1999 ANNUAL REPORT

THE
CAPITAL
G·R·I·L·L·E

LONGHORN®
STEAKHOUSE

With over 100 locations in the Southeastern and Midwestern United States, **LongHorn Steakhouse** serves fresh, hearty lunches and dinners in our adaptation of a cool Texas saloon. Decorated with western art, neon beer signs and rustic artifacts, all restaurants feature a full-service bar and diverse menu items including hand-cut steaks, signature grilled salmon and slow cooked baby back ribs.

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. The restaurant features an award-winning wine list along with personalized, professional service.

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. Menu items include seasoned steaks, prime rib, spit-roasted chicken, smoked baby back ribs, grilled salmon and trout, and a variety of pastas presented with friendly service and warm hospitality.

ABOUT THE COMPANY

RARE Hospitality International, Inc. owns, operates and franchises 157 restaurants, including 126 LongHorn Steakhouse restaurants located primarily in the southeastern and midwestern United States, 18 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 11 The Capital Grille restaurants located in major metropolitan areas across the country.

FINANCIAL HIGHLIGHTS

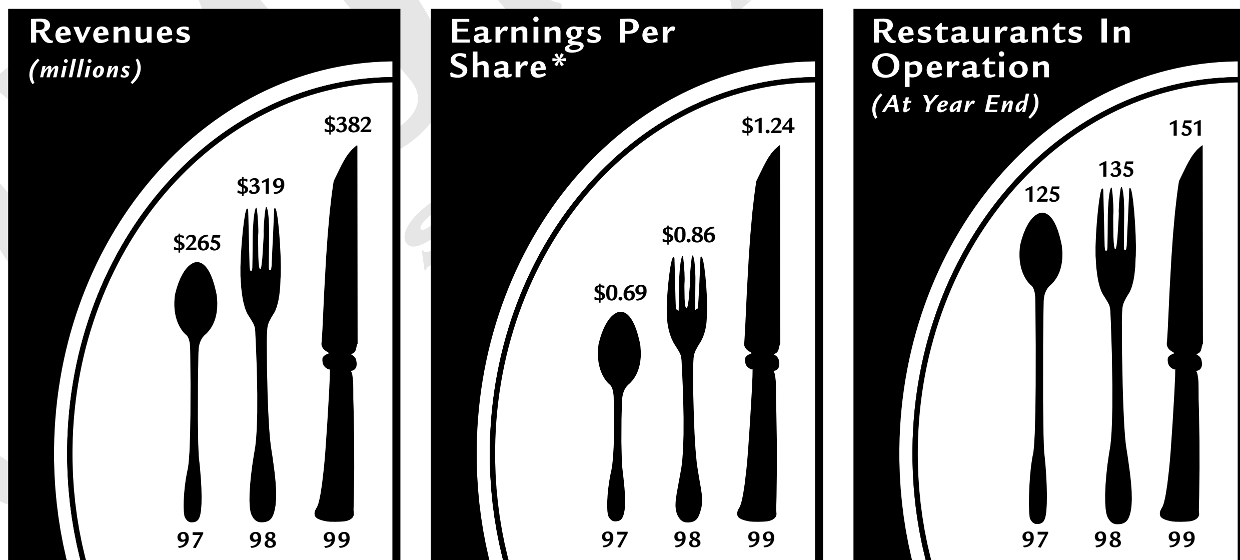
(In thousands, except per share data)

For the Fiscal Year	**1999**	1998
Revenues	**$ 382,470**	$ 319,084
Operating income, before nonrecurring items*	**$ 28,759**	$ 19,646
Net earnings, before nonrecurring items**	**$ 15,540**	$ 10,453
Diluted earnings per share, before nonrecurring items**	**$ 1.24**	$ 0.86
Weighted average common shares outstanding (diluted)	**12,546**	12,099

** Excludes nonrecurring expenses for fiscal 1999 of $1,800 ($1,116, or $0.09 per diluted share, after tax) and for fiscal 1998 of $2,500 ($1,700, or $0.14 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 $0.13 per diluted share, after tax).*

At Year End		
Working capital (deficit)	**$ (11,031)**	$ 1,136
Total assets	**237,118**	218,862
Debt, net of current installments	**40,000**	48,000
Obligations under capital leases, net of current installments	**9,732**	9,732
Minority interest	**3,982**	2,610
Total shareholders' equity	**137,584**	120,618



** Earnings per diluted share before nonrecurring items and cumulative effect of accounting change.*

LETTER TO SHAREHOLDERS

Fellow Shareholders:

Wow, what a year!

We are happy to report that in 1999, RARE Hospitality generated record sales, net income and earnings per share.

All of our restaurant concepts produced improved same-store sales results for 1999 and, with continued strong performance from newer restaurants, average weekly sales for each of the concepts grew at a greater rate than the increase in same-store sales. In our primary growth concept, LongHorn Steakhouse, we also stepped up our new restaurant development plans, opening 15 restaurants in 1999 as compared with nine restaurants opened in 1998.

Because of this performance, we achieved our most significant goal for 1999, which was to increase the Company's credibility with all its key constituencies: guests, shareholders, team members, suppliers and the investment community. RARE's 1999 results also represent another step toward achieving the vision that has driven the current management team since we first came together in the fall of 1997: transforming RARE into one of the country's premier restaurant companies.

We are building the foundation for this success on simple yet effective strategies.

- provide superior guest experiences, thereby driving our guests' intent to return;
- become the employer of choice through ongoing, comprehensive training and personal development; and,
- through controlled, moderate expansion, ensure that each new restaurant is fully prepared when opened to meet its operating and financial potential.

The results of these strategies for the past two years are clear. We believe the progress achieved during 1999 provides a springboard for the ongoing implementation of these strategies during 2000 and beyond. By continuing the operating momentum developed last year, we are confident that RARE can produce consistent profitable growth for 2000, further strengthening shareholder value.

1999 Results Highlighted by 44% Growth in Earnings Per Share

The bottom line for RARE for 1999 was 44.2% growth in earnings per diluted share, excluding nonrecurring expenses, from $0.86 in 1998 to $1.24 in 1999. Net earnings, excluding nonrecurring expenses, for the year were $15,540,000, an increase of 48.7% from $10,453,000 for the prior year. Total revenues rose 19.9% in 1999 to $382,470,000 from $319,084,000 for 1998.

Revenues for 1999 reflect the positive impact of improved same-store sales in each of our concepts. LongHorn Steakhouse produced same-store sales growth of 5.9%, after an increase of 5.0% for 1998. In achieving these results, LongHorn has generated six consecutive quarters of same-store sales growth of 5% or higher through the end of 1999 and eight consecutive quarters of positive same-store sales growth. The Capital Grille concept expanded same-store sales by 9.4% for 1999 compared with 6.1% for 1998. The concept's 9.9% rate

of same-store sales growth for the fourth quarter of 1999 marked its thirteenth consecutive quarter of improved same-store sales results. We were also pleased to report a same-store sales increase of 1.6% for the Bugaboo Creek concept for 1999, its first annual increase since we acquired the concept in 1996.

Building on the base provided by increased same-store sales for restaurants opened prior to 1998, RARE's 1999 revenue growth further reflects the performance of the 16 new restaurants opened during the year and the full-year results of the 13 restaurants opened in 1998.

As we anticipated, the Company's revenue growth for 1999 also enabled us to benefit from increased operating efficiencies and greater leverage of fixed costs. These economies of scale were primarily accountable for the growth rate of earnings, excluding nonrecurring expenses, substantially exceeding the growth rate of revenues. As a result, RARE's net profit margin, excluding nonrecurring revenues, increased to 4.1% of revenues for 1999 from 3.3% for 1998. This margin performance helped drive return on average equity, which has increased every quarter over the last eight quarters.

During 1999, we also took a number of steps to prepare for future growth by enhancing the Company's senior management team. Among these changes, Gene Lee was promoted to Chief Operating Officer of the Company. In addition, Bob McGurk was promoted to Senior Vice President, LongHorn Steakhouse, Steven Micheletti joined us as Vice President, Operations for Bugaboo Creek and Joia Johnson also joined the Company in 1999 as Vice President and General Counsel.

Proven Operating and Growth Strategies Expected to Drive 2000 Financial Results

In addition to the financial success we achieved for 1999, the year provided us an opportunity to validate our operating philosophy and demonstrate that our strategies could produce the level of consistent profitable growth that is our continuing goal.

The essence of this philosophy is, first, to focus on the quality of RARE's existing operations to ensure that each concept and restaurant is performing to our standards. The key variable of this focus is the experience each guest has in our restaurants. These guests are critical to the success of our restaurants because of the value of their repeat visits and their telling others about their dining experience.

We believe that superior guest experiences can only be provided on a consistent basis through superior service, execution and training. To achieve these results requires outstanding people who enjoy their work and have the skills to perform their responsibilities well. To find and retain these people – to be the employer of choice – we are dedicated to providing the type of enriching work environment and the ongoing training that the best people demand. This commitment incentivizes people throughout our organization not only to understand the importance of the

LOCATIONS

EXISTING COMPANY-OWNED/ JOINT VENTURE RESTAURANTS

Alabama
Dothan 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 6
St. Augustine 1
Tallahassee 1
Tampa/St.Petersburg 6
West Palm Beach 2

Georgia
Albany 1
Athens 1
Atlanta 25
Augusta 1
Buford 1
Cartersville 1
Columbus 1
Dalton 1
Macon 1
Newnan 1
Rome 1
Savannah 1
Statesboro 1
Valdosta 1
Warner Robbins 1
Woodstock 1

Illinois
Fairview Heights 1

Kentucky
Florence 1

Missouri
St. Louis 4

New Hampshire
Concord 1

North Carolina
Burlington 1
Charlotte 5
Greensboro/High Point/ Winston-Salem 3
Hickory 1

Ohio
Cincinnati 4
Cleveland 7
Columbus 4
Pickerington 1
St. Clairsville 1

South Carolina
Columbia 3
Greenville/Spartanburg 2
Hilton Head 1
Rock Hill 1

Tennessee
Chattanooga 1
Clarksville 1
Nashville 4

West Virginia
Charleston 1

Total Existing Company-Owned Joint Venture Restaurants 123

EXISTING FRANCHISEE-OWNED RESTAURANTS

Puerto Rico 3

Total Existing Franchisee-Owned Restaurants 3

TOTAL LONGHORN STEAKHOUSE RESTAURANTS 126

EXISTING COMPANY-OWNED RESTAURANTS

Connecticut
Manchester 1
Delaware
Newark 1
Georgia
Duluth 1
Maine
Bangor 1
Portland 1
Maryland
Gaithersburg 1
Massachusetts
Boston 5
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 18

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
Rhode Island
Providence 1
Texas
Dallas 1
Houston 1

Total The Capital Grille Restaurants 11

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

guest's experience and intent to return but also to use their training to provide superior service and execution. We are confident that the Company's past success and future prospects are well grounded in this commitment to excellence.

Having refined the environment, systems and support in our restaurants to enable them to generate consistently superior results, our philosophy next focuses on expanding our concepts at a moderate, controlled pace. We believe this disciplined approach is essential to consistent long-term growth, and it is based on having clear growth targets and a strong determination that new restaurant openings will not be used as a substitute for demanding strong performance by existing restaurants. By being prudent with our expansion pace, we have more flexibility to properly execute the development and opening of new restaurants to our full satisfaction. We believe this increased focus has improved the consistency of our newly opened restaurants and is accountable for their substantial positive impact on average weekly sales throughout 1999.

2000 Outlook

By continuing to implement the strategies that contributed to our success in 1999, we believe the Company is well positioned to carry 1999's momentum forward throughout 2000. Our goal is to generate significant growth in operating earnings through a combination of new restaurant openings, positive same-store sales and increased economies of scale. While this goal is based on the progress RARE has made in providing superior guest experiences, it is further supported by current industry trends, including strong consumer confidence, a slowing of new competitive restaurant openings and increased disposable income as the baby boom generation grows more affluent and two-wage families become increasingly common.

After more than five years of positive annual same-store sales growth, we are confident of the concept's continuing appeal and potential. We completed 1999 with 118 Company-owned restaurants in operation and two franchised locations in Puerto Rico. We currently intend to open 17 to 19 new LongHorn Steakhouses in 2000, a pace we believe will enable us to maintain high standards throughout the restaurant development and opening process. We also remain focused on improving the operations of the existing restaurants, with a goal of enhancing the consistency of restaurant performance throughout the LongHorn system and improving average unit performance. We believe we have an outstanding brand in LongHorn Steakhouse with significant growth potential, and we expect it to remain RARE's primary growth vehicle for the foreseeable future.

For 2000, we intend to focus more resources on improving Bugaboo Creek's operating results than on expanding the concept. Although Bugaboo Creek made progress in 1999, including positive same-store sales for the third and fourth quarters, operating results are neither as consistent across the system as we expect them to be nor at a level equal to the performance of our other two concepts. We opened one Bugaboo Creek in 1999 to bring the total in operation at the end of the year to 18. Consistent with our philosophy of first focusing on the quality of existing operations, we intend to open only one Bugaboo Creek restaurant in 2000.

The Capital Grille continues to build on its reputation as one of the premier top-scale steakhouses in the United States. We believe that to continue the concept's successful growth, the utmost care and attention is required for site selection, new restaurant development and ongoing restaurant operations. As a result, we are taking a very deliberate and steady approach to expanding the number of restaurants in operation. We operated 11 The Capital Grilles at the end of 1999 and plan to open one to two additional restaurants during 2000.

Summary

We believe that, in the full-service restaurant business, ***those with the best people win***. The Company's success for 1999, and its prospects for 2000 and beyond, result from a growing attitude of excellence at every level of the Company. Success is fun, and we have given people throughout this Company the tools and incentives to have a great time in what they do every day at work. Perhaps more than any other specific characteristic of RARE, it is this ***commitment to excellence*** that supports our confidence in RARE's ability to provide consistent profitable growth for 2000.

Our internal mission at RARE is to become the premier restaurant company in the United States. We have strong concepts, an outstanding management team, proven operating results, sound growth strategies, and the financial resources to support these strategies.

In addition to the consistent growth of the Company's financial results, we know our strategies are working because of the ***quality of the people*** who work with us each day. They are responsible for the Company's past results and future opportunity. We thank them and commit to them our continued efforts to keep RARE the employer of choice. We also thank you for your investment in the Company and assure you as fellow shareholders that we are fully committed to increasing the value of your investment.

George W. McKerrow, Jr.
Chairman

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

SELECTED FINANCIAL DATA

Fiscal Years Ended	**December 26, 1999**	December 27, 1998	December 28, 1997	December 29, 1996	December 31, 1995
		(in thousands, except per share data)			
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Restaurant sales	**$ 382,275**	$ 319,084	$ 264,727	$ 212,894	$ 149,279
Wholesale meat sales	**–**	–	–	2,547	6,495
Franchise revenues	**195**	–	27	308	606
Total revenues	**382,470**	319,084	264,754	215,749	156,380
Costs and expenses:					
Cost of restaurant sales	**137,416**	116,602	97,568	78,637	54,074
Cost of wholesale meat sales	**–**	–	–	2,491	6,159
Operating expenses – restaurants	**171,943**	142,730	119,480	94,587	67,629
Operating expenses – meat division	**–**	–	–	234	766
Provision for asset impairments, restaurant closings, and other charges	**1,800**	2,500	23,666	1,436	155
Merger and conversion expenses	**–**	–	–	2,900	–
Depreciation and amortization–restaurants	**15,249**	17,636	15,218	12,191	7,171
Pre-opening expense	**3,051**	–	–	–	–
General and administrative expenses	**26,052**	22,470	23,590	13,732	11,082
Total costs and expenses	**355,511**	301,938	279,522	206,208	147,036
Operating income (loss)	**26,959**	17,146	(14,768)	9,541	9,344
Interest expense (income), net	**3,866**	2,939	1,245	(79)	(291)
Provision for litigation settlement	**–**	–	–	605	–
Minority interest	**1,609**	1,334	1,219	602	5
Earnings (loss) before income taxes	**21,484**	12,873	(17,232)	8,413	9,630
Income tax expense (benefit)	**7,060**	4,120	(5,000)	3,170	3,047
Earnings (loss) before cumulative effect of change in accounting principle	**14,424**	8,753	(12,232)	5,243	6,583
Cumulative effect of change in accounting principle (net of tax benefit of $760)	**1,587**	–	–	–	–
Net earnings (loss)	**$ 12,837**	$ 8,753	$ (12,232)	$ 5,243	$ 6,583
Basic earnings (loss) per common share before cumulative effect of change in accounting principle	**$ 1.20**	$ 0.73	$ (1.04)	$ 0.46	$ 0.67
Cumulative effect per common share of change in accounting principle	**0.13**	–	–	–	–
Basic earnings (loss) per common share	**$ 1.07**	$ 0.73	$ (1.04)	$ 0.46	$ 0.67
Diluted earnings (loss) per common share before cumulative effect of change in accounting principle	**$ 1.15**	$ 0.72	$ (1.04)	$ 0.45	$ 0.66
Cumulative effect per common share of change in accounting principle	**0.13**	–	–	–	–
Diluted earnings (loss) per common share	**$ 1.02**	$ 0.72	$ (1.04)	$ 0.45	$ 0.66
Weighted average common shares outstanding (basic)	**12,032**	12,004	11,751	11,302	9,753
Weighted average common shares outstanding (diluted)	**12,546**	12,099	11,751	11,631	9,955
BALANCE SHEET DATA:					
Working capital (deficit)	**$ (11,031)**	$ 1,136	$ 1,359	$ 2,065	$ 561
Total assets	**237,118**	218,862	195,486	151,594	107,735
Debt, net of current installments	**40,000**	48,000	43,000	7,100	13,858
Obligations under capital leases, net of current installments	**9,732**	9,732	5,051	–	–
Minority interest	**3,982**	2,610	4,890	3,301	615
Total shareholders' equity	**137,584**	120,618	111,980	121,384	78,133

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, 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 for 1999 and 1998 to include those restaurants open for a full 18 months prior to the beginning of each fiscal quarter. The Company defines the comparable restaurant base for 1997 to include those restaurants open for a full 15 months prior to the beginning of the fiscal year. 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 26, 1999**	December 27, 1998	December 28, 1997
Revenues:			
Restaurant Sales:			
LongHorn Steakhouse	**68.1%**	66.3%	64.3%
The Capital Grille	**15.1**	16.0	14.9
Bugaboo Creek	**14.9**	15.7	16.9
Other restaurants	**1.8**	2.0	3.9
Total restaurant sales	**99.9**	100.0	100.0
Franchise revenues	**0.1**	–	–
Total revenues	**100.0**	100.0	100.0
Costs and expenses:			
Cost of restaurant sales[1]	**35.9**	36.5	36.9
Operating expenses–restaurants[1]	**45.0**	44.7	45.1
Provision for asset impairments, restaurant closings, and other charges	**0.5**	0.8	8.9
Depreciation and amortization–restaurants[1]	**4.0**	5.5	5.7
Pre-opening expense – restaurants[1]	**0.8**	–	–
General and administrative expenses	**6.8**	7.0	8.9
Total costs and expenses	**93.0**	94.6	105.5
Operating income (loss)	**7.0**	5.4	(5.5)
Interest expense (income), net	**1.0**	0.9	0.5
Minority interest	**0.4**	0.4	0.5
Earnings (loss) before income taxes	**5.6**	4.0	(6.5)
Income tax expense (benefit)	**1.8**	1.3	(1.9)
Earnings before cumulative effect of change in accounting principle	**3.8**	2.7	(4.6)
Cumulative effect of change in accounting principle (net of tax benefit)	**0.4**	–	–
Net earnings (loss)	**3.4%**	2.7%	(4.6)%

[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 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 preopening expenses.

Year Ended December 27, 1998 Compared to Year Ended December 28, 1997

Revenues

Total revenues increased 20.5% to $319.1 million for 1998 compared to $264.7 million for 1997.

LongHorn Steakhouse:

Sales in the LongHorn Steakhouse restaurants increased 24.1% to $211.4 million for 1998 compared to $170.3 million for 1997. The increase reflects a 16.4% increase in restaurant operating weeks in 1998 as compared to 1997, resulting from an increase in the restaurant base from 96 LongHorn Steakhouse restaurants at the end of 1997 to 104 restaurants at the end of 1998. Average weekly sales for all LongHorn Steakhouse restaurants in 1998 were $41,638, a 6.7% increase over 1997. Sales for the comparable LongHorn Steakhouse restaurants increased 5.0% in 1998 as compared to 1997. The increase in comparable restaurant sales for 1998 at LongHorn Steakhouse was attributable primarily to an increase in guest counts.

The Capital Grille:

Sales in The Capital Grille restaurants increased 29.3% to $51.1 million for 1998 compared to $39.5 million for 1997. The increase reflects a 42.1% increase in restaurant operating weeks in 1998 as compared to 1997, resulting from an increase in the restaurant base from 10 The Capital Grille Restaurants at the end of 1997 to 11 restaurants at the end of 1998. Average weekly sales for all The Capital Grille restaurants in 1998 were $89,329, a 9.0% decrease from 1997. Sales for the comparable The Capital Grille restaurants increased 6.1% in 1998 as compared to 1997. The increase in comparable restaurant sales at The Capital Grille restaurants is primarily attributable to an increase in guest counts.

Bugaboo Creek:

Sales in the Bugaboo Creek restaurants increased 12.2% to $50.1 million for 1998 compared to $44.6 million for 1997. The increase reflects a 9.1% increase in restaurant weeks in 1998 as compared to 1997, resulting from an increase in the restaurant base from 16 Bugaboo Creek restaurants at the end of 1997 to 17 restaurants at the end of 1998. Average weekly sales for all Bugaboo Creek restaurants in 1998 were $60,788, a 2.8% increase from 1997. Sales for the comparable Bugaboo Creek restaurants decreased 2.5% in 1998 as compared to 1997. The decrease in comparable restaurant sales at Bugaboo Creek restaurants is primarily attributable to a decrease 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.

Costs and Expenses

Cost of restaurant sales, as a percentage of restaurant sales, decreased to 36.5% in 1998 from 36.9% in 1997. This decrease is due, in part, to purchasing contracts negotiated during the year, which stabilized the cost of restaurant sales as a percentage of restaurant sales.

Restaurant operating expenses decreased as a percentage of restaurant sales in 1998 to 44.7% from 45.1% in 1997. The decrease in operating expenses as a percentage of sales in 1998 was due to an increase in average unit sales providing greater leverage of fixed and semi-fixed expenses, principally rent and management labor.

The provision for asset impairments, restaurant closings, and other charges of $2.5 million in 1998 was determined under SFAS No. 121 by comparing expected future cash flows to the carrying value of these assets. This charge 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.

General and administrative expenses decreased to $22.5 million in 1998 or 7.0% of total revenues, from $23.6 million in 1997, or 8.9% of total revenues. The decrease as a percentage of total revenues was primarily due to the $5 million in nonrecurring expenses recognized in 1997 as partially offset by higher general and administrative expenses in 1998, primarily payroll related, associated with building the infrastructure necessary to support the Company's growth.

Interest expense increased to $2.9 million in 1998 compared to $1.2 million in 1997. The increase in interest expense is due to higher average borrowings outstanding under the Company's revolving credit agreement as well as additional expenses associated with obtaining the Company's new revolving credit facility. The Company's weighted average interest rate on borrowings was approximately 7.8% in 1998, including the amortization of debt issue costs, compared to 7.2% in 1997.

Minority interest increased to $1.3 million in 1998 from $1.2 million in 1997. This reflects an increase in the number of joint venture restaurants for most of 1998, partially offset by the purchase of joint venture partners' partnership interests in 11 joint venture restaurants during the fourth quarter of 1998.

Income tax expense in 1998 was 32.0% 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 $8.8 million in 1998, as compared to a net loss of $12.2 million in 1997, reflects the net effect of the items discussed above.

Liquidity and Capital Resources

The Company requires capital primarily for the development of new restaurants, selected acquisitions and the refurbishment of existing restaurants. The Company's principal financing source in 1999 was cash flow from operations ($36.7 million). The primary use of funds consisted of costs associated with expansion, principally leasehold improvements, equipment, land and buildings associated with the construction of new restaurants ($36.8 million) and repayment of borrowings under the Company's revolving credit facility ($8 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 inventory, prepaid expenses, accounts payable, and accrued expenses are principally due to the new restaurants which were opened during 1999 and the result of higher average unit volumes experienced during 1999. Further increases in current asset and liability accounts are expected as the Company continues its restaurant development program.

In November 1999, 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 June 2003, the amount available under the revolving credit facility would be reduced each quarter by $8.3 million, reducing the commitment to $50 million as of the termination date in September 2004. 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 26, 1999, interest on the revolving credit facility accrues at LIBOR plus 1.5% or the prime rate plus 0.25%. As of December 26, 1999, 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.

In August 1999, the Company amended an existing interest rate swap agreement with a commercial bank, which effectively fixes the interest rate at 7.6% on $40 million through August 2000, decreasing to $35 million through May 2001 and decreasing to $25 million through August 2004. 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.

On December 26, 1999, $40 million was outstanding and $60 million was available under the Company's revolving credit facility at a weighted average interest rate equal to 8.0%. Giving effect to the interest rate swap agreement, the weighted average interest rate on borrowings under the revolving credit facility was 7.6%.

The Company currently plans to open 17 to 19 Company-owned and joint venture LongHorn Steakhouse restaurants, one Bugaboo Creek restaurant and one to two The Capital Grille restaurants in 2000. The Company estimates that its capital expenditures (without consideration of contributions from joint venture partners) will be approximately $52 to $56 million in 2000. The capital expenditure estimate for 2000 includes the estimated cost of developing 19 to 22 new restaurants, ongoing refurbishment in existing restaurants, a planned expansion of the corporate offices in Atlanta, costs associated with obtaining real estate for year 2001 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 $10 million of its outstanding common stock through February 2001. As of March 15, 2000, the Company had purchased an aggregate 436,000 shares of its common stock for a total purchase price of approximately $7.9 million (average price of $18.04) under this program. 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 2001.

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 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 Company's Annual Report on Form 10-K for 1999, 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.

Federal law increased the hourly minimum wage to $5.15 on September 1, 1997. The legislation, however, froze the wages of tipped employees at $2.13 per hour if the difference is earned in tip income. Although the Company has experienced slight increases in hourly labor costs since this increase in the hourly minimum wage, the effect of the increase in minimum wage was significantly

diluted due to the fact that the majority of the Company's hourly employees are tipped and the Company's non-tipped employees have historically earned wages greater than the federal minimum. As such, the Company's increases in hourly labor cost were not proportionate to the increases in minimum wage rates.

Impact of Year 2000 Issues

Most hardware and software designed in the past was not designed to recognize calendar dates beginning in the Year 2000. The failure of such hardware and software to properly recognize the dates beginning in the Year 2000 could result in miscalculations or system failures, which could result in an adverse effect on the Company's operations.

Beginning in 1998, the Company formulated a four-part plan to address the Year 2000 issue, which included assessment, remediation, testing and implementation. The Company's key information technology systems, including its financial, informational and operational systems ("IT Systems"), which are mainly comprised of third party hardware and software were assessed and tested to determine Year 2000 readiness. In addition, the Company assessed and tested its non-IT systems that utilize embedded technology such as microcontrollers and reviewed them for Year 2000 compliance. Required system modifications or replacements were made by the end of 1999.

To operate its business, the Company relies upon its suppliers, distributors and other third party service providers ("Material Providers"), over which it can assert little control. The Company's ability to conduct its core business is dependent upon the ability of these Material Providers to remediate their Year 2000 issues to the extent they affect the Company. If the Material Providers do not appropriately remediate their Year 2000 issues or develop viable contingency plans, the Company's ability to conduct its core business may be materially impacted, which could result in a material adverse effect on the Company's financial condition.

The Company requested and received information regarding the state of Year 2000 readiness from all of its Material Providers. The communications received by the Company from its Material Providers did not disclose any material Year 2000 issues. As part of the Year 2000 readiness efforts, the Company developed contingency plans to limit the Year 2000 disruptions and financial loss that might have occurred in the event of failures in the Company's or Material Provider's IT Systems or non-IT systems. These contingency plans were developed and in place by the end of 1999 for all of the IT systems that were determined to be mission critical.

The Company expensed costs associated with its Year 2000 system changes as the costs were incurred, except for system change costs that the Company would otherwise capitalize. The program, including testing and remediation of all of the Company's systems and applications, the cost of external consultants, the purchase of software and hardware, the development and implementation of viable contingency plans, including the compensation of internal employees working on Year 2000 projects, cost approximately $1,000,000 (except for fringe benefits of internal employees, which are not separately tracked) from inception in calendar year 1998 through completion in calendar year 1999. Of these costs, approximately $100,000 was incurred (approximately $80,000 of which was capitalized) during 1998, and approximately $900,000 was incurred (approximately $800,000 of which was capitalized) during 1999.

The Company experienced no significant difficulties with its IT systems and non-IT systems as a result of the date change to the Year 2000 or the leap year date of February 29, 2000 and, as of March 15, 2000, had experienced no difficulties from material providers as a result of the Year 2000 date change or the leap year date of February 29, 2000.

Recent Accounting Pronouncements

In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" ("SFAS No. 137"). This statement defers the effective date of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133") to all fiscal quarters beginning after June 15, 2000. SFAS No. 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes accounting treatment for certain hedge transactions. The Company is analyzing the implementation requirements and currently does not anticipate there will be a material impact on the results of operations or financial position after the adoption of SFAS No. 133.

CONSOLIDATED BALANCE SHEETS

	December 26, 1999	December 27, 1998
ASSETS	*(in thousands)*	
Current assets:		
Cash and cash equivalents	**$ 8,864**	$ 12,060
Accounts receivable	**3,047**	3,443
Inventories	**10,213**	9,609
Prepaid expenses	**815**	789
Pre opening costs, net of accumulated amortization	**–**	2,102
Refundable income taxes	**2,568**	2,700
Deferred income taxes (note 7)	**8,179**	6,932
Total current assets	**33,686**	37,635
Property and equipment, less accumulated depreciation and amortization (notes 4 and 9)	**187,281**	167,810
Goodwill, less accumulated amortization	**13,185**	10,045
Other	**2,966**	3,372
Total assets	**$ 237,118**	$ 218,862
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 17,870**	$ 12,423
Accrued expenses (note 5)	**26,847**	24,076
Total current liabilities	**44,717**	36,499
Debt, net of current installments (note 6)	**40,000**	48,000
Deferred income taxes (note 7)	**1,103**	1,403
Obligations under capital leases, net of current installments (note 9)	**9,732**	9,732
Total liabilities	**95,552**	95,634
Minority interest	**3,982**	2,610
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 12,384 shares and 12,077 shares at December 26, 1999 and December 27, 1998, respectively	**110,258**	105,092
Unearned compensation – restricted stock	**(376)**	(478)
Retained earnings	**29,589**	16,752
Treasury shares at cost; 145 shares and 60 shares at December 26, 1999 and December 27, 1998, respectively	**(1,887)**	(748)
Total shareholders' equity	**137,584**	120,618
Commitments and contingencies (notes 6, 8, 9, and 13)	**–**	–
Total liabilities and shareholders' equity	**$ 237,118**	$ 218,862

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended	**December 26, 1999**	December 27, 1998	December 28, 1997
	(in thousands, except per share data)		
Revenues:			
Restaurant sales:			
LongHorn Steakhouse	**$ 260,507**	$ 211,440	$ 170,343
The Capital Grille	**57,890**	51,096	39,520
Bugaboo Creek	**56,925**	50,090	44,631
Other restaurants	**6,953**	6,458	10,233
Total restaurant sales	**382,275**	319,084	264,727
Franchise revenues	**195**	–	27
Total revenues	**382,470**	319,084	264,754
Costs and expenses:			
Cost of restaurant sales	**137,416**	116,602	97,568
Operating expenses– restaurants	**171,943**	142,730	119,480
Provision for asset impairments, restaurant closings, and other charges (note 3)	**1,800**	2,500	23,666
Depreciation and amortization– restaurants	**15,249**	17,636	15,218
Pre-opening expense	**3,051**	–	–
General and administrative expenses	**26,052**	22,470	23,590
Total costs and expenses	**355,511**	301,938	279,522
Operating income (loss)	**26,959**	17,146	(14,768)
Interest expense, net	**3,866**	2,939	1,245
Minority interest (note 2)	**1,609**	1,334	1,219
Earnings (loss) before income taxes and cumulative effect of change in accounting principle	**21,484**	12,873	(17,232)
Income tax expense (benefit) (note 7)	**7,060**	4,120	(5,000)
Earnings (loss) before cumulative effect of change in accounting principle	**14,424**	8,753	(12,232)
Cumulative effect of change in accounting principle (net of tax benefit of $760) (note 1)	**1,587**	–	–
Net earnings (loss)	**$ 12,837**	$ 8,753	$ (12,232)
Basic earnings (loss) per common share before cumulative effect of change in accounting principle	**$ 1.20**	$ 0.73	$ (1.04)
Cumulative effect per common share of change in accounting principle	**0.13**	–	–
Basic earnings (loss) per common share	**$ 1.07**	$ 0.73	$ (1.04)
Diluted earnings (loss) per common share before cumulative effect of change in accounting principle	**$ 1.15**	$ 0.72	$ (1.04)
Cumulative effect per common share of change in accounting principle	**0.13**	–	–
Diluted earnings (loss) per common share	**$ 1.02**	$ 0.72	$ (1.04)
Weighted average common shares outstanding (basic)	**12,032**	12,004	11,751
Weighted average common shares outstanding (diluted)	**12,546**	12,099	11,751

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Years ended December 26, 1999, December 27, 1998, and December 28, 1997
(in thousands)

	Common Stock		Restricted	Retained	Treasury	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Dollars	Stock	Earnings	Stock	Income[1]	Equity
BALANCE, DECEMBER 29, 1996	11,653	$ 101,099	$ –	$ 20,231	$ –	$ 54	$ 121,384
Net loss	–	–	–	(12,232)	–	–	(12,232)
Exercise of stock options	290	2,543	–	–	–	–	2,543
Issuance of shares in connection with purchase of minority interest	36	339	–	–	–	–	339
Unrealized loss on marketable debt securities	–	–	–	–	–	(54)	(54)
BALANCE, DECEMBER 28, 1997	11,979	103,981	–	7,999	–	–	111,980
Net earnings	–	–	–	8,753	–	–	8,753
Exercise of stock options	53	536	–	–	–	–	536
Issuance of shares pursuant to restricted stock award	45	575	(575)	–	–	–	–
Amortization of restricted stock	–	–	97	–	–	–	97
Purchase of common stock	–	–	–	–	(748)	–	(748)
BALANCE, DECEMBER 27, 1998	12,077	105,092	(478)	16,752	(748)	–	120,618
Net earnings	–	–	–	12,837	–	–	12,837
Exercise of stock options	176	2,100	–	–	–	–	2,100
Tax benefit of non-qualified stock options exercised	–	195	–	–	–	–	195
Issuance of shares in connection with purchase of minority interest	129	2,827	–	–	–	–	2,827
Issuance of shares pursuant to restricted stock awards	2	44	(44)	–	–	–	–
Amortization of restricted stock	–	–	146	–	–	–	146
Purchase of common stock	–	–	–	–	(1,139)	–	(1,139)
BALANCE, DECEMBER 26, 1999	**12,384**	**$110,258**	**$ (376)**	**$29,589**	**$ (1,887)**	**$ –**	**$ 137,584**

(1) Comprehensive income (loss) for fiscal years 1999, 1998 and 1997 was $12,837, $8,753, and $(12,286), respectively.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended	**December 26, 1999**	December 27, 1998	December 28, 1997
		(in thousands)	
Cash flows from operating activities:			
Net earnings (loss)	**$ 12,837**	$ 8,753	$ (12,232)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	**16,758**	18,733	16,418
Non-cash portion of provision for asset impairments, restaurant closings and other charges	**1,800**	2,500	22,367
Cumulative effect of accounting change	**1,587**	–	–
Minority interest	**1,609**	1,334	1,219
Preopening costs	**–**	(3,137)	(5,208)
Deferred tax (benefit) expense	**(2,307)**	1,327	(3,864)
Changes in assets and liabilities:			
Accounts receivable	**396**	(1,389)	468
Inventories	**(604)**	(443)	(1,269)
Prepaid expenses	**(26)**	584	92
Other assets	**64**	(1,207)	(22)
Refundable income taxes	**1,847**	1,752	(6,900)
Accounts payable	**3,366**	(1,176)	(126)
Accrued expenses	**(672)**	7,482	1,222
Net cash provided by operating activities	**36,655**	35,113	12,165
Cash flows from investing activities:			
Proceeds from sale of marketable debt securities	**–**	609	252
Purchase of property and equipment	**(36,822)**	(24,955)	(52,970)
Purchase of joint venture and franchise interests	**(206)**	(6,602)	(3,797)
Net cash used in investing activities	**(37,028)**	(30,948)	(56,515)
Cash flows from financing activities:			
Proceeds from (repayments of) debt, net	**(8,000)**	5,000	35,900
Principal payments on long-term debt	**–**	–	(31)
Proceeds from minority partner contributions	**2,180**	1,772	2,660
Distributions to minority partners	**(2,417)**	(3,283)	(2,928)
Increase in bank overdraft included in accounts payable and accrued liabilities	**4,453**	2,866	1,480
Purchase of common stock for treasury	**(1,139)**	(748)	–
Proceeds from exercise of stock options	**2,100**	536	2,543
Net cash provided by financing activities	**(2,823)**	6,143	39,624
Net (decrease) increase in cash and cash equivalents	**(3,196)**	10,308	(4,726)
Cash and cash equivalents at beginning of year	**12,060**	1,752	6,478
Cash and cash equivalents at end of year	**$ 8,864**	$ 12,060	$ 1,752
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	**$ 7,508**	$ 3,033	$ 9,624
Cash paid for interest, net of interest capitalized	**$ 3,510**	$ 3,063	$ 1,039
Supplemental disclosure of non-cash financing and investing activities:			
Assets acquired under capital lease	**$ –**	$ 4,163	$ 5,600
Issuance of common stock in purchase of minority interest	**$ 2,827**	$ –	$ 339

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 26, 1999, DECEMBER 27, 1998, AND DECEMBER 28, 1997

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 and Mid-Western United States. At December 26, 1999, the Company operated the following restaurants:

CONCEPT	NUMBER IN OPERATION
LongHorn Steakhouse	118
Bugaboo Creek	18
The Capital Grille	11
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 26, 1999, 28 of the Company's restaurants operate in joint ventures and limited partnerships.

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 and $8.5 million at December 26, 1999 and December 27, 1998, respectively. 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.

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.

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 $0.13 per diluted share). Prior to fiscal 1999, amortization of deferred preopening 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 $1.2 million and $800,000 at December 26, 1999 and December 27, 1998, 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. In 1997, the Company's provision for asset impairments, restaurant closings and other charges included a $4.2 million charge for the write-off of goodwill recorded upon the acquisition of i) the Company's meat company; ii) the assets of Lone Star Steaks, Inc.; and iii) the franchise rights obtained from LongHorn Steaks of Alabama.

OTHER ASSETS

Other assets consist of organization costs, debt issuance costs, trademarks, and liquor licenses. Trademarks and liquor licenses are amortized on a straight-line basis over five 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 and seven restaurants in 1997.

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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those 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.

In connection with the merger of the Company with Bugaboo Creek Steak House, Inc. (see note 2), the Company acquired certain enterprises affiliated with Bugaboo Creek Steak House, Inc. in a transaction accounted for as a pooling of interests. Prior to the merger, these affiliated entities were either S Corporations or partnerships, and as such, their stockholders or partners, and not the enterprises, were responsible for Federal and state income taxes.

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 over the period covered by the related promotion. Total advertising expense included in operating expenses - restaurants was approximately $10.8 million, $8.4 million and $8.3 million for the years ended December 26, 1999, December 27, 1998, and December 28, 1997, 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 (LOSS) PER SHARE

The Company accounts for earnings (loss) 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 (loss) per share-basic and diluted. Basic earnings (loss) per share equals net earnings (loss) 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 (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding after giving effect to dilutive stock options and restricted stock. For purposes of computing the diluted loss per share for 1997, the potentially dilutive impact of stock options is excluded since the effect would be antidilutive.

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

	1999	1998	1997
Weighted average number of common shares used in basic calculation	**12,032**	12,004	11,751
Dilutive effect of restricted stock award	**28**	1	–
Dilutive effect of net shares issuable pursuant to stock option plans	**486**	94	–
Weighted average number of common shares used in diluted calculation	**12,546**	12,099	11,751
Earnings (loss) before cumulative effect of change in accounting principle	**$ 14,424**	$ 8,753	$ (12,232)
Cumulative effect of change in accounting principle (net of tax benefit)	**1,587**	–	–
Net earnings (loss)	**$ 12,837**	$ 8,753	$ (12,232)
Basic earnings (loss) per common share before cumulative effect of change in accounting principle	**$ 1.20**	$ 0.73	$ (1.04)
Cumulative effect per common share of change in accounting principle	**0.13**	–	–
Basic earnings (loss) per common share	**$ 1.07**	$ 0.73	$ (1.04)
Diluted earnings (loss) per common share before cumulative effect of change in accounting principle	**$ 1.15**	$ 0.72	$ (1.04)
Cumulative effect per common share of change in accounting principle	**0.13**	–	–
Diluted earnings (loss) per common share	**$ 1.02**	$ 0.72	$ (1.04)

Options to purchase 266,672 shares of common stock at December 26, 1999, were excluded from the computation of diluted earnings per share because the related exercise prices were greater than the average market price for 1999 and would have been antidilutive.

ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from restaurant customers and suppliers.

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. The Company believes that it does not have material risk from any interest rate swaps, and the Company does not anticipate any material losses from the use of such instruments.

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

On January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 ("SFAS No. 130"), "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income and net unrealized gains (loses) on securities and is presented in the consolidated statements of shareholders' equity and comprehensive income. The statement requires only additional disclosures in the consolidated financial statements; it does not affect the Company's financial position or results of operations. Prior year financial statements have been reclassified to conform to the requirements of SFAS No. 130.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" ("SFAS No. 137"). This statement defers the effective date of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133") to all fiscal quarters beginning after June 15, 2000. SFAS No. 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes accounting treatment for certain hedge transactions. The Company is analyzing the implementation requirements and currently does not anticipate there will be a material impact on the results of operations or financial position after the adoption SFAS No. 133.

RECLASSIFICATIONS

Certain reclassifications have been made to the 1998 and 1997 consolidated financial statements to conform with the 1999 presentation.

2. BUSINESS COMBINATIONS AND JOINT VENTURES

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 104,000 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 25,000 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.

In the fourth quarter of 1997, the Company acquired the ownership interests of its joint venture partners in ten LongHorn Steakhouse restaurants located in South Georgia, Southern Alabama, and the Panhandle of Florida for an aggregate purchase price of approximately $1.1 million in cash, notes payable, and the Company's common stock in a transaction accounted for under the purchase method. The excess of cost over the minority interest acquired was approximately $1.1 million and was recorded as goodwill to be amortized over 20 years.

In January 1997, the Company purchased the assets of two previously franchised locations in Greenville and Spartanburg, South Carolina, in a transaction accounted for under the purchase method, for approximately $2 million in cash. The excess of cost over fair value of tangible assets acquired was approximately $1.4 million and was recorded as goodwill to be amortized over the 13-year period remaining under the acquired franchise agreement.

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.

The provision for asset impairments, restaurant closings, and other charges of approximately $23.7 million in 1997 was the result of a decision by management, in the fourth quarter, to close seven restaurants and certain administrative facilities, as well as the Company's assessment of the impairment of certain assets. The Company's decision resulted from significant changes in key management and a strategic review process employed by new management. This charge reduced carrying values for long-lived assets to be held and used to estimated fair value and of long-lived assets to be disposed of in connection with the closure of the seven restaurants and the administrative facilities to estimated fair market value less costs to sell.

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment at December 26, 1999 and December 27, 1998 are summarized as follows (in thousands):

	1999	1998
Land and improvements	**$ 22,090**	$ 18,559
Buildings	**22,374**	19,608
Leasehold improvements	**115,331**	100,396
Assets under capital lease	**9,732**	9,732
Restaurant equipment	**47,441**	42,147
Furniture and fixtures	**22,096**	20,928
Construction in progress	**9,927**	4,262
	248,991	215,694
Less accumulated depreciation and amortization	**61,710**	47,884
	$ 187,281	$ 167,810

During 1999, 1998 and 1997, the Company capitalized interest during construction of approximately $457,000, $270,000, and $663,000, 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 26, 1999, such commitments totaled approximately $9.5 million.

5. ACCRUED EXPENSES

Accrued expenses consist of the following at December 26, 1999 and December 27, 1998 (in thousands):

	1999	1998
Accrued future lease obligations and other charges	**$ 2,038**	$ 3,037
Accrued rent	**2,345**	1,859
Payroll and related	**6,803**	5,596
Other taxes accrued	**3,586**	2,955
Gift certificates	**6,740**	4,707
Other	**5,335**	5,922
	$ 26,847	$ 24,076

6. DEBT

The Company has a variable interest rate revolving credit facility which permits the Company to borrow up to $100 million. Beginning with the last day of the quarter ending June 2003 the amount available under the revolving credit facility would be reduced each quarter by $8.3 million, reducing the commitment to $50 million as of the termination date in September 2004 (the "1999 Facility"). The 1999 Facility is the result of amendments and a restatement of the Company's previous $100 million credit facility. The 1999 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 26, 1999 and December 27, 1998, the interest rate on outstanding obligations under the Company's revolving credit facilities was 6.836% and 6.898%, respectively, based on LIBOR plus 1.5% and LIBOR plus 1.625%, respectively. The commitment fee on the unused portion of the 1999 Facility on December 26, 1999, was 0.30% per year. At December 26, 1999 and December 27, 1998, debt outstanding under the revolving credit facilities totaled $40 million and $48 million, respectively. Amounts available under the Company's revolving credit facilities totaled $60 million and $52 million at December 26, 1999 and December 27, 1998, respectively.

The 1999 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 1999 Facility is secured by the common stock of entities, which own substantially all of the Bugaboo Creek and The Capital Grille restaurants. At December 26, 1999, the Company was in compliance with the provisions of the 1999 Facility. Assuming the $40 million outstanding at December 26, 1999, under the 1999 Facility is outstanding at the end of 2002, the scheduled maturity would be in 2004.

In August 1999, the Company amended an existing interest rate swap agreement with a commercial bank, which effectively fixes the interest rate at 7.6% on $40 million through August 2000, decreasing to $35 million through May 2001 and decreasing to $25 million through August 2004. 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. After giving affect to the interest rate swap agreement, the weighted average interest rate on borrowings under the revolving credit facility was 7.6% on December 26, 1999. Prior to amendment, this interest rate swap agreement fixed the interest rate at 7.515% on $40 million through August 1999, decreasing to $35 million through February 2000 and decreasing to $25 million through August 2001.

7. INCOME TAXES

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

	Current	Deferred	Total
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
Year ended December 28, 1997:			
U.S. Federal	$ (923)	$ (3,215)	$ (4,138)
State and local	(213)	(649)	(862)
	$ (1,136)	$ (3,864)	$ (5,000)

The differences between income taxes at the statutory Federal income tax rate and income tax expense reported in the consolidated statements of operations are as follows:

	1999	1998	1997
Federal statutory income tax rate	**35.0%**	35.0%	(34.0)%
State income taxes, net of federal benefit	**3.3**	3.6	(5.0)
Meals and entertainment	**0.8**	0.4	(1.5)
FICA tip credit	**(6.7)**	(8.3)	7.3
Other	**0.5**	1.3	4.2
Effective tax rates	**32.9 %**	32.0%	(29.0)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 26, 1999 and December 27, 1998 are presented below (in thousands):

	1999	1998
Deferred tax assets:		
Provisions for restaurant closings, and other charges	**$ 4,181**	$ 3,905
Deferred rent	**891**	717
Accrued joint venture contract termination	**553**	423
Preopening costs	**1,342**	2,054
Accrued insurance	**203**	499
Accrued workers' compensation	**514**	297
Other	**1,260**	527
Total gross deferred tax assets	**8,944**	8,422
Deferred tax liability - property and equipment	**(1,868)**	(2,893)
Net deferred tax assets	**$ 7,076**	$ 5,529

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 deferred tax assets are deductible, the Company's management believes it is more likely than not the Company will realize the benefits of these deductible differences, at December 26, 1999.

8. EMPLOYEE BENEFIT PLANS

The Company provides employees who meet minimum service requirements with retirement benefits under a 401(k) salary reduction and profit sharing plan (the "RARE Plan"). Under the RARE plan, employees may make contributions of between 1% and 20% of their annual compensation. The Company is required to make an annual matching contribution up to a maximum of 2.5% of employee compensation. Additional contributions are made at the discretion of the Board of Directors. The Company's expense under the RARE Plan was $396,000, $396,000, and $260,000 for 1999, 1998, and 1997, respectively.

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 has noncancelable operating leases for 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 26, 1999 are as follows (in thousands):

Years ending at or about December 31:	Capital	Operating
2000	$ 860	$ 11,135
2001	860	10,718
2002	892	10,211
2003	929	9,406
2004	947	8,475
Thereafter	20,512	33,157
Total minimum lease payments	25,000	$ 83,102
Less imputed interest (at 9%)	15,268	
Present value of minimum lease payments	9,732	
Less current maturities	–	
Obligations under capital leases, excluding current maturities	$ 9,732	

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

	1999	1998	1997
Minimum lease payments	**$ 10,942**	$ 9,611	$ 8,252
Contingent rentals	**1,228**	799	686
Total rental expense	**$ 12,170**	$ 10,410	$ 8,938

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 1999, 1998, and 1997, 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 $106,000, $12,000, and $11,000 for the years 1999, 1998, and 1997, respectively.

Through August 1999, the Company leased, from entities in which certain of the Company's directors had a financial interest, the land and buildings in which it operates one LongHorn Steakhouse restaurant. Rental expense includes approximately $71,800, $110,500, and $106,000 for 1999, 1998, and 1997, 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

In 1998, the Company's Board of Directors authorized the Company to purchase shares of its common stock, through open market transactions, block purchases or in privately negotiated transactions. During 1999 and 1998, the Company purchased 85,000 and 59,500 shares, respectively, of its common stock for a total purchase price of approximately $1.9 million (average price of $13.06 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 26, 1999, 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 750,000 shares of common stock and 1,500,000 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 approximately 306,550 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 100,000 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 1999, 1998, and 1997 net earnings (loss) and net earnings (loss) per share would have been reduced (increased in 1997) by approximately $1.7 million, $2 million, and $1 million, or approximately $0.14, $0.17, and $0.09 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 1999, 1998, and 1997 is estimated at approximately $1.4 million, $1.7 million, and $3.4 million, respectively, on the date of grant, using the Black-Scholes option-pricing model with the following assumptions: dividend yield of zero, volatility of 20%, risk-free interest rate of 6%, and an average expected life of eight years.

As of December 26, 1999 and December 27, 1998, options to purchase 911,010 and 592,626 shares of common stock, respectively, were exercisable at weighted average exercise prices of $13.16 and $13.47 per share, respectively. Option activity under the Company's stock option plans is as follows:

	Shares	Weighted Average Price
Outstanding at December 29, 1996	1,410,766	$ 15.28
Granted in 1997	995,150	14.47
Exercised in 1997	(289,980)	8.81
Canceled in 1997	(642,843)	17.72
Outstanding at December 28, 1997	1,473,093	14.79
Granted in 1998	567,950	11.62
Exercised in 1998	(52,400)	10.17
Canceled in 1998	(186,795)	16.24
Outstanding at December 27, 1998	1,801,848	13.58
Granted in 1999	205,513	18.65
Exercised in 1999	(175,296)	11.95
Canceled in 1999	(135,543)	14.05
Outstanding at December 26, 1999	1,696,522	14.28

The following table summarizes information concerning options outstanding and exercisable as of December 26, 1999:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$8.75 to $10	375,050	7.6	$ 9.52	305,150	$ 9.51
$10.01 to $15	820,230	7.7	13.14	374,616	12.12
$15.01 to $20	299,570	6.7	17.96	121,450	17.37
$20.01 to $25	201,672	5.4	22.19	107,794	22.07

13. COMMITMENTS AND CONTINGENCIES

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 2000 and 2001. 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 retain 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 26, 1999 that is being maintained as security under the Company's worker's compensation policies.

The Company is engaged in arbitration and litigation with a joint venture partner regarding a dispute related to a joint venture agreement. The arbitrator in the arbitration has determined that the Company is liable to its partner for breach of a joint venture agreement. A hearing has been held on the issue of damages, at which time the Company asserted that no damages were sustained and the joint venture partner asserted damages of up to $7.7 million. The arbitrator has not rendered his decision. Management believes that the Company's position has merit and the resolution of these matters will not have a material adverse effect on the Company's financial condition.

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.

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 26, 1999 and December 27, 1998, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 26, 1999. 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 generally accepted auditing standards. 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 26, 1999 and December 27, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 26, 1999 in conformity with generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Company changed its method of accounting for pre-opening and organization costs in 1999.

KPMG LLP

Atlanta, Georgia
February 4, 2000

DIRECTORS AND EXECUTIVE OFFICERS
CORPORATE INFORMATION

DIRECTORS AND EXECUTIVE OFFICERS

George W. McKerrow, Jr.
Chairman

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

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

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

Thomas W. Gathers
Executive Vice President, Human Resources

Joia M. Johnson
Vice President, General Counsel and Secretary

George W. McKerrow, Sr.
Director

Ronald W. San Martin
Director
President, 490 East Paces Ferry, Inc. (restaurants)
Chief Financial Officer, Fishbone LLC (restaurants)
Chief Financial Officer and Secretary,
We're Cookin' Inc. (restaurants)

John G. Pawly
Director

Don L. Chapman
Director
Chairman of the Investment Committee,
Legacy Securities Corporation (investment banking)

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

CORPORATE INFORMATION

Corporate Office
RARE Hospitality International, Inc.
Building 600
8215 Roswell Road
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 1999 (without exhibits) 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 15, 2000, at 2:00 p.m. at the 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, 2000, there were approximately 3,900 holders of the common stock of the Company, including approximately 324 shareholders of record. The market value of the Company's common stock on March 20, 2000, was $19.00 per share. Since the Company's initial public offering in 1992, the Company has not declared or paid any cash dividends or distributions on its capital stock. (However, due to the accounting for a subsequent acquisition as a pooling of interests, the Company's consolidated financial statements reflect distributions made by certain entities acquired by the Company prior to such acquisition.) 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 26, 1999, there were 12,384,000 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.

1999	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
High	**$ 15 5/8**	**$ 26 3/16**	**$ 25 3/4**	**$ 22 3/8**
Low	**$ 12 3/4**	**$ 13 1/4**	**$ 17 11/16**	**$ 15 1/8**

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 12	$ 13 7/8	$ 15	$ 14
Low	$ 8 5/8	$ 10 7/8	$ 10 9/16	$ 8 1/2

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