RARE HOSPITALITY INTERNATIONAL INC
Form 10-Q
November 12, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 28, 2003

Commission file number 0-19924

RARE Hospitality International, Inc.

(Exact name of registrant as specified in its charter)

Internal Revenue Service - Employer Identification No. 58-1498312

8215 Roswell Rd; Bldg. 600; Atlanta, GA 30350

(770) 399-9595

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

XX Yes   __No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

XX Yes   __No

As of November 7, 2003, there were 33,661,034 shares of common stock of the Registrant outstanding.

RARE Hospitality International, Inc. and Subsidiaries

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Part I. Financial Information
Item 1. Financial Statements

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

Assets	September 28, 2003	December 29, 2002
Current assets:		
Cash and cash equivalents	$ 11,077	$ 13,732
Short-term investments	21,020	17,735
Accounts receivable	7,406	6,576
Inventories	15,732	14,309
Prepaid expenses	4,438	3,477

Refundable income taxes	5,719	4,124
Deferred income taxes	4,064	4,484
Total current assets	69,456	64,437
Property & equipment, less accumulated depreciation	335,537	299,773
Goodwill, net	19,187	19,187
Other	4,826	3,510
Total assets	$429,006	$386,907
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 16,377	$ 17,727
Accrued expenses	43,731	44,015
Current installments of obligations under capital leases	110	78
Total current liabilities	60,218	61,820
Deferred tax liability	4,811	1,138
Obligations under capital leases, net of current installments	24,741	22,406
Total liabilities	89,770	85,364
Minority interest	1,388	1,411
Shareholders' equity:		
Preferred stock	-	-
Common stock	201,457	191,174
Unearned compensation-restricted stock	(1,386)	(1,124)
Retained earnings	142,766	112,446
Treasury stock at cost; 292,500 and 142,500 shares in 2003 and 2002, respectively	(4,989)	(2,364)
Total shareholders' equity	337,848	300,132
Total liabilities and shareholders' equity	$429,006	$386,907

See accompanying notes to consolidated financial statements

RARE Hospitality International, Inc. and Subsidiaries
Consolidated Statements of Earnings
(In thousands, except per share data)
(Unaudited)

	Quarter Ended		Nine Month
Revenues:	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003
Restaurant sales:			
LongHorn Steakhouse	$119,590	$100,343	$359,910
The Capital Grille	23,591	19,798	71,698
Bugaboo Creek Steak House	20,913	17,762	61,397
Specialty concepts	2,062	1,955	5,731
Total restaurant sales	166,156	139,858	498,736

Franchise revenues	91	84	280
Total revenues	166,247	139,942	499,016
Costs and expenses:			
Cost of restaurant sales	60,289	50,355	179,447
Operating expenses - restaurants	75,669	63,765	219,886
Depreciation and amortization - restaurants	6,728	5,934	19,445
Pre-opening expense	1,514	996	4,239
General and administrative expenses	10,185	8,771	30,080
Total costs and expenses	154,385	129,821	453,097
Operating income	11,862	10,121	45,919
Interest expense, net	283	528	742
Minority interest	54	87	254
Earnings before income taxes	11,525	9,506	44,923
Income tax expense	3,746	3,090	14,603
Net earnings	$ 7,779	$ 6,416	$30,320
Basic earnings per common share	$ 0.23	$ 0.20	$ 0.92
Diluted earnings per common share	$ 0.22	$ 0.19	$ 0.87
Weighted average common shares outstanding:			
Basic	33,271	32,730	33,078
Diluted	35,277	34,386	34,753

See accompanying notes to consolidated financial statements

RARE Hospitality International, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity
For the nine months ended September 28, 2003
(In thousands, unaudited)

	Common Stock Shares	Common Stock Amount	Restricted Stock	Retained Earnings	Treasury Stock	Total Shareholders Equity
Balance, December 29, 2002	33,099	$191,174	$(1,124)	$112,446	$ (2,364)	$300,132
Comprehensive income:						
Net earnings	--	--	--	30,320	--	30,320
Total comprehensive income						30,320
Amortization of restricted stock	--	--	498	--	--	498
Purchase of common stock for treasury	--	--	--	--	(2,625)	(2,625)
Issuance of shares pursuant to restricted stock award	41	760	(760)	--	--	--
Issuance of shares pursuant to exercise of stock options	756	5,735	--	--	--	5,735

Tax benefit of stock options exercised	--	3,788	--	--	--	3,788
Balance, September 28, 2003	33,896	$201,457	$(1,386)	$142,766	$(4,989)	$337,848

See accompanying notes to consolidated financial statements

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

	Nine Months Ende
	Sept. 28, 2003
Cash Flows from operating activities:	
Net earnings	$ 30,320
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	20,647
Changes in working capital accounts	(10,152)
Minority interest	254
Deferred tax expense	4,093
Issuance of common stock to employee retirement plans	--
Net cash provided by operating activities	45,162
Cash flows from investing activities:	
Purchase of property and equipment	(53,446)
Purchase of short-term investments	(3,285)
Net cash used by investing activities	(56,731)
Cash flows from financing activities:	
Proceeds from credit facilities	--
Distributions to minority partners	(277)
Increase (decrease) in bank overdraft included in accounts payable	6,148
Principal payments on capital leases	(67)
Purchase of common stock for treasury	(2,625)
Proceeds from exercise of stock options	5,735
Net cash provided by financing activities	8,914
Net decrease in cash and cash equivalents	(2,655)
Cash and cash equivalents, beginning of period	13,732
Cash and cash equivalents, end of period	$ 11,077
Supplemental disclosure	
Cash paid for income taxes	$ 8,719
Cash paid for interest	$ 184
Assets acquired under capital lease	$ 2,434

See accompanying notes to consolidated financial statements

RARE Hospitality International, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The consolidated financial statements of RARE Hospitality International, Inc. and subsidiaries (the Company) as of September 28, 2003 and December 29, 2002 and for the quarters and nine months ended September 28, 2003 and September 29, 2002 have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 29, 2002.

The Company operates on a 52- or 53-week fiscal year ending on the last Sunday in each calendar year. Each of the four fiscal quarters is typically made up of 13 weeks. The fiscal quarters and year-to-date periods ended September 28, 2003 and September 29, 2002 each contained 13 weeks and 39 weeks, respectively.

2. New Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145). SFAS Nos. 4 and 64 required gains and losses from extinguishment of debt to be classified as extraordinary items. SFAS 145 rescinds this requirement and stipulates that gains or losses on extinguishment of debt would have to meet the criteria of APB Opinion No. 30 to be classified as an extraordinary item. In addition, any extraordinary gains or losses on extinguishment of debt in prior periods presented would require reclassification. The Company adopted SFAS 145 as of the beginning of fiscal 2003. The initial adoption of SFAS 145 did not have an impact on the Company s consolidated results of operations or financial position.

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

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. Interpretation No. 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company adopted the provisions of Interpretation No. 45 as of the beginning of fiscal 2003. The Company does not have any guarantees that would require additional disclosure as required by Interpretation No. 45.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148). SFAS 148 amends SFAS 123, Accounting for Stock-Based Compensation , and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require more prominent and frequent disclosures in financial statements about the effects of stock-based compensation. The Company adopted the disclosure provisions of SFAS 148 as of the beginning of fiscal 2003.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. Effective for the Company s fourth quarter 2003, the Interpretation applies to variable interests in variable interest entities created or obtained after January 31, 2003. The Company does not have any interests that would change the current consolidated reporting entity or require additional disclosures required by Interpretation No. 46.

In April 2003, the FASB issued SFAS No. 149, Amendment to Statement 133 on Derivative Instruments and Hedging Activities . SFAS No. 149 amends and clarifies the financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . This statement is effective for hedging relationships designated and contracts entered into or modified after June 30, 2003, except for the provisions that relate to SFAS No. 133 implementation issues, which will continue to be applied in accordance with their respective dates. The adoption of SFAS No. 149 in the third quarter of 2003 did not impact the Company s consolidated results of operations or financial position.

3. Shareholders' Equity and Stock Based Compensation

On July 23, 2003, the Company s Board of Directors approved a 3-for-2 stock split, which was distributed in the form of a 50% stock dividend to shareholders of record as of the close of business on August 12, 2003. The new stock certificates were issued on September 2, 2003. The financial statements and related footnotes included herein have been adjusted to reflect the stock split and operating results have been retroactively restated to give effect for the stock split for all periods presented.

During the first quarter of 2003, the Company purchased 150,000 shares of its common stock for a total purchase price of approximately $2,625,000 (average price of $17.50 per share). On July 23, 2003, the Company s Board of Directors authorized the Company to purchase up to an additional $25.0 million of its common stock from time-to-time through May 2005.

The Company has stock option plans that provide for the granting of incentive and non-qualified stock options to employees, officers, and directors. Under the plans, options are granted at an exercise price equal to the fair market value of the underlying common stock on the date of grant. The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans as permitted under SFAS 123 and SFAS 148. Accordingly, no compensation cost has been recognized for the Company s stock option plans. Had the compensation cost for the Company s stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the fair value methodology of SFAS 123, the Company s net income and earnings per share would have been as follows:

	Quarter Ended		Nine month
	Sept 28, 2003	Sept 29, 2002	Sept 28, 2003
Net earnings, as reported	$7,779	$6,416	$30,320
Stock-based compensation expense determined under fair value method for all awards, net of tax	1,134	868	2,928
Proforma net earnings	$6,645	$5,548	$27,392
Earnings per share:			
Basic - as reported	$ 0.23	$ 0.20	$ 0.92
Basic - proforma	$ 0.20	$ 0.17	$ 0.83
Diluted - as reported	$ 0.22	$ 0.19	$ 0.87
Diluted - proforma	$ 0.19	$ 0.16	$ 0.79

4. Long-Term Debt

At September 28, 2003, no borrowings were outstanding under the Company s $100.0 million revolving credit agreement, and the Company was in compliance with all of its compliance provisions.

5. Income Taxes

Income tax expense for the third quarter and first nine months of 2003 has been provided based on an estimated 32.5% effective tax rate expected to be applicable for the full 2003 fiscal year. The effective income tax rate differs from applying the statutory federal income tax rate of 35% to pre-tax earnings primarily due to employee FICA tip tax credits (a reduction in income tax expense) and work opportunity tax credits partially offset by state income taxes.

6. Earnings Per Share

Basic earnings per common share equals net earnings divided by the weighted average number of common shares outstanding and does not include the dilutive effect of stock options or restricted stock. Diluted earnings per common share equals net earnings divided by the weighted average number of common shares outstanding, after giving effect to dilutive stock options and restricted stock. A reconciliation between basic and diluted weighted average shares outstanding and the related earnings per share calculation is presented below (in thousands, except per share amounts):

	Quarter Ended		Nine mont
	Sept 28, 2003	Sept 29, 2002	Sept 28, 2003
Basic weighted average shares outstanding	33,271	32,730	33,078
Dilutive effect of stock options	1,812	1,520	1,493
Dilutive effect of restricted stock	194	136	182
Diluted weighted average shares outstanding	35,277	34,386	34,753
Net earnings	$ 7,779	$ 6,416	$ 30,320
Basic earnings per common share	$ 0.23	$ 0.20	$ 0.92
Diluted earnings per common share	$ 0.22	$ 0.19	$ 0.87

7. Derivative Instruments and Comprehensive Income

In 2002 and prior years, the Company used an interest rate swap agreement to effectively fix the interest rate on variable rate borrowings under the Company s $100.0 million revolving credit facility. This interest rate swap agreement was classified as a hedge of a cash flow exposure and, accordingly, the initial fair value and subsequent changes therein were reported as a component of other comprehensive loss and subsequently reclassified into earnings when the forecasted cash flows affect earnings. Concurrent with the November 2002 amendment and extension of the Company s $100.0 million revolving credit facility, all amounts outstanding under the credit facility were repaid and the interest rate swap agreement was terminated.

For the quarter and nine months ended September 28, 2003, there was no difference between the Company s net earnings and comprehensive income. A reconciliation of net earnings and total comprehensive income for the fiscal 2002 periods is as follows (in thousands):

	Quarter Ended Sept 29, 2002	Nine Months Ended Sept 29, 2002
Net earnings	$ 6,416	$ 25,292
Change in unrealized loss from interest rate swap	(210)	(355)
Total comprehensive income	$ 6,206	$ 24,937

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Revenues

The Company currently derives all of its revenues from restaurant sales and franchise revenues. Total revenues increased 18.8% and 15.9% for the quarter and nine months ended September 28, 2003, respectively, as compared to the same periods of the prior fiscal year.

Same store sales comparisons for each of the Company s restaurant concepts for the quarter ended September 28, 2003, consist of sales at restaurants opened prior to December 31, 2001.

LongHorn Steakhouse:

Sales in the LongHorn Steakhouse restaurants for the quarter and nine months ended September 28, 2003 increased 19.2% and 16.4%, respectively, as compared to the same periods of the prior year. The increases reflect i) a 10.7% and 9.6% increase in restaurant operating weeks in the quarter and nine months ended September 28, 2003, respectively, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 166 LongHorn Steakhouse restaurants at the end of the third quarter of 2002 to 183 at the end of the third quarter of 2003 and ii) an increase in average weekly sales. Average weekly sales for all LongHorn Steakhouse restaurants in the third quarter of 2003 were approximately $50,900, a 7.7% increase over the comparable period in 2002. Same store sales for the comparable LongHorn Steakhouse restaurants increased 5.2% in the third quarter of 2003, as compared to the same period in 2002, due to approximately equal increases in both customer counts and average check.

The Capital Grille:

Sales in The Capital Grille restaurants for the quarter and nine months ended September 28, 2003, increased 19.2% and 13.1%, respectively, as compared to the same periods of the prior fiscal year. The increases reflect i) a 6.7% and 3.6% increase in restaurant operating weeks for the quarter and nine months ended September 28, 2003, as compared to the same periods of the prior fiscal year, resulting from the opening of one The Capital Grille restaurant during the second quarter of 2003 and ii) an increase in average weekly sales. Average weekly sales for all The Capital Grille restaurants in the third quarter of 2003 were approximately $113,400, a 11.7% increase from the comparable period in 2002. Same store sales for the comparable The Capital Grille restaurants increased 13.5% in the third quarter of 2003, primarily due to an increase in customer counts.

Bugaboo Creek Steak House:

Sales in the Bugaboo Creek Steak House restaurants increased for the quarter and nine months ended September 28, 2003, by 17.7% and 17.9%, respectively, as compared to the same periods of the prior fiscal year. The increases reflect i) a 16.2% and 15.5% increase in restaurant weeks in the quarter and nine months ended September 28, 2003, respectively, as compared to the same periods of the prior fiscal year, resulting from an increase in the restaurant base from 20 Bugaboo Creek Steak House restaurants at the end of the third quarter of 2002 to 24 restaurants at the end of the third quarter of 2003 and ii) an increase in average weekly sales. Average weekly sales for all Bugaboo Creek Steak House restaurants in the third quarter of 2003 were approximately $69,200, a 1.4% increase from the comparable period for 2002. Same store sales for the comparable Bugaboo Creek Steak House restaurants in the third quarter of 2003 increased 2.7%, as compared to the same period in 2002, due primarily to an increase in average check and, to a lesser extent, to an increase in customer counts.

Franchise Revenue:

Franchise revenues increased to $91,000 for the third quarter of 2003, from $84,000 for the same period in 2002 due to sales increases at the three franchised LongHorn Steakhouse restaurants in Puerto Rico.

Costs and Expenses

Cost of restaurant sales as a percentage of restaurant sales increased to 36.3% for the third quarter of 2003, from 36.0% for the third quarter of 2002, and decreased to 36.0% for the first nine months of 2003 as compared to 36.2% during the same period of 2002. Going into the third quarter of 2003, the Company had fixed price contracts in place on 90% of its planned beef usage. During the third quarter, contracts on the remaining 10% of planned beef purchases were put in place. These new contracts for beef purchases were at higher prices than the Company was paying, which negatively impacted cost of restaurant sales for the third quarter of 2003. The Company is currently under fixed price contracts with respect to all of its anticipated beef product needs and these contracts are in effect for the remainder of 2003. Additionally, the higher than expected average weekly sales rate required the Company to purchase additional quantities of beef at higher market prices and, to a lesser extent, the blackout in the northeast and Hurricane Isabel also negatively impacted cost of sales for the third quarter of 2003.

Restaurant operating expense as a percentage of restaurant sales decreased slightly to 45.5% for the third quarter of 2003, from 45.6% for the third quarter of 2002, and remained flat at 44.1% for the first nine months of 2003 and 2002. The fluctuations in restaurant operating expenses as a percentage of restaurant sales for the 2003 periods as compared to the prior year are primarily due to the favorable leveraging effect of increases in average weekly sales offset by higher operating expenses, particularly advertising costs.

Restaurant depreciation as a percentage of restaurant sales decreased to 4.0% and 3.9% for the third quarter and first nine months of 2003 as compared to 4.2% and 4.1%, respectively, for the same periods of the prior fiscal year due to the favorable leveraging effect of higher average weekly sales.

Pre-opening expense for the third quarter of 2003 was $1,514,000, an increase of $518,000 from the same period of the prior year. This increase was due primarily to the seven LongHorn Steakhouse restaurants and one Bugaboo Creek Steak House restaurant opened during the third quarter of 2003 as compared to only four LongHorn Steakhouse restaurants opened in the same period of the prior year. The increase in pre-opening expense for the first nine months of 2003 as compared to the same period of the prior year was primarily due to the accelerated restaurant opening schedule in the second and third quarters of 2003.

General and administrative expenses, as a percentage of total revenues, decreased to 6.1% for the third quarter of 2003 from 6.3% for the same period in 2002, and increased to 6.0% for the first nine months of 2003 from 5.9% for the same period of 2002. These fluctuations were principally due to the full period impact of new hires made in 2002 and full bonus accruals in the 2003 periods as compared to only partial bonus accruals in the 2002 periods, offset by greater leverage of fixed and semi-fixed general and administrative expenses resulting from higher average weekly sales volumes.

As a result of the relationships between revenues and expenses discussed above, the Company s operating income increased to $11.9 million for the third quarter of 2003 and increased to $45.9 million for the first nine months of 2003 as compared to $10.1 million and $39.3 million, respectively, for the same periods of the prior year.

Interest expense, net decreased to $283,000 in the third quarter of 2003, and to $742,000 for the first nine months of 2003, from $528,000 and $1,398,000 during the same periods of the prior year, due to lower debt levels resulting from the November 2002 repayment of the $10.0 million then outstanding under the Company s revolving credit facility during the 2002 period. The Company had no amount outstanding under the revolving credit facility during 2003.

Minority interest expense decreased to $54,000 for the third quarter and $254,000 for the first nine months of 2003, from $87,000 and $387,000 for the same periods of the prior year, primarily due to the Company s acquisition of two joint venture restaurants from two joint venture partners in 2002.

Income tax expense for the third quarter and first nine months of 2003 was 32.5% of earnings before income taxes, which reflects the effective tax rate expected to be applicable for the full 2003 fiscal year. This rate in 2003 is the same as the rate in the same periods of the prior year, which reflected the effective income tax rate then expected for the full 2002 fiscal year. The Company s effective income tax rate differs from applying the statutory federal income tax rate of 35% to pre-tax income, primarily due to employee FICA tip tax credits and work opportunity tax credits partially offset by state income taxes.

Net earnings increased to $7.8 million for the third quarter of 2003 from net earnings of $6.4 million for the third quarter of 2002 and increased to $30.3 million for the nine months ended September 28, 2003 from $25.3 million for the nine months ended September 29, 2002, reflecting the net effect of the items discussed above.

Liquidity and Capital Resources:

The Company requires capital primarily for the development of new restaurants, selected acquisitions and the remodeling of existing restaurants. During the first nine months of 2003, the Company s principal sources of working capital were cash provided by operating activities ($45.2 million) and proceeds from the exercise of employee stock options ($5.7 million). For the first nine months of 2003, the principal uses of working capital were capital expenditures ($53.4 million) for new and improved facilities, the purchase of short-term investments ($3.3 million) and the purchase of common stock for treasury ($2.6 million). As of September 28, 2003, the Company had no borrowings outstanding under the Company s $100.0 million revolving credit facility.

The Company intends to open an aggregate 21 Company-owned LongHorn Steakhouse restaurants, three Bugaboo Creek Steak House restaurants and two The Capital Grille restaurants in fiscal year 2003. The Company estimates that its capital expenditures for fiscal year 2003 will be approximately $75-80 million. During the first nine months of 2003, the Company opened 17 LongHorn Steakhouse restaurants, one The Capital Grille restaurant and two Bugaboo Creek Steak House restaurants. As of November 10, 2003, the Company has opened three additional LongHorn Steakhouse restaurants, one additional The Capital Grille restaurant and one additional Bugaboo Creek Steak House restaurant in the fourth quarter 2003. Management believes that available cash, cash provided by operations, and available borrowings under the Company s $100.0 million revolving credit facility will provide sufficient funds to finance the Company s expansion plans through the year 2006.

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.

Forward-Looking Statements

Statements contained in this Report concerning future results, performance or expectations are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All forward-looking statements in this Report are made based upon management s current expectations or beliefs, as well as assumptions made by, and information currently available to, the Company on the date of this Report. All forward-looking statements involve risks and uncertainties that could cause actual results, performance or developments to differ materially from those expressed or implied by those forward-looking statements, such as: the Company s ability to open the anticipated number of new restaurants on time and within budget; the Company s ability to continue to increase same-store sales at anticipated rates; a recession or other negative effect on business dining patterns, or some other negative effect on the economy in general; the effect upon dining patterns and the economy in general, of war, insurrection and/or terrorist attacks on United States soil; unexpected increases in cost of sales or other expenses; and the impact of any negative publicity or public attitudes related to the consumption of beef. Other risks and uncertainties include fluctuations in quarterly operating results, seasonality, guest trends, competition and risks associated with the development and management of new restaurant sites. More information about factors that potentially may affect the Company s results, performance or development is included in the Company s other filings with the Securities and Exchange Commission, including its annual report on Form 10-K for the year ended December 29, 2002, its quarterly reports on Form 10-Q for the quarter ended March 30, 2003 and June 29, 2003, and the Company s press releases and other communications.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

As of September 28, 2003, the Company had no borrowings outstanding under its $100.0 million revolving credit facility. Amounts outstanding under such credit facility bear interest at LIBOR plus a margin of 1.25% to 2.0% (depending on the Company s leverage ratio), or the administrative agent s prime rate of interest plus a margin of 0% to 0.75% (depending on the Company s leverage ratio) at the Company s option. Accordingly, the Company may be exposed to the impact of interest rate fluctuations. To achieve the Company s objective of managing its exposure to interest rate changes, the Company may from time to time use interest rate swaps.

Investment Portfolio

The Company invests portions of its excess cash, if any, in highly liquid investments. At September 28, 2003, the Company had $9.0 million invested in high-grade overnight repurchase agreements, and $21.0 million in short-term investments in the form of Federal, state and municipal bonds. As of September 28, 2003, the Company has classified all short-term investments as trading securities.

Item 4. Controls and Procedures

In accordance with the Securities Exchange Act Rules 13a-15 and 15d-15, the Company s management, under the supervision of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Company concluded that the design and operation of its disclosure controls and procedures were effective. There have been no significant changes in internal controls over financial reporting or in other factors that could significantly affect internal controls over financial reporting subsequent to the date of such evaluation.

Part II - Other Information

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Securities Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits Filed.

31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.
31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.
32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(1)
32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(1)

(1) These exhibits are deemed to accompany this report and are not "filed" as part of the report.

(b) Reports filed on Form 8-K.
None

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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/s/ Philip J. Hickey, Jr.
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Philip J. Hickey, Jr.
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

/s/ W. Douglas Benn
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W. Douglas Benn
Executive Vice President, Finance
and Chief Financial Officer
(Principal Financial and
Accounting Officer)


Date:   November 11, 2003
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