Great Team, Growing Stronger!

RARE HOSPITALITY INTERNATIONAL, INC.
2000 ANNUAL REPORT

LONGHORN STEAKHOUSE

LongHorn Steakhouse • With over 140 locations, LongHorn Steakhouse serves up hearty, flavorful fare reminiscent of the Great Plains in our interpretation of a cool, Western steakhouse.

BUGABOO CREEK
THE FLAVOR OF THE CANADIAN ROCKIES

Bugaboo Creek **• Offers its guests an authentic taste of the great Canadian outdoors. Moose, caribou, snowshoes, and fly fishing rods are all part of the scenery at this "mountain lodge" steak house.**

THE CAPITAL GRILLE

The Capital Grille **• 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.**

ABOUT THE COMPANY

RARE Hospitality International, Inc. owns, operates and franchises 180 restaurants, including 146 LongHorn Steakhouse restaurants located primarily in the southeastern and midwestern United States, 19 restaurants operated under the names Bugaboo Creek Steak House and Bugaboo Creek Lodge & Bar located primarily in the northeastern and mid-Atlantic regions of the United States, and 13 The Capital Grille restaurants located in major metropolitan areas across the country.

FINANCIAL HIGHLIGHTS

(In thousands, except per share data)

For the Fiscal Year	**2000**	1999
Revenues	**$ 464,028**	$ 382,470
Operating income, before nonrecurring items*	**$ 41,306**	$ 28,759
Net earnings, before nonrecurring items**	**$ 23,930**	$ 15,540
Diluted earnings per share, before nonrecurring items**	**$ 1.23**	$ 0.83
Weighted average common shares outstanding (diluted)	**19,416**	18,819

** Excludes nonrecurring expenses for fiscal 2000 of $1,000 ($670, or $0.03 per diluted share, after tax) and for fiscal 1999 of $1,800 ($1,116, or $0.06 per diluted share, after tax).*

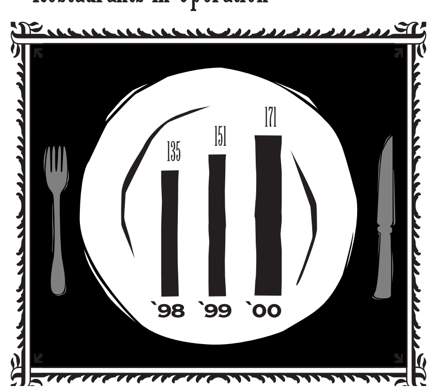
*** Excludes nonrecurring expenses discussed above and, for 1999, the cumulative effect of accounting change of $2,300 ($1,587, or $0.08 per diluted share, after tax).*

At Year End		
Working capital (deficit)	**$ (23,070)**	$ (11,031)
Total assets	**295,381**	237,118
Debt, net of current installments	**51,000**	40,000
Obligations under capital leases, net of current installments	**20,969**	9,732
Minority interest	**1,469**	3,982
Total shareholders' equity	**167,257**	137,584

Revenues (millions)

Earnings Per Share

Restaurants in Operation



We are happy to report that the RARE Hospitality team delivered another record year in 2000!

The delivery of consistently great food and great service through extraordinary teamwork resulted in a 48.2% increase in normalized earnings per share in 2000. Furthermore, our goal of increasing long-term shareholder value was achieved, as evidenced by the third straight year of stock price appreciation in excess of 50%.

It is the **consistency** of RARE's performance that is the real story, as we examine our results for 2000 and growth plans for 2001. Our success has been achieved through the dedication and leadership of a focused management team, as well as through the daily commitment to superior performance by over 10,000 RARE team members. The central role our team members will play in achieving continued success is succinctly summarized in the phrase on the cover of this annual report, "Great Team, Growing Stronger."

Strong Profitable Growth in 2000

RARE's earnings per diluted share increased 48.2% for 2000 to $1.23 from $0.83 for 1999, excluding non-recurring items in both years and adjusting for the three-for-two stock split effected in September 2000. This increase follows an increase of 44% for 1999 and 25% for 1998, all of which exceeded our continuing goal of 20% growth in earnings per diluted share. The 2000 fiscal year had 53 weeks compared to 52 weeks for 1999.

Our earnings growth for 2000 was primarily driven by a 21.3% increase in the Company's revenues, to $464,028,000 from $382,470,000 for 1999. Contributing significantly to this growth was RARE's outstanding same-store sales results at each of its concepts. LongHorn Steakhouse produced a 5.6% increase in same-store sales for 2000, which, with gains of 5.9% for 1999 and 5.0% for 1998, represents its third consecutive year of increases of 5% or above. In achieving these results, LongHorn Steakhouse has generated 12 consecutive quarters of same-store sales increases through the fourth quarter of 2000, an extraordinary record for a restaurant concept celebrating its 19th birthday.

We are also pleased with the same-store sales performance of The Capital Grille and Bugaboo Creek concepts. The Capital Grille achieved a 10.3% increase for 2000, following increases of 9.4% and 6.1% for 1999 and 1998, respectively. Through the fourth quarter of 2000, The Capital Grille also produced an outstanding record of 17 consecutive quarters of same-store sales increases. The record for consecutive quarterly same-store increases for Bugaboo Creek – a total of six quarters through the fourth quarter of 2000 – is no less significant considering the steady improvement we have achieved in this concept. For 2000, Bugaboo Creek's same-store sales grew 4.5%, on top of a 1.6% increase for 1999 and a decline of 2.5% for 1998.

In addition, RARE's revenue growth for 2000 reflects the moderate expansion of the Company's base of restaurants in operation. LongHorn Steakhouse opened 17 restaurants during the year to complete 2000 with 135 restaurants. Both The Capital Grille and Bugaboo Creek concepts opened one new restaurant each, ending the year with 12 and 19 restaurants in operation, respectively.

The Company's revenue growth drove economies of scale, which, combined with our efforts to improve operating efficiency, resulted in stronger profit margins for the third consecutive year. As a result, the Company's net profit margin, excluding nonrecurring items, increased to 5.2% for 2000 from 4.1% for 1999 and 3.3% for 1998.

RARE's growth and improving profitability enabled the Company to maintain a strong financial position at the end of the year, despite funding capital expenditures of $58.4 million for 2000, primarily for new restaurants and the remodeling and maintenance of our existing restaurant base. The Company also repurchased 654,000 shares of its common stock during 2000 for approximately $7.9 million. Our line of credit balance at year end was $51.0 million, representing a debt to total capitalization ratio of 24.4%. Subsequent to year end, the Company substantially strengthened its balance sheet with the completion of a stock offering of 2.3 million shares. The net proceeds of $57.6 million from the offering were used primarily to repay amounts outstanding under our credit facility.

The RARE Success Strategy

The foundation for our success over the past three years has been the consistent implementation of operating and growth strategies that, we believe, have given RARE the capability to achieve its financial targets for the foreseeable future. Our primary financial goal for 2001 and beyond remains to increase diluted earnings per share by 20% annually on a comparable basis.

To achieve these goals, we will continue to implement a restaurant operating strategy based on three primary elements:

- Provide each guest a superior experience through service, execution and training;
- Strengthen the programs and attitudes that have built our industry reputation as an employer of choice; and
- Utilize the utmost care in the development and opening process of each new restaurant.

In the full-service restaurant business, success is contingent upon the ability to attract, retain and grow the best people. As a result, we continue to invest heavily in the essential task of training and development of high quality people, and we

LONGHORN STEAKHOUSE

EXISTING COMPANY-OWNED/JOINT VENTURE RESTAURANTS

ALABAMA
Dothan - 1
Hoover - 1
Huntsville - 1
Mobile - 1
Montgomery - 1
FLORIDA
Daytona Beach - 1
Destin - 1
Ft. Myers - 2
Jacksonville - 4
Miami/ Ft. Lauderdale - 6
Ocala - 1
Orlando - 8
St. Augustine - 1
Tallahassee - 1
Tampa/ St. Petersburg - 8
West Palm Beach - 2
GEORGIA
Albany - 1
Athens - 1
Atlanta - 28
Augusta - 1
Cartersville - 1
Columbus - 1
Macon - 1
Rome - 1
Savannah - 1
Statesboro - 1
Valdosta - 1
Warner Robbins - 1
ILLINOIS
Fairview Heights - 1
KANSAS
Leawood - 1
KENTUCKY
Bowling Green - 1
Florence - 1
MASSACHUSETTS
Boston - 2
MISSOURI
Kansas City - 1
St. Louis - 6
NEW HAMPSHIRE
Concord - 2
NEW JERSEY
Rochelle Park - 1
NORTH CAROLINA
Burlington - 1
Charlotte - 7
Greensboro/ High Point/ Winston-Salem - 3
OHIO
Cincinnati - 4
Cleveland - 9
Columbus - 6
PENNSYLVANIA
Erie - 1
RHODE ISLAND
Warwick - 1
SOUTH CAROLINA
Columbia - 3
Greenville/ Spartanburg - 2
Hilton Head - 1
Mt. Pleasant - 1
Rock Hill - 1
TENNESSEE
Chattanooga - 1
Clarksville - 1
Nashville - 5
WEST VIRGINIA
Charleston - 1

Total Existing Company-Owned/ Joint Venture Restaurants - 143

EXISTING FRANCHISEE-OWNED RESTAURANTS

PUERTO RICO
Bayamon - 1
Carolina - 1
San Patricio - 1

Total Existing Franchisee-Owned Restaurants - 3

Total LongHorn Steakhouse Restaurants - 146

EXISTING COMPANY-OWNED RESTAURANTS

CONNECTICUT
Manchester - 1
DELAWARE
Newark - 1
GEORGIA
Atlanta - 1
MAINE
Bangor - 1
Portland - 1
MARYLAND
Gaithersburg - 1
MASSACHUSETTS
Boston - 6
Seekonk - 1
NEW HAMPSHIRE
Newington - 1
NEW YORK
Albany - 1
Poughkeepsie - 1
Rochester - 1
PENNSYLVANIA
Philadelphia - 1
RHODE ISLAND
Warwick - 1

Total Bugaboo Creek Restaurants - 19

EXISTING COMPANY-OWNED RESTAURANTS

DISTRICT OF COLUMBIA
Washington - 1
FLORIDA
Miami - 1
ILLINOIS
Chicago - 1
MASSACHUSETTS
Boston - 2
MICHIGAN
Troy - 1
MINNESOTA
Minneapolis - 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 - 13

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

believe the same-store sales performance of our concepts reflects this effort. We also note that for 2000, turnover in our restaurant management staff was below 30% and approximately 80% for hourly restaurant team members, both of which compare favorably to industry standards. RARE will continue to emphasize the development of premium talent to fulfill its goal of becoming the premier casual dining restaurant company of our size in the United States.

The Company's growth strategy is based on the pursuit of moderate, sustainable growth in our base of restaurants in operation. We simply refuse to permit the number of restaurants opened in a given year to take precedence over the quality of their ongoing operations. Same store sales will always remain a primary focus, as we believe it is a key indicator of the health of our business.

As it enters its 20th year of operation, LongHorn Steakhouse continues to be a strong, vibrant concept and is clearly the Company's primary growth vehicle. The concept has achieved this position through the delivery of great food and great service with a fun attitude, even as it consistently evolves to broaden its appeal and meet the changing needs of its guests. For 2001, we plan to take the next step in realizing the concept's substantial potential for long-term growth through the opening of 18 to 21 new restaurants. We also continue to target a sustainable same-store sales growth rate of 2% to 3%.

For 2001, The Capital Grille will expand its base of restaurants in operation by 25% with the opening of three new restaurants planned during the first half of the year. We remain very enthusiastic about the increasing strength of this young concept's brand name, which is already recognized as one of the leading top-scale steakhouses in the country, and we expect to expand the concept steadily. As a result, we have targeted a sustainable rate of same-store sales for the concept of 3% to 4% annually.

We plan to remain conservative in our expansion plans for Bugaboo Creek for 2001, as we seek further improvements in the concept's operating results. Bugaboo Creek's substantially improved financial performance for 2000 provides evidence of the progress we have made in improving the concept's results. We expect to open one additional Bugaboo Creek restaurant during 2001 and plan to prudently increase the growth rate for 2002 and beyond. For 2001, we are targeting a slightly positive same-store sales performance.

Summary

In an annual report dedicated to the growing strength of the RARE team that has been built over the last three years, it has never been more evident that in the full service restaurant business, those with the best people win.

Among the people on RARE's team, we wish to recognize several new additions to our senior management team with the promotions of Patrick Eulberg to Vice President, Real Estate; Lou Grande to Vice President, Information Technology; Kristi Nyhof, Vice President, Training; and Carter Schilf, Vice President, Construction and Design. We also welcome Carolyn Baldwin, who joined our Board of Directors last August. Her appointment to the Board was followed in December with the announcement that Gene Lee, who became President and Chief Operating Officer at the start of 2001, had also been elected to become a Director of the Company.

Although we believe RARE is already well positioned to achieve its operating and financial targets, we will continue to refine our restaurant concepts and make them stronger. We are confident of the strength and growth potential of each of our brands, and we believe we have the managerial, financial and other key assets in place to execute our proven operating and growth strategies. Through consistency of effort and results, we expect to make steady progress toward our goal of becoming the premier restaurant company of our size in the United States.

We wish to pay tribute to a special individual, George McKerrow, Jr., the founder of the Company. As planned, George has stepped down as Chairman of the Company, but will remain a key contributor as a member of the Board of Directors. We thank George for his contributions and congratulate him for his leadership, tenacity and vision in creating a unique organization dedicated to caring for the guest and having fun in the process.

As fellow shareholders, we are deeply grateful to the people throughout RARE who have enabled the Company to achieve such impressive results and who will determine the Company's future success. Because of the ongoing commitment to excellence that characterizes this team, we feel RARE is well positioned to continue to drive further growth in shareholder value.

Philip J. Hickey, Jr.
Chairman and Chief Executive Officer

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

SELECTED FINANCIAL DATA

Fiscal Years Ended	**December 31, 2000**	December 26, 1999	December 27, 1998	December 28, 1997	December 29, 1996
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Restaurant sales	**$ 463,648**	$ 382,275	$ 319,084	$ 264,727	$ 212,894
Wholesale meat sales	**–**	–	–	–	2,547
Franchise revenues	**380**	195	–	27	308
Total revenues	**464,028**	382,470	319,084	264,754	215,749
Costs and expenses:					
Cost of restaurant sales	**166,421**	137,416	116,602	97,568	78,637
Cost of wholesale meat sales	**–**	–	–	–	2,491
Operating expenses – restaurants	**204,652**	171,943	142,730	119,480	94,587
Operating expenses – meat division	**–**	–	–	–	234
Provision for asset impairments, restaurant closings, and other charges	**–**	1,800	2,500	23,666	1,436
Merger and conversion expenses	**–**	–	–	–	2,900
Depreciation and amortization – restaurants	**17,022**	15,249	17,636	15,218	12,191
Pre-opening expense	**3,318**	3,051	–	–	–
General and administrative expenses	**31,309**	26,052	22,470	23,590	13,732
Total costs and expenses	**422,722**	355,511	301,938	279,522	206,208
Operating income (loss)	**41,306**	26,959	17,146	(14,768)	9,541
Interest expense (income), net	**4,159**	3,866	2,939	1,245	(79)
Provision for litigation settlement	**1,000**	–	–	–	605
Minority interest	**1,407**	1,609	1,334	1,219	602
Earnings (loss) before income taxes and cumulative effect of change in accounting principle	**34,740**	21,484	12,873	(17,232)	8,413
Income tax expense (benefit)	**11,480**	7,060	4,120	(5,000)	3,170
Earnings (loss) before cumulative effect of change in accounting principle	**23,260**	14,424	8,753	(12,232)	5,243
Cumulative effect of change in accounting principle (net of tax benefit of $760)	**–**	1,587	–	–	–
Net earnings (loss)	**$ 23,260**	$ 12,837	$ 8,753	$ (12,232)	$ 5,243
Basic earnings (loss) per common share before cumulative effect of change in accounting principle	**$ 1.27**	$ 0.80	$ 0.49	$ (0.69)	$ 0.31
Cumulative effect per common share of change in accounting principle	**–**	0.09	–	–	–
Basic earnings (loss) per common share	**$ 1.27**	$ 0.71	$ 0.49	$ (0.69)	$ 0.31
Diluted earnings (loss) per common share before cumulative effect of change in accounting principle	**$ 1.20**	$ 0.76	$ 0.48	$ (0.69)	$ 0.30
Cumulative effect per common share of change in accounting principle	**–**	0.08	–	–	–
Diluted earnings (loss) per common share	**$ 1.20**	$ 0.68	$ 0.48	$ (0.69)	$ 0.30
Weighted average common share outstanding (basic)	**18,271**	18,048	18,006	17,627	16,953
Weighted average common shares outstanding (diluted)	**19,416**	18,819	18,149	17,627	17,447
Balance Sheet Data:					
Working capital (deficit)	**$ (23,070)**	$ (11,031)	$ 1,136	$ 1,359	$ 2,065
Total assets	**295,381**	237,118	218,862	195,486	151,594
Debt, net of current installments	**51,000**	40,000	48,000	43,000	7,100
Obligations under capital leases, net of current installments	**20,969**	9,732	9,732	5,051	–
Minority interest	**1,469**	3,982	2,610	4,890	3,301
Total shareholders' equity	**167,257**	137,584	120,618	111,980	121,384

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

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

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

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

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

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

Fiscal Years Ended	**December 31, 2000**	December 26, 1999	December 27, 1998
Revenues:			
Restaurant sales:			
LongHorn Steakhouse	**70.6%**	68.1%	66.3%
The Capital Grille	**14.1**	15.1	16.0
Bugaboo Creek	**13.6**	14.9	15.7
Other restaurants	**1.6**	1.8	2.0
Total restaurant sales	**99.9**	99.9	100.0
Franchise revenues	**0.1**	0.1	–
Total revenues	**100.0**	100.0	100.0
Costs and expenses:			
Cost of restaurant sales[1]	**35.9**	35.9	36.5
Operating expenses – restaurants[1]	**44.1**	45.0	44.7
Provision for asset impairments, restaurant closings, and other charges	**–**	0.5	0.8
Depreciation and amortization – restaurants[1]	**3.7**	4.0	5.5
Pre-opening expense – restaurants[1]	**0.7**	0.8	–
General and administrative expenses	**6.7**	6.8	7.0
Total costs and expenses	**91.1**	93.0	94.6
Operating income	**8.9**	7.0	5.4
Interest expense, net	**0.9**	1.0	0.9
Provision for litigation settlement	**0.2**	–	–
Minority interest	**0.3**	0.4	0.4
Earnings before income taxes and cumulative effect of change in accounting principle	**7.5**	5.6	4.0
Income tax expense	**2.5**	1.8	1.3
Earnings before cumulative effect of change in accounting principle	**5.0**	3.8	2.7
Cumulative effect of change in accounting principle (net of tax benefit)	**–**	0.4	–
Net earnings	**5.0%**	3.4%	2.7%

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

Revenues

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

LongHorn Steakhouse:

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

The Capital Grille:

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

Bugaboo Creek:

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

Franchise Revenue:

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

Costs and Expenses

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

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

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

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

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

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

In March 2000, an ongoing legal dispute with a former joint venture partner was resolved by an arbitrator, resulting in a 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.

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

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

Net income of $23.3 million in 2000, as compared to net income of $12.8 million in 1999, reflects the net effect of the items discussed above.

Year Ended December 26, 1999 Compared to Year Ended December 27, 1998

Revenues

Total revenues increased 19.9% to $382.5 million for 1999 compared to $319.1 million for 1998.

LongHorn Steakhouse:

Sales in the LongHorn Steakhouse restaurants increased 23.2% to $260.5 million for 1999, compared to $211.4 million for 1998. The increase reflects a 13.8% increase in restaurant operating weeks in 1999 as compared to 1998, resulting from an increase in the restaurant base from 104 Company-owned and joint venture LongHorn Steakhouse restaurants at the end of 1998 to 118 restaurants at the end of 1999. Average weekly sales for all company-owned and joint venture LongHorn Steakhouse restaurants in 1999 were $45,086, an 8.3% increase over 1998. Sales for the comparable LongHorn Steakhouse restaurants increased 5.9% in 1999 as compared to 1998. The increase in comparable restaurant sales for 1999 at LongHorn Steakhouse was attributable primarily to an increase in guest counts.

The Capital Grille:

Sales in The Capital Grille restaurants increased 13.3% to $57.9 million for 1999, compared to $51.1 million for 1998. Average weekly sales for all The Capital Grille restaurants in 1999 were $101,207, a 13.3% increase from 1998. Sales for the comparable The

Capital Grille restaurants increased 9.4% in 1999, as compared to 1998. The increase in total and comparable restaurant sales at The Capital Grille restaurants is attributable primarily to an increase in guest counts. The increase in average weekly sales was greater than the increase in comparable restaurant sales due to the closure of an underperforming The Capital Grille restaurant in the fourth quarter of 1998.

Bugaboo Creek:

Sales in the Bugaboo Creek restaurants increased 13.6% to $56.9 million for 1999, compared to $50.1 million for 1998. The increase reflects a 9.5% increase in restaurant weeks in 1999 as compared to 1998, resulting from an increase in the restaurant base from 17 Bugaboo Creek restaurants at the end of 1998 to 18 restaurants at the end of 1999. Average weekly sales for all Bugaboo Creek restaurants in 1999 were $63,109, a 3.8% increase from 1998. Sales for the comparable Bugaboo Creek restaurants increased 1.6% in 1999, as compared to 1998. The increase in comparable restaurant sales at Bugaboo Creek restaurants is attributable primarily to an increase in guest counts.

Franchise Revenue:

During 1997, the Company acquired all of the LongHorn Steakhouse restaurants that were then paying franchise revenues. In September 1998, a franchise LongHorn Steakhouse restaurant opened in Puerto Rico; this franchisee began paying franchise fees in January 1999. No franchise revenues were earned during 1998. In October 1999, the Company's franchisee opened its second franchise LongHorn Steakhouse in Puerto Rico. In 1999 the Company received $195,000 in franchise revenue.

Costs and Expenses

Cost of restaurant sales, as a percentage of restaurant sales, decreased to 35.9% in 1999 from 36.5% in 1998. This decrease is due, in part, to favorable purchasing contracts negotiated during the year, which reduced the cost of restaurant sales as a percentage of restaurant sales.

Restaurant operating expenses increased as a percentage of restaurant sales in 1999 to 45.0% from 44.7% in 1998. This was due to an increase in management incentives and advertising expense, partially offset by greater leverage of fixed and semi-fixed expenses.

The provision for asset impairments, restaurant closings, and other charges of $1.8 million in 1999 consisted primarily of the write down of two Bugaboo Creek restaurants, which was determined under Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of" ("SFAS No. 121") by comparing expected future cash flows to the carrying value of impaired assets.

General and administrative expenses of $26.1 million in 1999 decreased, as a percent of sales, to 6.8% of total revenues, from $22.5 million in 1998, or 7.0% of total revenues. The decrease as a percentage of total revenues was due primarily to the increase in sales in 1999 as partially offset by higher general and administrative expenses in 1999, primarily payroll related, associated with building the infrastructure necessary to support the Company's growth.

Interest expense increased to $3.9 million in 1999 compared to $2.9 million in 1998. The increase in interest expense is due to higher average balances outstanding under the Company's obligations under capital leases as well as additional expenses associated with amending the Company's $100 million revolving credit facility. The Company's weighted average interest rate on borrowings, including the amortization of debt issue costs, under its revolving credit facility was approximately 8.7% in 1999, compared to 7.8% in 1998.

Minority interest increased to $1.6 million in 1999 from $1.3 million in 1998. This reflects an increase in the number of joint venture restaurants for most of 1999 and the improved performance of the joint venture restaurants, partially offset by the purchase of joint venture partners' partnership interests in 14 joint venture restaurants during 1999.

Income tax expense in 1999 was 32.9% 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 $12.8 million in 1999, as compared to net income of $8.8 million in 1998, reflects the net effect of the items discussed above after taking into consideration the charge related to the cumulative effect of change in accounting principle (net of tax) in 1999 of $1.6 million. This charge was associated with the Company's adoption of SOP 98-5 in the first quarter of 1999 requiring the write-off of the balance of previously unamortized pre-opening expenses.

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 source in 2000 was cash flow from operations ($46.9 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 ($58.4 million) and the purchase of common stock under the Company's share repurchase program ($7.9 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, accounts payable, and accrued expenses are principally due to the new restaurants which were opened during 2000 and the result of higher average unit volumes experienced during 2000. Further increases in current asset and liability accounts are expected as the Company continues its restaurant development program.

In September 2000, the Company amended and restated its $100 million revolving credit facility, principally to extend the maturity date. Beginning with the last day of the quarter ending September 2004, the amount available under the revolving credit facility would be reduced each quarter by $10.0 million, reducing the commitment to $50.0 million as of the termination date in September 2005. The terms of the revolving credit facility, as amended, require the Company to pay interest on outstanding borrowings at LIBOR plus a margin of 1.25% to 2.0% (depending on the Company's leverage ratio) or the administrative agent's prime rate of interest plus a margin of 0% to 0.75% (depending on the Company's leverage ratio), at the Company's option, and pay a commitment fee of 0.3% to 0.5% per year on any unused portion of the facility. As of December 31, 2000, interest on the revolving credit facility accrued at LIBOR plus 1.5% or the prime rate plus 0.25%. As of December 31, 2000, the Company was required to pay a commitment fee of 0.325% 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.

As of December 31, 2000, the Company had interest rate swap agreements with commercial banks, which effectively fixed the interest rate on $50.0 million of the Company's borrowings at 6.226%, plus the applicable margin, through May 2001; 6.31%, plus the applicable margin, through March 2003; and 6.52%, plus the applicable margin, through October 2003. The applicable margin on December 31, 2000 was 1.5%; however, the applicable margin is expected to be 1.25% during the first quarter of 2001. The Company is exposed to credit losses on these interest rate swaps in the event of counterparty non-performance, but does not anticipate any such losses.

On December 31, 2000, $51.0 million was outstanding and $49.0 million was available under the Company's revolving credit facility at a weighted average interest rate equal to 8.2%. Giving effect to the interest rate swap agreement, the weighted average interest rate on borrowings under the revolving credit facility on December 31, 2000, was 6.52 % plus the applicable margin of 1.5%.

The Company currently plans to open 18 to 21 Company-owned LongHorn Steakhouse restaurants, three The Capital Grille restaurants and one Bugaboo Creek restaurant in 2001. The Company estimates that its capital expenditures will be approximately $60.0 to $65.0 million in 2001. The capital expenditure estimate for 2001 includes the estimated cost of developing 22 to 25 new restaurants, ongoing refurbishment in existing restaurants, costs associated with obtaining real estate for year 2002 planned openings, and continued investment in improved management information systems. In February 2000, the Company's Board of Directors authorized the Company to purchase up to an additional $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).

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

In February 2001, the Company completed an offering of 2,300,000 shares of its no par value common stock at $26 per share. Total net proceeds to the Company were approximately $57.6 million. Of those proceeds, the Company used approximately $56.5 million to repay amounts outstanding under its $100 million revolving line of credit, and approximately $1.1 million to pay a non-recurring pre-tax expense associated with amending its interest rate swap agreements to fix the interest rate on amounts expected to be outstanding under the Company's credit facility following its application of these proceeds. The $1.1 million ($682,000 after-tax) non-recurring, separately stated expense associated with amending the interest rate swap agreements is expected to result in an approximately $0.03 decrease in diluted earnings per share for the first quarter of 2001. After application of the proceeds from the February stock offering, 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 for at least the next three years.

The preceding discussion of liquidity and capital resources contains certain forward-looking statements. Forward-looking statements involve a number of risks and uncertainties, and among the other factors that could cause actual results to differ materially are the following: failure of facts to conform to necessary management estimates and assumptions; the Company's ability to identify and secure suitable restaurant locations on acceptable terms, open new restaurants in a timely manner, hire and train additional restaurant personnel and integrate new restaurants into its operations; the continued implementation of the Company's business discipline over a large restaurant base; the economic conditions in the new markets into which the Company expands and possible uncertainties in the customer base in these areas; changes in customer dining patterns; competitive pressures from other national and regional restaurant chains; business conditions, such as inflation or a recession, and growth in the restaurant industry and the general economy; changes in monetary and fiscal policies, laws and regulations; and other risks identified from time to time in the Company's SEC reports, including the Companys' Annual Report on Form 10-K for 2000, registration statements and public announcements.

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 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, establishes accounting and reporting standards for derivative instruments and hedging activities. This statement is effective for the Company beginning in the first quarter of fiscal year 2001. Under the standard, entities will be required to carry all derivative instruments on the balance sheet at fair value. The Company has historically used interest rate swap agreements to effectively fix the interest rate on variable rate borrowings under the Company's $100 million revolving credit facility. These interest rate swap agreements are classified as a hedge of a cash flow exposure under SFAS No. 133; and accordingly, the initial fair value and subsequent changes therein are reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted cash flows affect earnings.

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 $1.1 million resulting in an after-tax non-recurring 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. This transaction is expected to result in an approximately $0.03 decrease in diluted earnings per share for the first quarter of 2001. Future changes in the fair value of the Company's interest rate swaps structured as effective hedges will be reflected as a component of other comprehensive income.

CONSOLIDATED BALANCE SHEETS

	December 31, 2000	December 26, 1999
ASSETS	*(in thousands)*	
Current assets:		
Cash and cash equivalents	**$ 3,771**	$ 8,864
Accounts receivable	**5,596**	3,047
Inventories	**11,179**	10,213
Prepaid expenses	**1,246**	815
Refundable income taxes	**4,044**	2,568
Deferred income taxes (note 7)	**5,780**	8,179
Total current assets	**31,616**	33,686
Property and equipment, less accumulated depreciation and amortization (notes 4 and 9)	**238,850**	187,281
Goodwill, less accumulated amortization	**20,272**	13,185
Deferred income taxes (note 7)	**2,316**	–
Other	**2,327**	2,966
Total assets	**$ 295,381**	$ 237,118
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 19,738**	$ 15,354
Accrued expenses (note 5)	**34,948**	29,363
Total current liabilities	**54,686**	44,717
Debt, net of current installments (note 6)	**51,000**	40,000
Deferred income taxes (note 7)	**–**	1,103
Obligations under capital leases, net of current installments (note 9)	**20,969**	9,732
Total liabilities	**126,655**	95,552
Minority interest	**1,469**	3,982
Shareholders' equity (notes 2, 6, 11, and 12):		
Preferred stock, no par value. Authorized 10,000 shares, none issued	**–**	–
Common stock, no par value. Authorized 25,000 shares; issued 19,627 shares and 18,576 shares at December 31, 2000 and December 26, 1999, respectively	**124,497**	110,258
Unearned compensation – restricted stock	**(338)**	(376)
Retained earnings	**52,849**	29,589
Treasury shares at cost; 871 shares and 217 shares at December 31, 2000 and December 26, 1999, respectively	**(9,751)**	(1,887)
Total shareholders' equity	**167,257**	137,584
Commitments and contingencies (notes 4, 6, 8, 9, and 13)		
Total liabilities and shareholders' equity	**$ 295,381**	$ 237,118

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Years Ended	**December 31, 2000**	December 26, 1999	December 27, 1998
	(in thousands, except per share data)		
Revenues:			
Restaurant sales:			
LongHorn Steakhouse	**$ 327,820**	$ 260,507	$ 211,440
The Capital Grille	**65,394**	57,890	51,096
Bugaboo Creek	**62,964**	56,925	50,090
Other restaurants	**7,470**	6,953	6,458
Total restaurant sales	**463,648**	382,275	319,084
Franchise revenues	**380**	195	–
Total revenues	**464,028**	382,470	319,084
Costs and expenses:			
Cost of restaurant sales	**166,421**	137,416	116,602
Operating expenses – restaurants	**204,652**	171,943	142,730
Provision for asset impairments, restaurant closings, and other charges (note 3)	**–**	1,800	2,500
Depreciation and amortization – restaurants	**17,022**	15,249	17,636
Pre-opening expense	**3,318**	3,051	–
General and administrative expenses	**31,309**	26,052	22,470
Total costs and expenses	**422,722**	355,511	301,938
Operating income	**41,306**	26,959	17,146
Interest expense, net	**4,159**	3,866	2,939
Provision for litigation settlement (note 13)	**1,000**	–	–
Minority interest (note 2)	**1,407**	1,609	1,334
Earnings before income taxes and cumulative effect of change in accounting principle	**34,740**	21,484	12,873
Income tax expense (note 7)	**11,480**	7,060	4,120
Earnings before cumulative effect of change in accounting principle	**23,260**	14,424	8,753
Cumulative effect of change in accounting principle (net of tax benefit of $760) (note 1)	**–**	1,587	–
Net earnings	**$ 23,260**	$ 12,837	$ 8,753
Basic earnings per common share before cumulative effect of change in accounting principle	**$ 1.27**	$ 0.80	$ 0.49
Cumulative effect per common share of change in accounting principle	**–**	0.09	–
Basic earnings per common share	**$ 1.27**	$ 0.71	$ 0.49
Diluted earnings per common share before cumulative effect of change in accounting principle	**$ 1.20**	$ 0.76	$ 0.48
Cumulative effect per common share of change in accounting principle	**–**	0.08	–
Diluted earnings per common share	**$ 1.20**	$ 0.68	$ 0.48
Weighted average common shares outstanding (basic)	**18,271**	18,048	18,006
Weighted average common shares outstanding (diluted)	**19,416**	18,819	18,149

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Fiscal Years Ended December 31, 2000, December 26, 1999, and December 27, 1998
(in thousands)

	Common Stock Shares	Common Stock Dollars	Unearned Compensation Restricted Stock	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE, DECEMBER 28, 1997	17,968	$103,981	–	$ 7,999	$ –	$111,980
Net earnings	–	–	–	8,753	–	8,753
Exercise of stock options	80	536	–	–	–	536
Issuance of shares pursuant to restricted stock award	68	575	(575)	–	–	–
Amortization of restricted stock	–	–	97	–	–	97
Purchase of common stock	–	–	–	–	(748)	(748)
BALANCE, DECEMBER 27, 1998	18,116	105,092	(478)	16,752	(748)	120,618
Net earnings	–	–	–	12,837	–	12,837
Exercise of stock options	264	2,100	–	–	–	2,100
Tax benefit of non-qualified stock options exercised	–	195	–	–	–	195
Issuance of shares in connection with purchase of minority interest	193	2,827	–	–	–	2,827
Issuance of shares pursuant to restricted stock awards	3	44	(44)	–	–	–
Amortization of restricted stock	–	–	146	–	–	146
Purchase of common stock	–	–	–	–	(1,139)	(1,139)
BALANCE, DECEMBER 26, 1999	18,576	110,258	(376)	29,589	(1,887)	137,584
Net earnings	–	–	–	23,260	–	23,260
Exercise of stock options	688	6,406	–	–	–	6,406
Tax benefit of non-qualified stock options exercised	–	879	–	–	–	879
Issuance of shares in connection with purchase of minority interest	356	6,827	–	–	–	6,827
Issuance of shares pursuant to restricted stock awards	7	127	(127)	–	–	–
Amortization of restricted stock	–	–	165	–	–	165
Purchase of common stock	–	–	–	–	(7,864)	(7,864)
BALANCE, DECEMBER 31, 2000	**19,627**	**$124,497**	**$ (338)**	**$52,849**	**$(9,751)**	**$167,257**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended	**December 31, 2000**	December 26, 1999	December 27, 1998
		(in thousands)	
Cash flows from operating activities:			
Net earnings	**$ 23,260**	$ 12,837	$ 8,753
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**19,378**	16,758	18,733
Non-cash portion of provision for asset impairments, restaurant closings and other charges	**–**	1,800	2,500
Cumulative effect of accounting change	**–**	1,587	–
Minority interest	**1,407**	1,609	1,334
Pre-opening costs	**–**	–	(3,137)
Deferred tax (benefit) expense	**(1,020)**	(2,307)	1,327
Changes in assets and liabilities:			
Accounts receivable	**(2,549)**	396	(1,389)
Inventories	**(966)**	(604)	(443)
Prepaid expenses	**(431)**	(26)	584
Other assets	**452**	64	(1,207)
Refundable income taxes	**(597)**	1,847	1,752
Accounts payable	**1,666**	3,366	(1,176)
Accrued expenses	**6,311**	(672)	7,482
Net cash provided by operating activities	**46,911**	36,655	35,113
Cash flows from investing activities:			
Proceeds from sale of marketable debt securities	**–**	–	609
Purchase of property and equipment	**(58,430)**	(36,822)	(24,955)
Purchase of joint venture and franchise interests	**(3,220)**	(206)	(6,602)
Net cash used in investing activities	**(61,650)**	(37,028)	(30,948)
Cash flows from financing activities:			
Proceeds from (repayments of) debt, net	**11,000**	(8,000)	5,000
Principal payments on capital leases	**(40)**	–	–
Proceeds from minority partner contributions	**184**	2,180	1,772
Distributions to minority partners	**(1,907)**	(2,417)	(3,283)
Increase in bank overdraft included in accounts payable and accrued liabilities	**1,867**	4,453	2,866
Purchase of common stock for treasury	**(7,864)**	(1,139)	(748)
Proceeds from exercise of stock options	**6,406**	2,100	536
Net cash provided by (used in) financing activities	**9,646**	(2,823)	6,143
Net (decrease) increase in cash and cash equivalents	**(5,093)**	(3,196)	10,308
Cash and cash equivalents at beginning of year	**8,864**	12,060	1,752
Cash and cash equivalents at end of year	**$ 3,771**	$ 8,864	$ 12,060
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	**$ 12,823**	$ 7,508	$ 3,033
Cash paid for interest, net of interest capitalized	**$ 4,191**	$ 3,510	$ 3,063
Supplemental disclosure of non-cash financing and investing activities:			
Assets acquired under capital lease	**$ 11,277**	$ –	$ 4,163
Issuance of common stock in purchase of minority interest	**$ 6,827**	$ 2,827	$ –

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, DECEMBER 26, 1999, AND DECEMBER 27, 1998

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 31, 2000, the Company operated the following restaurants:

CONCEPT	NUMBER IN OPERATION
LongHorn Steakhouse	135
Bugaboo Creek	19
The Capital Grille	12
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 31, 2000, 11 of the Company's restaurants operate in joint ventures and limited partnerships.

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 common share amounts have been restated to give retroactive effect to the stock split for all periods presented.

CASH EQUIVALENTS

The Company considers all highly liquid investments which have original maturities of three months or less to be cash equivalents. Cash equivalents, comprised of overnight repurchase agreements, totaled approximately $7 million at December 26, 1999. 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.

MARKETABLE DEBT SECURITIES

Marketable debt securities are classified as available-for-sale and are reported at fair market value, with any unrealized gains or losses, net of deferred income taxes, reflected as a separate component of shareholders' equity.

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, and seven years for equipment.

PRE-OPENING AND ORGANIZATION COSTS

At the beginning of fiscal 1999, the Company adopted the American Institute of Certified Public Accountants ("AICPA") Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities". SOP 98-5 requires most entities to expense as incurred all organization and pre-opening costs that are not otherwise capitalizable as long-lived assets. The Company previously deferred such costs and amortized them over a twelve-month period following the opening of each restaurant, as was the practice in the restaurant industry. As a result of the adoption of this change in accounting policy, the Company recorded a cumulative effect charge of $2.3 million (approximately $1.6 million net of tax benefit, or $0.08 per diluted share). Prior to fiscal 1999, amortization of deferred pre-opening costs was included with depreciation and amortization expense on the consolidated statements of operations. Effective with fiscal 1999, pre-opening costs are included as a separate item on the consolidated statements of operations.

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

Goodwill, net of accumulated amortization of approximately $2.1 million and $1.2 million at December 31, 2000 and December 26, 1999, respectively, represents the excess of purchase price over fair value of net assets acquired. Goodwill is amortized using the straight-line method over the expected period to be benefited (from 13 to 25 years). The Company assesses the recoverability of goodwill by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

OTHER ASSETS

Other assets consist of debt issuance costs, trademarks, and purchased liquor licenses. Trademarks are amortized on a straight-line basis over five years. Purchased liquor licenses are amortized over 20 to 40 years. Debt issuance costs are amortized on a straight-line basis over the term of the debt. The first quarter 1999 adoption of the change in accounting method prescribed by SOP 98-5 resulted in a one time charge of approximately $200,000, less applicable income taxes, related to the write-off of organization costs.

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 1998.

RECOVERABILITY OF LONG-LIVED ASSETS

The Company accounts for long-lived assets in accordance with Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," 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 discounted 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 carryforwards. Temporary 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.

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 ("APB 25"), "Accounting for Stock Issued to Employees", 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 No. 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.

Alternatively, SFAS No. 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 No. 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 No. 123.

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 $12.9 million, $10.8 million, and $8.4 million for the years ended December 31, 2000, December 26, 1999, and December 27, 1998, 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 ("SFAS No. 128"), "Earnings Per Share". SFAS No. 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):

	2000	1999	1998
Weighted average number of common shares used in basic calculation	**18,271**	18,048	18,006
Dilutive effect of restricted stock award	**61**	42	2
Dilutive effect of net shares issuable pursuant to stock option plans	**1,084**	729	141
Weighted average number of common shares used in diluted calculation	**19,416**	18,819	18,149
Earnings before cumulative effect of change in accounting principle	**$ 23,260**	$ 14,424	$ 8,753
Cumulative effect of change in accounting principle (net of tax benefit)	**–**	1,587	–
Net earnings	**$ 23,260**	$ 12,837	$ 8,753
Basic earnings per common share before cumulative effect of change in accounting principle	**$ 1.27**	$ 0.80	$ 0.49
Cumulative effect per common share of change in accounting principle	**–**	0.09	–
Basic earnings per common share	**$ 1.27**	$ 0.71	$ 0.49
Diluted earnings per common share before cumulative effect of change in accounting principle	**$ 1.20**	$ 0.76	$ 0.48
Cumulative effect per common share of change in accounting principle	**–**	0.08	–
Diluted earnings per common share	**$ 1.20**	$ 0.68	$ 0.48

Options to purchase 64,004 shares of common stock at December 31, 2000, were excluded from the computation of diluted earnings per share because the related exercise prices were greater than the average market price for 2000 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, 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, 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.

The Company, from time to time, uses interest rate swaps to reduce interest rate volatility. The interest differential to be paid or received on the swap is recognized in the consolidated statement of operations, as incurred, as a component of interest expense.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company may, from time to time, use interest rate swap agreements in the management of interest rate exposure. The interest rate differential to be paid or received is normally accrued as interest rates change, and is recognized as a component of interest expense over the life of the agreements. If an agreement is terminated prior to the maturity date and is characterized as a hedge, any accrued rate differential would be deferred and recognized as interest expense through the original maturity date of the hedge.

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 generally accepted accounting principles. Actual results could differ from those estimates.

COMPREHENSIVE INCOME

During 2000, 1999, and 1998, net earnings was the same as comprehensive income since the Company had no other comprehensive income in those years.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, establishes accounting and reporting standards for derivative instruments and hedging activities. This statement is effective for the Company beginning in the first quarter of fiscal year 2001. Under the standard, entities will be required to carry all derivative instruments on the balance sheet at fair value. The Company has historically used interest rate swap agreements to effectively fix the interest rate on variable rate borrowings under the Company's $100 million revolving credit facility. These interest rate swap agreements are classified as a hedge of a cash flow exposure under SFAS No. 133; and accordingly, the initial fair value and subsequent changes therein are reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted cash flows affect earnings.

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 expected to be outstanding under the Company's credit facility (see Note 15).

RECLASSIFICATIONS

Certain reclassifications have been made to the 1999 and 1998 consolidated financial statements to conform with the 2000 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.

In September 1999, the Company acquired the ownership interest of its joint venture partner in ten LongHorn Steakhouse restaurants located in south Florida markets for an aggregate purchase price of approximately $2.9 million; comprised of 156,000 shares of Company common stock and approximately $600,000 in notes payable in a transaction accounted for under the purchase method. The excess purchase price over the book value of the minority interest acquired was approximately $2.9 million and was recorded as goodwill to be amortized over 20 years.

In May 1999, the Company acquired the ownership interest of its joint venture partner in four LongHorn Steakhouse restaurants located in the Columbus, Ohio market for an aggregate purchase price of $750,000; comprised of 37,500 shares of Company common stock, $150,000 in cash and a $30,000 note, in a transaction accounted for under the purchase method. The excess of purchase price over the book value of the minority interest acquired was approximately $750,000 and was recorded as goodwill to be amortized over 20 years.

In December 1998, the Company purchased the assets of one previously franchised LongHorn Steakhouse location in Tampa, Florida, in a transaction accounted for under the purchase method, for approximately $1.2 million in cash and a $50,000 note. The excess of cost over fair value of tangible assets acquired was approximately $1.2 million and was recorded as goodwill to be amortized over 20 years.

In November 1998, the Company acquired the ownership interest of its joint venture partners in 11 LongHorn Steakhouse restaurants located in the Cleveland, Ohio, and St. Louis, Missouri markets for an aggregate purchase price of $5.3 million in cash and a $200,000 note in a transaction accounted for under the purchase method. The excess of cost over the minority interest acquired was approximately $3.8 million and was recorded as goodwill to be amortized over 20 years.

3. PROVISION FOR ASSET IMPAIRMENTS, RESTAURANT CLOSINGS, AND OTHER CHARGES

The provision for asset impairments, restaurant closings, and other charges of $1.8 million in fiscal 1999 consisted primarily of the write down of two Bugaboo Creek restaurants, which was determined under SFAS No. 121 by comparing discounted future cash flows to the carrying value of impaired assets.

The provision for asset impairments, restaurant closings, and other charges of $2.5 million in 1998 was primarily the result of a decision by management, in the fourth quarter, to close one The Capital Grille restaurant partially offset by favorable developments in estimated amounts accrued in 1997 for costs associated with closed facilities.

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment at December 31, 2000 and December 26, 1999 are summarized as follows (in thousands):

	2000	1999
Land and improvements	**$ 27,806**	$ 22,090
Buildings	**29,322**	22,374
Leasehold improvements	**135,959**	115,331
Assets under capital lease	**21,009**	9,732
Restaurant equipment	**55,170**	47,441
Furniture and fixtures	**27,536**	22,096
Construction in progress	**21,874**	9,927
	318,676	248,991
Less accumulated depreciation and amortization	**79,826**	61,710
	$ 238,850	$ 187,281

During 2000, 1999, and 1998, the Company capitalized interest during construction of approximately $790,000, $457,000, and $270,000, 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 31, 2000, such commitments totaled approximately $30.1 million.

5. ACCRUED EXPENSES

Accrued expenses consist of the following at December 31, 2000 and December 26, 1999 (in thousands):

	2000	1999
Accrued self insurance reserves	**$ 2,863**	$ 2,535
Accrued provision for asset impairments, restaurant closings, and other charges	**354**	2,038
Accrued rent	**4,393**	2,345
Accrued compensation	**10,542**	8,293
Other taxes accrued	**4,305**	3,586
Accrued Gift certificate liability	**8,561**	6,805
Other	**3,930**	3,761
	$ 34,948	$ 29,363

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 million. Beginning with the last day of the quarter ending September 2004 the amount available under the revolving credit facility would be reduced each quarter by $10.0 million, reducing the commitment to $50.0 million as of the termination date in September 2005. The Revolving Credit Facility is the result of amendments to and a restatement of the Company's previous $100 million credit facility. The Revolving Credit Facility bears interest at the Company's option of LIBOR plus a margin of 1.25% to 2.0% (depending on the Company's leverage ratio) or the administrative agent's prime rate of interest, plus a margin of 0% to 0.75% (depending on the Company's leverage ratio) and requires payment of a commitment fee on any unused portion at a rate of 0.3% to 0.5% per year (depending on the Company's leverage ratio). At December 31, 2000 and December 26, 1999, the interest rate on outstanding obligations under the Company's revolving credit facilities was 8.202% and 6.836%, respectively, based on LIBOR plus 1.5%. The commitment fee on the unused portion of the Revolving Credit Facility on December 31, 2000, was 0.325% per year. At December 31, 2000 and December 26, 1999, debt outstanding under the revolving credit facilities totaled $51.0 million and $40.0 million, respectively. Amounts available under the Company's revolving credit facilities totaled $49.0 million and $60.0 million at December 31, 2000 and December 26, 1999, 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, which own substantially all of the Bugaboo Creek and The Capital Grille restaurants. At December 31, 2000, the Company was in compliance with the provisions of the Revolving Credit Facility.

The Company has interest rate swap agreements with commercial banks, which effectively fix the interest rate on $50.0 million of the Company's borrowings at 6.226%, plus the applicable margin, through May 2001; 6.31%, plus the applicable margin, through March 2003; and 6.52%, plus the applicable margin, through October 2003. The applicable margin on December 31, 2000 was 1.5%; however, the applicable margin is expected to be 1.25% during the first quarter of 2001. The Company is exposed to credit losses on this interest rate swap in the event of counterparty non-performance, but does not anticipate any such losses.

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 expected to be outstanding under the Company's credit facility. The Company paid $1.1 million resulting in an after-tax non-recurring 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. This transaction is expected to result in an approximately $0.03 decrease in diluted earnings per share for the first quarter of 2001 (see Note 15).

7. INCOME TAXES

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

	Current	Deferred	Total
Year ended December 31, 2000:			
U.S. Federal	**$ 10,937**	**$ (892)**	**$ 10,045**
State and local	**1,563**	**(128)**	**1,435**
	$ 12,500	**$ (1,020)**	**$ 11,480**
Year ended December 26, 1999:			
U.S. Federal	$ 7,483	$ (1,354)	$ 6,129
State and local	1,124	(193)	931
	$ 8,607	$ (1,547)	$ 7,060
Year ended December 27, 1998:			
U.S. Federal	$ 2,026	$ 1,121	$ 3,147
State and local	767	206	973
	$ 2,793	$ 1,327	$ 4,120

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:

	2000	1999	1998
Federal statutory income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit	**3.3**	3.3	3.6
Meals and entertainment	**0.1**	0.8	0.4
FICA tip credit	**(5.4)**	(6.7)	(8.3)
Other	**–**	0.5	1.3
Effective tax rates	**33.0%**	32.9 %	32.0%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2000 and December 26, 1999 are presented below (in thousands):

	2000	1999
Deferred tax assets (liabilities):		
Provisions for restaurant closings, and other charges	**$ 1,665**	$ 4,181
Deferred rent	**1,104**	891
Accrued joint venture contract termination	**553**	553
Pre-opening costs	**571**	1,342
Accrued insurance	**415**	203
Accrued workers' compensation	**730**	514
Property and equipment	**2,068**	(1,868)
Other	**990**	1,260
Net deferred tax assets	**$ 8,096**	$ 7,076

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. During 2000, the Company made quarterly matching cash 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 $641,000, $396,000, and $396,000, for 2000, 1999, and 1998, 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 may not exceed 20% of annual compensation or $10,500. During 2000, the Company made quarterly matching contributions in an amount equal to 50% of employee contributions, not to exceed 3% of the employee's total annual compensation. The Company's expense under the Supplemental Plan was $104,000 for 2000. 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.

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 25 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 certain 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 life of the anticipated lease terms.

Future minimum lease payments under capital lease obligations and noncancelable operating leases at December 31, 2000 are as follows (in thousands):

Years ending at or about December 31:	Capital	Operating
2001	$ 1,863	$ 12,301
2002	1,943	12,029
2003	1,991	11,043
2004	2,028	9,811
2005	2,041	9,257
Thereafter	41,529	32,182
Total minimum lease payments	51,395	$ 86,623
Less imputed interest (at 9%)	30,426	
Present value of minimum lease payments	20,969	
Less current maturities	–	
Obligations under capital leases, excluding current maturities	$ 20,969	

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

	2000	1999	1998
Minimum lease payments	**$ 12,571**	$ 10,942	$ 9,611
Contingent rentals	**1,713**	1,228	799
Total rental expense	**$ 14,284**	$ 12,170	$ 10,410

A standby letter of credit in the amount of $750,000 has been issued to secure the Company's obligations under a lease of real estate. Drafts may be presented against this letter of credit in the event that the Company is in default of the terms of the lease, all applicable grace periods have expired and the Company has failed to cure all such defaults. The amount of such drafts may be for the amount presently due and owing by the Company to the landlord or the full amount of the letter of credit if the landlord has notified tenant that it has terminated the lease or has exercised its right to repossess the leased premises.

10. RELATED PARTY TRANSACTIONS

During 2000, 1999, and 1998, RDM Design, a company owned by a relative of two Company directors, provided architectural design services to the Company. Fees paid for these services (including payments for subcontracted engineering services) amounted to approximately $1,000, $106,000, and $12,000 for the years 2000, 1999, and 1998, respectively.

Through August 1999, the Company leased, from entities in which certain of the Company's directors had a financial interest, the land and building in which it operates one LongHorn Steakhouse restaurant. Rental expense included approximately $71,800 and $110,500 for 1999 and 1998, respectively, for rents paid related to this restaurant site. In August 1999, the Company acquired this land and building for a purchase price of $911,000.

11. SHAREHOLDERS' EQUITY

During 1998, the Company's Board of Directors authorized the Company to purchase up to $5 million of its common stock through October 1999. During 1999 and 1998, the Company purchased 127,500 and 89,250 shares, respectively, of its common stock under this program at an aggregate cost of approximately $1.9 million (average price of $8.71 per share). In February 2000, the Company's Board of Directors authorized the Company to purchase up to an additional $10 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 million to $25 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).

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 31, 2000, 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.

12. STOCK OPTIONS

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. The Company's Amended and Restated 1992 Incentive Plan (the "1992 Stock Option Plan") provides for the granting of incentive stock options, nonqualified stock options, and stock appreciation rights to key employees and directors, based upon selection by the Stock Option Committee. All stock options issued under the 1997 Stock Option Plan and the 1992 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 and the 1992 Stock Option Plan authorized the granting of options to purchase 1,987,500 shares of common stock and 2,250,000 shares of common stock, respectively.

The 1994 Bugaboo Creek Stock Option Plan (the "1994 Stock Option Plan") provides for the granting of options to acquire 459,825 shares of the Company's common stock to directors, officers, and key employees of Bugaboo Creek Steak House, Inc. Through December 27, 1998, the Company had granted options to purchase approximately 214,050 shares of common stock pursuant to the terms of the 1994 Stock Option Plan. Options awarded under the 1994 Stock Option Plan prior to the merger were adjusted based on the exchange ratio of 1.78 shares of common stock of Bugaboo Creek Steak House, Inc. for each share of the Company's common stock. Options awarded under the 1994 Stock Option Plan were generally granted at prices which equate to current market value on the date of the grant, are generally exercisable after two to three years, and expire ten years subsequent to award. The 1994 Stock Option Plan was cancelled by the Company in 1999; accordingly, no additional shares are available to be issued.

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.

The Company applies APB 25 in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for the Company's stock-based compensation plans. Had compensation cost for the Company's stock option plans been determined based upon the fair value methodology prescribed under SFAS No. 123, the Company's 2000, 1999, and 1998 net earnings and net earnings per share would have been reduced by approximately $1.0 million, $1.7 million, and $2.0 million, or approximately $0.06, $0.09, and $0.11 per share, respectively. The effects of disclosing compensation cost under SFAS No. 123 may not be representative of the effects on reported earnings for future years. The fair value of the options granted during 2000, 1999, and 1998 is estimated at approximately $7.0 million, $1.4 million, and $1.7 million, respectively, on the date of grant, using the Black-Scholes option-pricing model with the following assumptions:

	2000	1999	1998
Dividend yield	0	0	0
Volatility	50%	20%	20%
Risk-free interest rate	6%	6%	6%
Average expected life	6 yrs.	8 yrs.	8 yrs.

As of December 31, 2000 and December 26, 1999, options to purchase 1,489,945 and 1,366,515 shares of common stock, respectively, were exercisable at weighted average exercise prices of $9.35 and $8.77 per share, respectively. Option activity under the Company's stock option plans is as follows:

	Shares	Weighted Average Price
Outstanding at December 28, 1997	2,209,639	$ 9.86
Granted in 1998	851,925	7.75
Exercised in 1998	(78,600)	6.78
Canceled in 1998	(280,192)	10.83
Outstanding at December 27, 1998	2,702,772	9.05
Granted in 1999	308,269	12.43
Exercised in 1999	(262,944)	7.97
Canceled in 1999	(203,314)	9.37
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**

The following table summarizes information concerning options outstanding and exercisable as of December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$5.83 to $10.00	1,285,061	7.0	$ 8.15	1,072,792	$ 7.99
$10.01 to $15.00	1,137,111	8.2	12.65	377,601	12.57
$15.01 to $20.00	121,928	8.4	16.89	39,552	15.49
$20.01 to $25.00	23,001	9.4	21.45	–	–

13. 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.

JOINT VENTURES

Several of the Company's joint venture agreements and employment agreements with joint venture partners and restaurant managers require or provide the Company with the option to purchase the managers' interests upon termination of the joint venture. The purchase prices are based upon certain multiples of the relevant restaurant's cash flow or profits.

PURCHASE COMMITMENTS

The Company has entered into certain 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 2001 and 2002. 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 results of operations or financial condition 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 a surety bond totaling $1.5 million at December 31, 2000 that is 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.

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2000 and December 26, 1999 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
2000:					
Revenues	**$ 120,612**	**$ 110,419**	**$ 112,536**	**$ 120,461**	**$ 464,028**
Operating income	**11,971**	**9,874**	**8,446**	**11,015**	**41,306**
Earnings before income taxes	**9,297**	**8,364**	**7,308**	**9,771**	**34,740**
Net earnings	**6,227**	**5,584**	**4,903**	**6,546**	**23,260**
Net earnings per share:					
Basic	**0.35**	**0.31**	**0.26**	**0.35**	**1.27**
Diluted	**0.33**	**0.29**	**0.25**	**0.33**	**1.20**
1999:					
Revenues	$ 92,979	$ 93,391	$ 95,199	$ 100,901	$ 382,470
Operating income	7,766	7,008	5,879	6,306	26,959
Earnings before income taxes and cumulative effect of change in accounting principle	6,248	5,661	4,718	4,857	21,484
Cumulative effect of change in accounting principle net of tax benefit	1,587	–	–	–	1,587
Net earnings	2,586	3,811	3,158	3,282	12,837
Net earnings per share:					
Basic	0.15	0.21	0.17	0.18	0.71
Diluted	0.14	0.20	0.17	0.17	0.68

15. SUBSEQUENT EVENTS

In February 2001, the Company completed an offering of 2,300,000 shares of its no par value common stock at $26 per share. Total net proceeds to the Company were approximately $57.6 million. Of those proceeds, the Company used approximately $56.5 million to repay amounts outstanding under its $100 million revolving line of credit, and approximately $1.1 million to pay a non-recurring pre-tax expense associated with amending its interest rate swap agreements to fix the interest rate on amounts expected to be outstanding under the Company's credit facility following its application of these proceeds. After amending the interest rate swap agreements, the Company had effectively fixed the interest rate at 6.52%, plus the applicable margin on $10.0 million from July 2001 through June 2002; $15.0 million from July 2002 through March 2003; and $17.5 million from April 2003 through August 2004. The $1.1 million ($682,000 after-tax) non-recurring expense associated with amending the interest rate swap agreements is expected to result in an approximately $0.03 decrease in diluted earnings per share for the first quarter of 2001.

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 31, 2000 and December 26, 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2000. 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 31, 2000 and December 26, 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Atlanta, Georgia
February 9, 2001, except for Note 15
as to which the date is February 22, 2001

DIRECTORS AND EXECUTIVE OFFICERS

Philip J. Hickey, Jr.
Chairman, Chief Executive Officer and Director

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

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

Thomas W. Gathers
Executive Vice President, Human Resources

Joia M. Johnson
Executive Vice President, General Counsel and Secretary

George W. McKerrow, Jr.
Director
President, Creative Culinary Concepts, Inc.

George W. McKerrow, Sr.
Director

Ronald W. San Martin
Director
Chief Financial Officer and Secretary,
We're Cookin' Inc. (restaurants)

John G. Pawly
Director

Don L. Chapman
Director

Lewis H. Jordan
Director
Founder and Principal Officer,
Wingspread Enterprises LLC (investments and consulting)

Carolyn H. Baldwin
Director
Chairman and Chief Executive Officer
GlobalTech Financial, LLC (financial services)

CORPORATE INFORMATION

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RARE Hospitality International, Inc.
8215 Roswell Road
Building 600
Atlanta, Georgia 30350
(770) 399-9595

Registrar and Transfer Agent
SunTrust Bank, Atlanta
Stock Transfer Department
58 Edgewood Avenue, Room 225 Annex
Atlanta, Georgia 30303
(404) 588-7817

Form 10-K/Investor Contact

A copy of the RARE Hospitality International, Inc. Annual Report on Form 10-K for 2000 as filed with the Securities and Exchange Commission is available from the Company at no charge. These requests and other investor contacts should be directed to W. Douglas Benn, Executive Vice President, Finance and Chief Financial Officer, at the Company's corporate office.

Annual Meeting

The annual meeting of shareholders will be held on Monday, May 14, 2001, at 2:00 p.m. at Crowne Plaza Ravinia, 4355 Ashford Dunwoody Road, Atlanta, Georgia.

Common Stock and Dividend Information

The common stock of RARE Hospitality International, Inc. is traded on the Nasdaq Stock Market (National Market) under the symbol RARE. At March 20, 2001, there were approximately 3,350 holders of the common stock of the Company, including approximately 407 shareholders of record. The market value of the Company's common stock on March 20, 2001, was $25.25 per share. Since the Company's initial public offering in 1992, the Company has not declared or paid any cash dividends. 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 agreements and other factors deemed relevant by the Board of Directors.

As of December 31, 2000, there were 19,627,000 shares of common stock outstanding. The following table shows, for the periods indicated, the high and low sales prices per share for the common stock as reported by Nasdaq, adjusted to give retroactive effect to the Company's 50% stock dividend paid on September 5, 2000.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000				
High	**$ 14.88**	**$ 23.83**	**$ 21.33**	**$ 29.00**
Low	**$ 9.83**	**$ 12.75**	**$ 16.42**	**$ 19.13**
1999				
High	$ 10.42	$ 17.46	$ 17.17	$ 14.91
Low	$ 8.50	$ 8.83	$ 11.79	$ 10.08

RARE Support Center

Our Support Centers in Atlanta, Georgia and Providence, Rhode Island, include team members in Operations, Human Resources, Training, Accounting and Finance, Information Technology, Development, Purchasing, Marketing, and Research and Development.

HOSPITALITY
RARE[SM]
INTERNATIONAL, INC.

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