 1.46	$ 1.18	$ 1.20
Diluted earnings, pro forma	$ 1.32	$ 1.03	$ 1.07

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148). SFAS 148 amends the transition and disclosure provisions of SFAS 123. The Company is currently evaluating SFAS 148 to determine if it will adopt SFAS 123 to account for employee stock options using the fair value method and, if so, when to begin transition to that method. See Note 11 for further discussion of the Company s stock option plans.

ADVERTISING EXPENSES

Advertising costs are expensed in the periods in which the costs are incurred. Total advertising expense included in operating expenses - restaurants was approximately $16.8 million, $16.1 million and $12.3 million for the years ended December 29, 2002, December 30, 2001 and December 31, 2000, respectively.

SEGMENT DISCLOSURE

Due to the similar economic characteristics, as well as a single type of product, production process, distribution system and type of customer, the Company reports the operations of its different concepts on an aggregated basis and does not separately report segment information. Revenues from external customers are derived principally from food and beverage sales. The Company does not rely on any major customers as a source of revenue.

EARNINGS PER SHARE

The Company accounts for earnings per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS 128). SFAS 128 requires dual disclosure of earnings per share-basic and diluted. Basic earnings per share equals net earnings divided by the weighted average number of common shares outstanding and does not include the dilutive effects of stock options and restricted stock. Diluted earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding after giving effect to dilutive stock options and restricted stock.

The following table presents a reconciliation of weighted average shares and earnings per share amounts (amounts in thousands, except per share data):

	2002	2001	
Weighted average number of common shares used in basic calculation	21,724	21,002	18
Dilutive effect of restricted stock awards	97	74	
Dilutive effect of net shares issuable pursuant to stock option plans	1,024	1,068	1
Weighted average number of common shares used			

in diluted calculation	22,845	22,144	19
Net earnings	$ 33,439	$ 26,158	$ 23
Basic earnings per common share	$ 1.54	$ 1.25	$
Diluted earnings per common share	$ 1.46	$ 1.18	$

Options to purchase 227,607 shares of common stock at December 29, 2002, were excluded from the computation of diluted earnings per common share because the related exercise prices were greater than the average market price for 2002 and would have been antidilutive.

ACCOUNTS RECEIVABLE

Accounts receivable is primarily comprised of amounts due from the Company s credit card processor.

FINANCIAL INSTRUMENTS

> The carrying value of the Company s cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses, debt, and obligations under capital leases approximates their fair value. The fair value of a financial instrument is the amount for which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

For cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses the carrying amounts approximate fair value because of the short maturity of these financial instruments. The fair value of the Company s debt and obligations under capital leases is estimated by discounting future cash flows for these instruments at rates currently offered to the Company for similar debt or long-term leases, as appropriate.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company, from time to time, has used interest rate swap agreements in the management of interest rate risk. The Company carries all derivative instruments on the balance sheet at fair value. Prior to November 2002, the Company used interest rate swap agreements to effectively fix the interest rate on a portion of the variable rate borrowings under the Company s $100.0 million revolving credit facility (see Note 6). These interest rate swap agreements were classified as a hedge of a cash flow exposure under SFAS No. 133, Accounting for Certain Derivative Instruments and Certain Hedging Activities and accordingly, the effective portion of the initial fair value and subsequent changes in the fair value of those agreements are reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted cash flows affect earnings.

The Company adopted SFAS No. 133 beginning January 2001. As a result of adopting this new accounting standard, the Company recorded a net transition adjustment of $624,000 ($1,006,000 transition adjustment loss net of related tax benefit of $382,000) in accumulated other comprehensive income at January 1, 2001. 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 under the Company s credit facility. The Company paid approximately $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 is reported in earnings immediately; accordingly, the $1.1 million payment to terminate a portion of the swap agreements was reported as early termination of interest rate swap agreement in the Company s statement of operations.

Concurrent with the November 2002, amendment and extension of the Company s $100.0 million revolving credit facility, all amounts outstanding under the credit facility were repaid and the interest rate swap agreement was terminated. The Company paid $1,540,000 resulting in an after-tax expense of $961,000 associated with terminating this interest rate swap, which was reported as early termination of interest rate swap agreement in the Company s statement of operations.

At December 29, 2002 the Company had no interest rate swap agreements.

USE OF ESTIMATES

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

COMPREHENSIVE INCOME

For 2002 and 2001, comprehensive income includes net earnings adjusted for net unrealized losses on interest rate swaps. During 2000, net earnings were the same as comprehensive income.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142). The Company adopted SFAS 142 effective as of the beginning of fiscal year 2002. SFAS 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 required 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 for impairment 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 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 approximately $1.1 million and $0.9 million for fiscal year 2001 and 2000, respectively. In accordance with SFAS 142, no goodwill amortization expense was recorded in the Company s financial statements for 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 proforma effects of the adoption of SFAS 142 on net earnings and basic and diluted earnings per share is as follows (in thousands, except per share amounts):

	2002	2001	2000
Net earnings, as reported	$ 33,439	$ 26,158	$ 23,26
Goodwill amortization, net of tax benefit	--	679	54
Net earnings, pro forma	$ 3,439	$ 26,837	$ 23,80
Basic earnings per common share:			
Net earnings, as reported	$ 1.54	$ 1.25	$ 1.2
Goodwill amortization, net of tax benefit	--	0.03	0.0
Net earnings, pro forma	$ 1.54	$ 1.28	$ 1.3
Diluted earnings per common share:			
Net earnings, as reported	$ 1.46	$ 1.18	$ 1.2
Goodwill amortization, net of tax benefit	--	0.03	0.0
Net earnings, pro forma	$ 1.46	$ 1.21	$ 1.2

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Asets 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 144 retains many of the provisions of SFAS No. 121, but addresses certain implementation issues associated with that statement. The Company adopted SFAS 144 effective as of the beginning of fiscal 2002. The adoption of SFAS 144 did not have a material impact on the Company s consolidated financial statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2002. the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145), SFAS Nos. 4 and 64 required gains and losses from extinguishment of debt to be classified as extraordinary items. SFAS 145 recinds this requirement and stipulates that gains or losses on extinguishment of debt would have to meet the criteria of APB Opinion No. 30 to be classified as an extraordinary item. In addition, any extraordinary gains or losses on extinguishment of debt in prior periods presented would require reclassification. SFAS 145 is effective for fiscal years beginning after May 15, 2002. The Company does not expect the initial adoption of SFAS 145 to have a material impact on the Company s consolidated results of operations or financial position.

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

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. Interpretation No. 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company s financial statements. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148). SFAS 148 amends SFAS No. 123, Accounting for Stock-Based Compensation , and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require more prominent and frequent disclosures in financial statements about the effects of stock-based compensation. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company is currently evaluating SFAS 148 to determine if it will adopt SFAS 123 to account for employee stock options using the fair value method and, if so, when to begin transition to that method.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. This interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The application of this Interpretation is not expected to have a material effect on the Company s financial statements.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2001 and 2000 consolidated financial statements to conform with the 2002 presentation.

(2) BUSINESS COMBINATIONS AND JOINT VENTURES

> In July 2000, the Company acquired the ownership interest of its partners in two joint ventures. The first joint venture partner, located in the Tampa, Florida market, had an ownership interest of approximately 10% in five LongHorn Steakhouse restaurants. The interest was purchased for an aggregate price of approximately $1.2 million; comprised of $287,500 in cash, a $25,000 note payable, and 48,492 shares of Company common stock. The excess purchase price over the book value of the minority interest acquired in this transaction was approximately $1.1 million and was recorded as goodwill to be amortized over 20 years. The second joint venture (consisting of two partners), located in the North Carolina market, had an approximate one-third ownership interest in 14 LongHorn Steakhouse restaurants. Their interests were purchased for an aggregate price of approximately $9.0 million; comprised of $2.9 million in cash, $100,000 in notes payable and 307,035 shares of Company common stock. The excess purchase price over the book value of the minority interest acquired in this transaction was approximately $6.8 million and was recorded as goodwill to be amortized over 20 years. Both of these transactions were accounted for under the purchase method of accounting.

(3) PROVISION FOR ASSET IMPAIRMENTS, RESTAURANT CLOSINGS, AND OTHER CHARGES

The provision for asset impairments, restaurant closings, and other charges of $495,000 in fiscal 2002 consisted of the write down of one LongHorn Steakhouse restaurant. The amount of the charge was determined under SFAS 144 by comparing discounted future cash flows to the carrying value of impaired assets.

The provision for asset impairments, restaurant closings, and other charges of $2.8 million in fiscal 2001 consisted primarily of the write down of five LongHorn Steakhouses restaurants. The amount of the charge was determined under SFAS 121 by comparing discounted future cash flows to the carrying value of impaired assets.

(4) PROPERTY AND EQUIPMENT

Major classes of property and equipment at December 29, 2002 and December 30, 2001 are summarized as follows (in thousands):

	2002	2001
Land and improvements	$ 44,585	$ 33,543
Buildings	45,978	34,657
Leasehold improvements	182,022	163,538
Assets under capital lease	22,626	21,009
Restaurant equipment	72,970	64,136
Furniture and fixtures	36,366	33,220
Construction in progress	16,896	19,276
	421,443	369,379
Less accumulated depreciation and amortization	121,670	100,056
	$ 299,773	$ 269,323

During 2002, 2001, and 2000, the Company capitalized interest during construction of approximately $978,000, $826,000, and $790,000, respectively, as a component of property and equipment.

The Company has, in the normal course of business, entered into agreements with vendors for the purchase of restaurant equipment, furniture, fixtures, buildings, and improvements for restaurants that have not yet opened. At December 29, 2002, such commitments totaled approximately $13.5 million.

(5) ACCRUED EXPENSES

Accrued expenses consist of the following at December 29, 2002 and December 30, 2001 (in thousands):

	2002	2001
Accrued self insurance reserves	$ 4,200	$ 3,240
Accrued provision for asset impairments, restaurant closings, and other charges	536	603
Accrued rent	7,362	5,983
Accrued compensation	8,071	7,777
Other taxes accrued	5,777	5,677
Accrued gift certificate liability	15,174	11,229
Other	2,895	1,974
	$ 44,015	$ 36,483

(6) DEBT

The Company has a variable interest rate revolving credit facility (the Revolving Credit Facility), which permits the Company to borrow up to $100.0 million through the termination date in November 2007. The Revolving Credit Facility is the result of amendments to and a restatement of the Company s previous $100.0 million credit facility. The Revolving Credit Facility bears interest at the Company s option of LIBOR plus a margin of 1.25% to 1.75% (the applicable margin) depending on the Company s leverage ratio) or the administrative agent s prime rate of interest, and requires payment of a commitment fee on any unused portion at a rate of 0.3% to 0.4% per year (depending on the Company s leverage ratio). At December 29, 2002 and December 30, 2001, the applicable margin was 1.25%. On December 29, 2002, there were no amounts outstanding under the Company s revolving credit facility. At December 30, 2001, the interest rate on the $10.0 million outstanding obligations under the Company s revolving credit facility was 3.1875%, based on the applicable margin. The commitment fee on the unused portion of the Revolving Credit Facility on December 29, 2002, and on December 30, 2001 was 0.3% per year. Amounts available under the Company s revolving credit facility totaled $100.0 million and $90.0 million at December 29, 2002 and December 30, 2001, respectively.

The Revolving Credit Facility restricts payment of dividends, without prior approval of the lender, and contains certain financial covenants, including debt to capitalization, leverage and interest coverage ratios, as well as minimum net worth and maximum capital expenditure covenants. The Revolving Credit Facility is secured by the common stock of entities that own substantially all of the Bugaboo Creek Steak House and The Capital Grille restaurants. At December 29, 2002, the Company was in compliance with the provisions of the Revolving Credit Facility.

(7) INCOME TAXES

Income tax (benefit) expense consists of (in thousands):

	CURRENT	DEFERRED	T
Year ended December 29, 2002:			
U.S. Federal	$ 9,314	$ 5,001	$ 14
State and local	1,064	572	1
	$10,378	$ 5,573	$ 15
Year ended December 30, 2001:			
U.S. Federal	$ 12,049	$ (739)	$ 11
State and local	1,377	(84)	1
	$ 13,426	$ (823)	$ 12
Year ended December 31, 2000:			
U.S. Federal	$ 10,937	$ (892)	$ 10
State and local	1,563	(128)	1
	$ 12,500	$ (1,020)	$ 11

The differences between the statutory Federal income tax rate and the effective income tax rate reflected in the consolidated statements of operations are as follows:

	2002	2001	
Federal statutory income tax rate	35.0%	35.0%	
State income taxes, net of federal benefit	2.6	2.6	
Meals and entertainment	0.1	0.1	

FICA tip credit	(4.8)	(5.2)	
Other	(0.6)	--	
Effective tax rates	32.3%	32.5%	

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 29, 2002 and December 30, 2001 are presented below (in thousands):

	2002	2
Deferred tax assets (liabilities):		
Provisions for restaurant closings, and other charges	$ 2,115	$ 2,
Accrued rent	2,768	2,
Accrued joint venture contract termination	115	6
Pre-opening costs	138	
Accrued insurance	403	
Accrued workers' compensation	582	
Property and equipment	(1,954)	1,6
Deferred Compensation Plan	911	
Smallwares	(2,192)	--
Other	460	
Net deferred tax asset (liability)	$ 3,346	$ 8,

In assessing the realizability of deferred tax assets, the Company s management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company s management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections of future taxable income over the periods in which the temporary differences are deductible, the Company s management believes it is more likely than not the Company will realize the benefits of these deductible differences.

(8) EMPLOYEE BENEFIT PLANS

The Company provides employees who meet minimum service requirements with retirement benefits under a 401(k) plan (the RARE Plan). Under the RARE Plan, eligible employees may make contributions of between 1% and 20% of their annual compensation. Effective for 2000, contributions to the RARE Plan by officers and highly compensated employees were limited to 2% of their annual compensation and effective for 2001, officers and highly compensated employees do not participate in this plan. The Company makes quarterly matching contributions in an amount equal to 50% of the first 5% of employee compensation contributed, resulting in a maximum Company contribution of 2.5% of employee compensation. The Company s expense under the RARE Plan was $627,000, $574,000, and $641,000, for 2002, 2001, and 2000, respectively.

Effective January 1, 2000, the Company implemented the Supplemental Deferred Compensation Plan (the Supplemental Plan), a nonqualified plan which allows officers and highly compensated employees to defer receipt of a portion of their compensation and contribute such amounts to one or more investment funds. The maximum aggregate amount deferred under the Supplemental Plan and the RARE Plan could not exceed the lesser of 20% of annual compensation or $20,000 in 2002 and 2001 or $10,500 in 2000. The Company makes quarterly matching contributions in an amount equal to 50% of employee contributions, not to exceed the lesser of 2.5% of the employee s total annual compensation or $5,000. The Company s expense under the Supplemental Plan was $324,000, $302,000 and $104,000 for 2002, 2001 and 2000, respectively.

Company contributions to both the RARE Plan and the Supplemental Plan vest at the rate of 20% each year beginning after the employee s first year of service and were made in the form of Company common stock in the first half of 2002 and all of 2001 and cash in the second half of 2002 and all of 2000.

(9) LEASES AND RELATED COMMITMENTS

The Company is obligated under various capital leases for certain restaurant facilities that expire at various dates during the next 30 years. The Company also has noncancelable operating leases for certain restaurant facilities. Rental payments include minimum rentals, plus contingent rentals based on restaurant sales at the individual stores. These leases generally contain renewal options for periods ranging from three to 15 years and require the Company to pay all executory costs such as insurance and maintenance. Under the provisions of certain leases, there are rent holidays and/or escalations in payments over the base lease term, as well as renewal periods. The effects of the holidays and escalations have been reflected in rent expense on a straight-line basis over the anticipated life of the leases.

Future minimum lease payments under capital lease obligations and noncancelable operating leases at December 29, 2002 are as follows (in thousands):

YEARS ENDING AT OR ABOUT DECEMBER 31:	CAPITAL	OPERATING
2003	$2,096	$15,679
2004	2,190	15,554
2005	2,203	14,378
2006	2,275	12,629
2007	2,301	11,412
Thereafter	40,203	43,356
Total minimum lease payments	51,268	$113,008
Less imputed interest (at 9%)	28,784	
Present value of minimum lease payments	22,484	
Less current maturities	78	
Obligations under capital leases, excluding current maturities	$22,406	

Rental expense consisted of the following amounts (in thousands):

	2002	2001	2000
Minimum lease payments	$15,961	$14,686	$12,571
Contingent rentals	1,721	1,651	1,713
Total rental expense	$17,682	$16,337	$14,284

(10) SHAREHOLDERS' EQUITY

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 through September 2002. In July 2002, the Company s Board of Directors extended this share repurchase program through April 2003. 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). During the fourth quarter of 2002, the Company purchased 85,000 shares of its common stock for a total purchase price of approximately $2,205,000 (average price of $25.94 per share).

In February 2000, the Company s Board of Directors authorized the Company to purchase up to $10.0 million of its common stock through February 2001, subject to market conditions. In April 2000, the Company s Board of Directors increased the dollar amount of the Company s common stock authorized to be repurchased from $10.0 million to $25.0 million. During 2000, the Company purchased 654,000 shares of its common stock under this program at an aggregate cost of approximately $7.9 million (average price of $12.02 per share). In February 2001, the Company completed a public offering for 2.3 million shares of its common stock. Net proceeds to the Company from this offering were approximately $57.6 million.

The Company s Articles of Incorporation authorize 10,000,000 shares of preferred stock, no par value. The Board of Directors of the Company may determine the preferences, limitations, and relative rights of any class of shares of preferred stock prior to the issuance of such class of shares. In November 1997, in connection with the adoption of a Shareholders Rights Plan, the Board of Directors designated 500,000 shares of Series A Junior Participating Preferred Stock (the Series A Stock) and filed such designation as an amendment to the Company s Articles of Incorporation. Holders of shares of Series A Stock are entitled to receive, when, as and if declared by the Board of Directors, (i) on each date that dividends or other distributions (other than dividends or distributions payable in common stock) are payable on the common stock comprising part of the Reference Package (as defined in the Articles of Incorporation), an amount per whole share of Series A Stock equal to the aggregate amount of dividends or other distributions that would be payable on such date to a holder of the Reference Package and (ii) on the last day of March, June, September and December in each year, an amount per whole share of Series A Stock equal to the excess of $1.00 over the aggregate dividends paid per whole share of Series A Stock during the three-month period ending on such last day. If any shares of Series A Stock are issued, no dividends (other than dividends payable in common stock) may be declared or paid unless the full cumulative dividends on all outstanding shares of Series A Stock have been or are contemporaneously paid. Upon the liquidation, dissolution or winding up of the affairs of the Company and before any distribution or payment to the holders of common stock, holders of shares of the Series A Stock are entitled to be paid in full an amount per whole share of Series A Stock equal to the greater of (i) $1.00 or (ii) the aggregate amount distributed or to be distributed prior to the date of such liquidation, dissolution or winding up to a holder of the Reference Package. After payment in full to each holder of shares of Series A Stock, the Series A Stock shall have no right or claim to any of the remaining assets of the Company. Each outstanding share of Series A Stock votes on all matters as a class with any other capital stock comprising part of the Reference Package and shall have the number of votes that a holder of the Reference Package would have.

As of December 29, 2002, there were no shares of Series A Stock issued and outstanding and all of such shares are issuable in accordance with the Company s Shareholders Rights Plan.

(11) STOCK OPTIONS

The Company s 2002 Stock Option Plan (the 2002 Stock Option Plan), provides for the granting of incentive stock options and nonqualified stock options to employees, officers, directors, consultants, and advisors. All stock options issued under the 2002 Stock Option Plan were granted at prices which equate to or were higher than current market value on the date of the grant, are generally exercisable after three to five years, and must be exercised within ten years from the date of grant. The 2002 Stock Option Plan authorized the granting of options to purchase 900,000 shares of common stock.

The Company s 1997 Long-Term Incentive Plan, as amended (the 1997 Stock Option Plan), provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance units, restricted stock, dividend equivalents and other stock based awards to employees, officers, directors, consultants, and advisors. All stock options issued under the 1997 Stock Option Plan were granted at prices which equate to or were higher than current market value on the date of the grant, are generally exercisable after three to five years, and must be exercised within ten years from the date of grant. The 1997 Stock Option Plan authorized the granting of options to purchase 1,987,500 shares of common stock.

The Company s Amended and Restated 1996 Stock Plan for Outside Directors (the 1996 Stock Option Plan) provides for the automatic granting of non-qualified stock options to outside directors. The 1996 Stock Option Plan authorizes the granting of options to purchase up to an aggregate of 150,000 shares of common stock. All stock options issued under the 1996 Stock Option Plan are granted at prices which are equal to the current market value on the date of the grant, become exercisable six months and one day after the date of grant, and must be exercised within ten years from the date of grant.

As of December 29, 2002 and December 30, 2001, options to purchase 1,495,134 and 1,512,470 shares of common stock, respectively, were exercisable at weighted average exercise prices of $11.83 and $10.00 per share, respectively. Option activity under the Company s stock option plans is as follows:

	SHARES	WEIGHTED AVERAGE PRICE
Outstanding at December 26, 1999	2,544,783	$ 9.52
Granted in 2000	954,629	13.24
Exercised in 2000	(680,332)	9.40
Canceled in 2000	(251,979)	11.76
Outstanding at December 31, 2000	2,567,101	10.68
Granted in 2001	742,250	21.97
Exercised in 2001	(423,781)	10.40
Canceled in 2001	(148,309)	16.03
Outstanding at December 30, 2001	2,737,261	13.52
Granted in 2002	434,428	24.81
Exercised in 2002	(496,363)	10.55
Canceled in 2002	(49,208)	18.16
Outstanding at December 29, 2002	2,626,118	15.85

The following table summarizes information concerning options outstanding and exercisable as of December 29, 2002:

	OPTIONS OUTSTANDING			OPTIONS EXE
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE
$5.83 to $10.00	692,269	4.4	$ 8.23	690,769
$10.01 to $15.00	818,230	6.0	12.66	597,730
$15.01 to $20.00	133,984	8.2	18.60	54,683
$20.01 to $25.00	754,028	8.4	22.67	146,218
$25.01 or greater	227,607	9.4	26.31	5,734

(12) COMMITMENTS AND CONTINGENCIES

LITIGATION SETTLEMENT

In March 2000, an ongoing legal dispute with a former joint venture partner was resolved by an arbitrator, resulting in a judgement against the Company in the amount of $2 million. The Company s consolidated statement of earnings for 2000 reflects a nonrecurring charge of $1 million ($670,000 net of income taxes) for amounts not previously reserved for this dispute.

PURCHASE COMMITMENTS

The Company has entered into purchasing agreements with certain meat suppliers requiring the Company to purchase contracted quantities of meat at established prices through their expiration on varying dates in 2003 and 2004. The quantities contracted for are based on usage projections management believes to be conservative estimates of actual requirements during the contract terms. The Company does not anticipate any material adverse effect on its financial condition or results of operations from these contracts.

OTHER

Under the Company s insurance programs, coverage is obtained for significant exposures as well as those risks required to be insured by law or contract. It is the Company s preference to self-insure a significant portion of certain expected losses related primarily to workers compensation, employee medical and general liability costs. Provisions for losses expected under these programs are recorded based upon the Company s estimates of the aggregate liability for claims incurred.

The Company has deposits totaling $3.5 million at December 29, 2002 that are being maintained as security under the Company s workers compensation policies.

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 condition or results of operations.

13) QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 29, 2002 and December 30, 2001 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
2002:					
Revenues	$145,298	$145,386	$139,942	$153,878	$5
Operating income	15,159	13,977	10,121	13,839	
Earnings before income taxes	14,530	13,436	9,506	11,918	
Net earnings	9,735	9,141	6,416	8,147	
Net earnings per share:					
Basic	0.45	0.42	0.29	0.37	
Diluted	0.43	0.40	0.28	0.35	
2001:					

Revenues	$ 131,960	$ 128,161	$ 125,443	$ 134,762	$ 5
Operating income	14,704	11,542	7,607	8,775	
Earnings before income taxes	12,686	11,004	6,985	8,086	
Net earnings	8,551	7,372	4,681	5,554	
Net earnings per share:					
Basic	0.43	0.35	0.22	0.26	
Diluted	0.40	0.33	0.21	0.25	

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information about directors and nominees for director and executive officers of the Registrant is incorporated herein by reference from the sections of the Registrant s definitive Proxy Statement to be delivered to shareholders of the Registrant in connection with the annual meeting of shareholders to be held May 12, 2003 (the Proxy Statement) entitled Election of Directors Certain Information Concerning Nominees and Directors, and -- Meetings of the Board of Directors and Committees and Executive Officers of the Company.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated herein by reference from the section of the Proxy Statement entitled Executive Compensation. In no event shall the information contained in the Proxy Statement under the sections entitled Shareholder Return Analysis, or Compensation Committee s Report on Executive Compensation be incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is incorporated herein by reference from the section of the Proxy Statement entitled Beneficial Owners of More Than Five Percent of the Company s Common Stock; Shares Held by Directors and Executive Officers.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding Certain Relationships and Related Transactions is incorporated herein by reference from the section of the Proxy Statement entitled Certain Transactions.

ITEM 14. CONTROLS AND PROCEDURES

> In March 2003, 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 IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) LISTING OF FINANCIAL STATEMENTS

The following financial statements of the Registrant are set forth herein in Part II, Item 8:

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

Consolidated Statements of Operations - For Each of the Years in the Three-Year Period Ended December 29, 2002

Consolidated Statements of Shareholders' Equity and Comprehensive Income - For Each of the Years in the Three-Year Period Ended December 29, 2002

Consolidated Statements of Cash Flows - For Each of the Years in the Three-Year Period Ended December 29, 2002

Notes to Consolidated Financial Statements

Independent Auditors' Report

(a)(2) LISTING OF FINANCIAL STATEMENT SCHEDULES

Not applicable.

(a)(3) LISTING OF EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
3(a)	-- Amended and Restated Articles of Incorporation of the Registrant, as amended (incorporated herein by reference from Exhibit 3.1 of the Registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2002)
3(b)	-- Bylaws of the Registrant, as amended (incorporated herein by reference from Ex 3.2 of the Registrant's quarterly report on Form 10-Q for the quarter ended Marc 2002)
4(a)	-- See Exhibits 3(a) and 3(b) for provisions of the Amended and Restated Articles Incorporation and Bylaws of the Registrant defining rights of holders of Common of the Registrant
4(b)	-- Specimen Stock Certificate for the Common Stock of the Registrant (incorporated herein by reference from Exhibit 4(b) of the Registrant's annual report on Form for the year ended December 27, 1998).
4(c)	-- Shareholder Protection Rights Agreement, dated as of November 4, 1997, between Hospitality International, Inc. and SunTrust Bank, Atlanta, as Rights Agent (whi includes as Exhibit B thereto the Form of Right Certificate) (incorporated herei reference from Exhibit 99.1 of the Registrant's Form 8-K dated November 4, 1997
10(a)	-- Second Amended and Restated Credit Agreement dated November 21, 2002, by and am

	the Registrant and Wachovia Bank, National Association as Administrative Agent a Fleet National Bank as Syndication Agent, SunTrust Bank as Documentation Agent a South Trust Bank as Co-Agent.
10(b)	-- LongHorn Steaks, Inc. Amended and Restated 1992 Incentive Plan, as amended.
10(c)	-- RARE Hospitality International, Inc. 1996 Stock Plan for Outside Directors, as amended.
10(d)	-- Bugaboo Creek Steak House, Inc. 1994 Stock Option Plan (incorporated herein by reference from Exhibit 4(c) to Registration Statement on Form S-8, Registration 333-11983).
10(e)	-- RARE Hospitality International, Inc. 1997 Long-Term Incentive Plan (incorporate herein by reference from Exhibit 10(i) of the Registrant's annual report on Form for the fiscal year ended December 28, 1997).
10(f)	-- Amendment No. 1 to RARE Hospitality International, Inc. 1997 Long-Term Incentiv (incorporated herein by reference from Exhibit 10(j) of the Registrant's annual on Form 10-K for the fiscal year ended December 28, 1997).
10(g)	-- Amendment No. 2 to RARE Hospitality International, Inc. 1997 Long-Term Incentiv Plan (incorporated herein by reference from Exhibit 10(i) of the Registrant's an report on Form 10-K for the year ended December 27, 1998).
10(h)	-- RARE Hospitality International, Inc. 2002 Stock Option Plan.
10(i)	-- Employment Agreement dated September 30, 1997 between the Registrant and Philip Hickey, Jr. (incorporated herein by reference from Exhibit 10(m) of the Registra annual report on Form 10-K for the fiscal year ended December 28, 1997).
10(j)	-- Employment Agreement dated October 16, 1997 between the Registrant and Eugene I Jr. (incorporated herein by reference from Exhibit 10(n) of the Registrant's ann report on Form 10-K for the fiscal year ended December 28, 1997).
10(k)	-- Employment Agreement dated November 30, 1998 between the Registrant and Thomas W. Gathers (incorporated herein by reference from Exhibit 10(p) of the Registran annual report on Form 10-K for the fiscal year ended December 27, 1998).
10(l)	-- Employment Agreement dated March 23, 1998 between the Registrant and W. Douglas Benn (incorporated herein by reference from Exhibit 10(p) of the Registrant's quarterly report on Form 10-Q for the quarter ended March 29, 1998).
21(a)	-- Subsidiaries of the Company.
23(a)	-- Consent of KPMG LLP.
99(a)	-- Safe Harbor Compliance Statement.
99(b)	-- Written Statement of the Chief Executive Officer.
99(c)	-- Written Statement of the Chief Financial Officer.

(b) REPORTS ON FORM 8-K

None.

(c) EXHIBITS

The exhibits to this Report are listed under Item 15(a)(3) above.

(d) FINANCIAL STATEMENT SCHEDULES

See Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

RARE Hospitality International, Inc.

By: /s/ Philip J. Hickey, Jr.

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

Date: March 26, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	Date
By /s/ Philip J. Hickey, Jr. -------------------------------- Philip J. Hickey, Jr. Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 26, 2003
By /s/ W. Douglas Benn -------------------------------- W. Douglas Benn Executive Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 2003
By /s/ Carolyn H. Byrd -------------------------------- Carolyn H. Byrd Director	March 26, 2003
By /s/ Don L. Chapman -------------------------------- Don L. Chapman Director	
By /s/ Dick R. Holbrook -------------------------------- Dick R. Holbrook Director	March 26, 2003
By /s/ Lewis H. Jordan -------------------------------- Lewis H. Jordan Director	
By /s/ Eugene I. Lee, Jr. --------------------------------	March 26, 2003

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    Eugene I. Lee, Jr.
    President, Chief Operating Officer
    and Director



By  /s/ George W. McKerrow, Sr.              March 26, 2003
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    George W. McKerrow, Sr.
    Director



By  /s/ Ronald W. San Martin                 March 26, 2003
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    Ronald W. San Martin
    Director
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CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of RARE Hospitality International, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 a within those entities, particularly during the period in which this annual 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 annual report (the "Evaluation Date"); and
   c. presented in this annual 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 annual 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.

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March 26, 2003                                /s/ PHILIP J. HICKEY, JR.
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Philip J. Hickey, Jr.
Chairman of the Board and
Chief Executive Officer

I, W. Douglas Benn, certify that:

1. I have reviewed this annual report on Form 10-K of RARE Hospitality International, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 a within those entities, particularly during the period in which this annual 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 annual report (the "Evaluation Date"); and
    c. presented in this annual 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 annual 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.

March 26, 2003

/s/ W. DOUGLAS BENN

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