

RARE HOSPITALITY INTERNATIONAL INC

Form DEF 14A

April 05, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

RARE HOSPITALITY INTERNATIONAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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- o Fee paid previously with preliminary materials.
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**8215 ROSWELL ROAD
BUILDING 600
ATLANTA, GEORGIA 30350**

April 5, 2007

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of RARE Hospitality International, Inc., which will be held at The Capital Grille of Atlanta, 255 East Paces Ferry Road, Atlanta, Georgia, on Tuesday, May 8, 2007, at 2:00 p.m. local time.

I hope you are planning to attend the meeting so that you can become acquainted with the members of our Board of Directors and our management team. The items of business that will be considered and voted upon this year are explained in the accompanying Proxy Statement. Even if you are planning to attend in person, please complete the enclosed proxy card and return it to us.

If you have any questions about the Proxy Statement or the 2006 Annual Report to Shareholders, please contact Mr. W. Douglas Benn at (770) 399-9595.

We look forward to seeing you on May 8, 2007.

Sincerely,

PHILIP J. HICKEY, JR.
Chairman of the Board of Directors

RARE HOSPITALITY INTERNATIONAL, INC.

8215 ROSWELL ROAD
BUILDING 600
ATLANTA, GEORGIA 30350

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 8, 2007**

Notice is hereby given that the Annual Meeting of Shareholders (the Meeting) of RARE Hospitality International, Inc. (the Company), will be held at The Capital Grille of Atlanta, 255 East Paces Ferry Road, Atlanta, Georgia, on Tuesday, May 8, 2007, at 2:00 p.m. local time, for the following purposes:

1. To elect three Class III directors to serve until the 2010 Annual Meeting of Shareholders.
2. To approve amendments to the RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan to increase the number of shares of Common Stock available for stock option awards by 450,000 shares.
3. To ratify the selection of KPMG LLP as the Company s independent registered public accounting firm to serve for the fiscal year ending December 30, 2007.
4. To transact such other business as may properly come before the Meeting or any adjournments thereof.

Only those shareholders of record at the close of business on March 16, 2007, are entitled to notice of and to vote at the Meeting and any adjournments thereof. The transfer books will not be closed. A complete list of shareholders entitled to vote at the Meeting will be available at the Meeting.

By Order of the Board of Directors,

W. DOUGLAS BENN
Secretary

Atlanta, Georgia
April 5, 2007

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING IN PERSON, PLEASE VOTE, SIGN, DATE, AND RETURN THE ENCLOSED PROXY PROMPTLY IN THE ENCLOSED BUSINESS REPLY ENVELOPE. IF YOU DO ATTEND THE MEETING YOU MAY, IF YOU WISH, WITHDRAW YOUR PROXY AND VOTE IN PERSON.

**RARE HOSPITALITY INTERNATIONAL, INC.
8215 ROSWELL ROAD
BUILDING 600
ATLANTA, GEORGIA 30350
April 5, 2007**

**PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 8, 2007**

INTRODUCTION

This Proxy Statement is furnished to shareholders of RARE Hospitality International, Inc., a Georgia corporation (herein, unless the context otherwise requires, the Company), in connection with the solicitation of proxies by the Company's Board of Directors from holders of the outstanding shares of common stock of the Company (Common Stock) for use at the Annual Meeting of Shareholders to be held at The Capital Grille of Atlanta, 255 East Paces Ferry Road, Atlanta, Georgia, on Tuesday, May 8, 2007, at 2:00 p.m. local time, and at any adjournments thereof (the Meeting).

The Meeting will be held for the following purposes: (i) to elect three Class III directors to serve until the 2010 Annual Meeting of Shareholders; (ii) to approve amendments to the RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan (the 2002 Long-Term Incentive Plan) to increase the number of shares of Common Stock available for stock option awards by 450,000 shares and to make certain other changes to the 2002 Long-Term Incentive Plan as more fully described in Proposal II below; (iii) to ratify the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 30, 2007; and (iv) to transact such other business as may properly come before the Meeting.

The Company's mailing address and the location of its principal executive offices is 8215 Roswell Road, Building 600, Atlanta, Georgia 30350. This Proxy Statement and the accompanying proxy card are first being mailed to shareholders of the Company on or about April 5, 2007.

SHAREHOLDERS ENTITLED TO VOTE

Only shareholders of record of the Company's Common Stock at the close of business on March 16, 2007 (the Record Date), will be entitled to notice of, and to vote at, the Meeting. On the Record Date, there were 30,582,492 shares of Common Stock issued and outstanding held by approximately 748 shareholders of record. Notwithstanding the Record Date specified above, the Company's stock transfer books will not be closed and shares may be transferred subsequent to the Record Date. However, all votes must be cast in the names of shareholders of record on the Record Date.

QUORUM AND VOTING REQUIREMENTS

The presence, in person or by proxy, of the holders of a majority of the votes entitled to be cast on a matter at the Meeting will constitute a quorum to conduct business at the Meeting. Pursuant to the Bylaws of the Company, holders of Common Stock will be entitled to one vote for each share held. Abstentions and broker non-votes (which occur when shares held by brokers or nominees for beneficial owners are voted on some matters but not on others) will be counted as present for purposes of determining a quorum.

The election of directors will require the affirmative vote of a majority of the shares represented at the meeting, provided a quorum is present. With respect to the election of directors, shareholders may: (i) vote for all of the

director nominees; (ii) withhold authority to vote for all of the nominees; or (iii) withhold authority to vote for any individual nominee or nominees but vote for all other nominees. In the election of directors, broker non-votes (which occur when shares held by brokers or nominees for beneficial owners are voted on some matters but not on others) have the same effect as a vote to withhold authority to vote for all director nominees.

The approval of amendments to the 2002 Long-Term Incentive Plan will require that votes cast in favor of the proposal exceed the votes cast against the proposal, provided a quorum is present. With respect to the approval of amendments to the 2002 Long-Term Incentive Plan, shareholders may: (i) vote for approval; (ii) vote against

approval; or (iii) abstain from voting on the proposal. Abstentions and broker non-votes will have no effect on the outcome.

The ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm will require that votes cast in favor of the proposal exceed the votes cast against the proposal, provided a quorum is present. With respect to the approval of the independent registered public accounting firm, shareholders may: (i) vote for approval; (ii) vote against approval; or (iii) abstain from voting on the proposal. Abstentions and broker non-votes will have no effect on the ratification of the independent registered public accounting firm.

PROXIES

If the enclosed proxy card is executed, returned in time and not revoked, the shares represented thereby will be voted in accordance with the instructions indicated in such proxy. **IF NO INSTRUCTIONS ARE INDICATED, SUCH PROXIES WILL BE VOTED (I) FOR THE ELECTION OF THE NOMINEES FOR DIRECTOR OF THE COMPANY, (II) FOR APPROVAL OF AMENDMENTS TO THE 2002 LONG-TERM INCENTIVE PLAN, (III) FOR RATIFICATION OF THE SELECTION OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 30, 2007, AND (IV) IF THE COMPANY DID NOT HAVE NOTICE ON OR BEFORE FEBRUARY 5, 2007 OF ANY MATTERS PROPERLY BROUGHT BEFORE THE MEETING, IN THE SOLE DISCRETION OF THE PROXIES AS TO SUCH MATTERS.**

A shareholder who has given his or her proxy may revoke it at any time prior to its exercise at the Meeting by (i) giving written notice of revocation to the Secretary of the Company, (ii) properly submitting to the Company a duly executed proxy card bearing a later date, or (iii) appearing at the Meeting and voting in person. All written notices of revocation of proxies should be addressed as follows: RARE Hospitality International, Inc., 8215 Roswell Road, Building 600, Atlanta, Georgia 30350, Attention: Mr. W. Douglas Benn, Secretary.

PROPOSAL I

ELECTION OF DIRECTORS

The Company's Board of Directors has nominated Eugene I. Lee, Jr., Ronald W. San Martin, and James D. Dixon for election as Class III directors to hold office until the 2010 Annual Meeting of Shareholders of the Company and until their successors shall have been elected and qualified.

It is believed that all of the nominees will be available and able to serve as directors. It is anticipated that management shareholders of the Company will grant authority to vote for the election of the three nominees.

The Company's Board of Directors currently consists of nine directors divided into three classes, with three directors in each class. The term of the Class III directors, composed of Messrs. Lee, San Martin and Dixon, expires at the Meeting. The terms of the Class I and Class II directors expire at the Annual Meetings of Shareholders in 2008 and 2009, respectively. Directors hold office until the Annual Meeting of Shareholders of the Company in the year in which the term of their Class expires and until their successors have been duly elected and qualified.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE THREE NOMINEES FOR ELECTION AS DIRECTOR. THE AFFIRMATIVE VOTE OF A MAJORITY OF THE SHARES REPRESENTED AT THE MEETING AT WHICH A QUORUM IS PRESENT IS REQUIRED FOR THE ELECTION OF THE NOMINEES.

CERTAIN INFORMATION CONCERNING NOMINEES AND DIRECTORS

The table on the following pages sets forth the names of the nominees and of the directors continuing in office, their ages, the year in which each was first elected a director, their position(s) with the Company, their principal occupations and employers for at least the last five years, and any other directorships held by them in certain other companies. For information concerning membership on committees of the Board of Directors, see Meetings of the Board of Directors and Committees below. For information concerning directors' ownership of Common Stock,

see Beneficial Owners of More Than Five Percent of the Company's Common Stock; Shares Held by Directors and Executive Officers below.

NOMINEES TO THE BOARD OF DIRECTORS

CLASS III TERM EXPIRING ANNUAL MEETING 2007

Name and Year First Elected a Director	Age	Positions with the Company, Principal Occupations During at Least the Past Five Years, and Other Directorships
Eugene I. Lee, Jr., 2001	45	Mr. Lee, Jr. has served as the Company's President and Chief Operating Officer since January 2001. From January 1999 until January 2001, Mr. Lee, Jr. served as the Company's Executive Vice President and Chief Operating Officer. Prior to that, he was Executive Vice President, Operations - LongHorn Steakhouse Division from October 1997 until January 1999, and was the Company's Executive Vice President, Operations - Bugaboo Creek Steak House Division from January 1997 until October 1997. For more than five years prior to joining the Company, he occupied various positions, including Senior Vice President - Operations, with Uno Restaurant Corporation, an operator of restaurants.
Ronald W. San Martin, 1985	59	Mr. San Martin serves as President of 490 East Paces Ferry, Inc. and serves as Chief Financial Officer (since June 1995) and Secretary (since January 1996) of We're Cookin' Inc., both of which are restaurant development and operating companies. Mr. San Martin was the Chief Financial Officer and the Secretary of the Company from May 1985 until June 1995 and was Chief Operating Officer from August 1997 until October 1997.
James D. Dixon, 2004	63	Mr. Dixon began his career at Citizens and Southern Corp. and remained with that organization through mergers that created C&S/Sovran, and NationsBank, as well as the merger with Bank of America. Among other positions, he served as Vice Chairman and Chief Administrative Officer of Citizens and Southern Corp.; Senior Executive Vice President and Chief Financial Officer of C&S/Sovran; President of NationsBank Services, Inc.; and Chief Technology Officer of Bank of America. Prior to his retirement in 2002, he served as Executive Director of BankofAmerica.com, where he was responsible for Internet business development, strategic alliances and joint ventures. Mr. Dixon is currently a director of BroadVision, Inc, and CheckFree Corporation.

MEMBERS OF BOARD OF DIRECTORS CONTINUING IN SERVICE**CLASS I TERM EXPIRING ANNUAL MEETING 2008**

Name and Year First Elected a Director	Age	Positions with the Company, Principal Occupations During at Least the Past Five Years, and Other Directorships
Roger L. Boeve, 2004	68	Mr. Boeve was founder and served as Executive Vice President and Chief Financial Officer of Performance Food Group Company, a foodservice distributor, from the formation of the company in 1988 through his retirement in 2003. Prior to 1988, Mr. Boeve served as Executive Vice President and Chief Financial Officer for The Murray Ohio Manufacturing Company and as Corporate Vice President and Treasurer for Bausch and Lomb Incorporated.
Don L. Chapman, 1992	67	Mr. Chapman is the founder and has served as Chairman of ChapCo Investments LLC, an investment company, since March 2005. Mr. Chapman was Chairman and Chief Executive Officer of Tug Investment Corporation, an investment company, from April 2000 to March 2005. Mr. Chapman was President of S&S Tug Manufacturing, a manufacturer of material-handling vehicles, from March 1999 until April 2000. Mr. Chapman is also a director of AirTran Holdings, Inc. and serves as chairman of the audit committee of that board.
Lewis H. Jordan, 1998	62	Mr. Jordan is the founder and has served as the principal officer of Wingspread Enterprises LLC, an investment and consulting firm, since August 1997. Mr. Jordan has served as a director of AirTran Holdings, Inc. from June 1993 to the present. Mr. Jordan was also President and Chief Operating Officer of ValuJet, Inc. from June 1993 until November 1997.

CLASS II TERM EXPIRING ANNUAL MEETING 2009

Name and Year First Elected a Director	Age	Positions With the Company, Principal Occupations During at Least the Past Five Years, and Other Directorships
Carolyn H. Byrd, 2000	58	Ms. Byrd is Chairman and Chief Executive of GlobalTech Financial, LLC, a financial services company established in May 2000. From 1977 until September 2000, Ms. Byrd held various positions of increasing responsibility, including Chief of Internal Audits, Director of the Corporate Auditing Department and, most recently, President of Coca-Cola Financial Corporation and Vice President of The Coca-Cola Company. Ms. Byrd is currently a director of Circuit City Stores, Inc. and AFC Enterprises, Inc.
Philip J. Hickey, Jr., 1997	52	Mr. Hickey, Jr. has served as the Company's Chairman of the Board of Directors since January 2001 and its Chief Executive Officer since July 1998. From October 1997 until July 1998, Mr. Hickey, Jr. served

as the Company's President and Chief Operating Officer and as a director. From November 1992 until he joined the Company in October 1997, Mr. Hickey, Jr. served as President and Chief Operating Officer of Innovative Restaurant Concepts, Inc. and Rio Bravo International, Inc., operators and franchisors of casual dining restaurants that were acquired by Applebee's International, Inc. in March 1995.

Dick R. Holbrook, 2002

54 Mr. Holbrook served as President, Chief Operating Officer and a director of AFC Enterprises, Inc., a developer, operator and franchisor of restaurants, from August 1995 to December 2004. From November 1992 to July 1995, Mr. Holbrook served as Executive Vice President and Chief Operating Officer of AFC Enterprises, Inc. Prior to 1992, Mr. Holbrook held various executive management positions in the restaurant industry.

MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors. The property, affairs and business of the Company are under the general management of its Board of Directors as provided by the laws of Georgia and the Bylaws of the Company. The Company has standing Audit, Compensation and Governance/Nominating Committees of the Board of Directors.

During the 2006 fiscal year, the Company's Board of Directors met seven times. Each director, during the period he or she was a director, attended at least 75% of the aggregate number of meetings of the Board of Directors and the committees of the Board of Directors of which he or she was a member. It is the Company's policy that all of the Company's directors are expected to attend the Annual Meeting of Shareholders. All of the Company's directors attended the 2006 Annual Meeting of Shareholders.

Audit Committee. The Audit Committee consists of three non-employee directors: Roger L. Boeve (Chairman), Ronald W. San Martin, and Dick R. Holbrook. The primary duties and responsibilities of the Audit Committee are to: (i) monitor the integrity of the Company's accounting and financial reporting processes, systems of internal controls and audits of the Company's financial statements, (ii) monitor the independence, performance and integrity of the Company's independent registered public accounting firm and internal auditing department, and (iii) provide an avenue of communication among the independent registered public accounting firm, management, the internal auditing department and the Company's Board of Directors. A detailed list of the Audit Committee's functions is included in its charter. In February 2007, the Company's Board of Directors re-approved the charter for the Audit Committee, a copy of which is posted on the Company's website at www.rarehospitality.com. The Audit Committee held 12 meetings during the 2006 fiscal year.

The Company's Board of Directors has determined that the members of the Audit Committee are independent as defined by the Sarbanes-Oxley Act of 2002 and the NASDAQ listing standards, and that the Audit Committee Chairman, Mr. Boeve, is qualified as an audit committee financial expert as defined by the Securities and Exchange Commission rules.

Compensation Committee. The Compensation Committee consists of four non-employee directors: James D. Dixon (Chairman), Don L. Chapman, Carolyn H. Byrd and Lewis H. Jordan, each of whom has been determined by the Company's Board of Directors to be independent as defined under applicable requirements of the NASDAQ listing standards and Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The purpose of the Compensation Committee is to: (i) encourage the achievement of the Company's performance goals by providing compensation which directly relates to the performance of the executive officers and the achievement of internal business strategies and goals, (ii) establish compensation policies and guidelines that will attract and retain an outstanding group of executives through an overall level of compensation opportunity that is competitive within the Company's industry, (iii) promote a direct relationship between compensation and the Company's performance by facilitating executive officer stock ownership through stock options, restricted stock or other equity-based awards, (iv) serve as the Committee for the administration of the Company's Amended and Restated 1992 Incentive Plan (the "1992 Plan"), the Company's 1997 Long-Term Incentive Plan (the "1997 Plan"), the Company's Amended and Restated 2002 Long-Term Incentive Plan, the RARE Hospitality International, Inc. Executive Officer Performance Incentive Plan, and other incentive compensation plans for executive officers of the Company and (v) engage experts on compensation matters, if and when it deems it proper or advisable to do so. The Compensation Committee reports to the Board of Directors. The Compensation Committee held seven meetings during the 2006 fiscal year. For more information on the role of the Compensation Committee and its processes and procedures for considering and determining executive officer compensation, see our Compensation Discussion and Analysis beginning on page 11 of this proxy statement.

Governance/Nominating Committee. The Governance/Nominating Committee consists of three non-employee directors: Lewis H. Jordan (Chairman), Don L. Chapman and Carolyn H. Byrd, each of whom has been determined by the Company's Board of Directors to be independent as defined under applicable requirements of the NASDAQ listing standards. The principal purpose of the Governance/Nominating Committee is to: (i) consider significant corporate governance issues and make recommendations to the Board of Directors on appropriate governance policies and procedures for the Company, and (ii) identify and recommend candidates for election to the Board of Directors of the Company. A description of the Company's policy regarding director candidates nominated by shareholders appears below under Corporate Governance Director Nominating

Process. The Governance/Nominating Committee reports to the Board of Directors and held four meetings during the 2006 fiscal year.

Compensation of Directors. During fiscal 2006, directors of the Company who are not also employees received an annual retainer of \$35,000, plus reimbursement of travel and other expenses incurred in connection with the performance of their duties. In addition, the Chairman of the Audit Committee received a \$10,000 retainer, and each of the other Audit Committee members, the Chairman of the Compensation Committee, and the Chairman of the Governance/Nominating Committee, received \$5,000 retainers. Additionally, Dick R. Holbrook received a \$5,000 retainer during fiscal 2006 for acting as the board's liaison with management in connection with the planned sale of the Bugaboo Creek Steak House business. Retainers are paid in cash or, at the election of a director, may be deferred under the Company's Supplemental Deferred Compensation Plan. Any non-employee directors joining the Board of Directors will receive an initial stock option grant to purchase 7,500 shares of Common Stock if he or she first becomes a non-employee director on or before June 30th of the year appointed, or an initial stock option grant to acquire 3,750 shares of Common Stock, if he or she first becomes a non-employee director on or after July 1st of the year appointed. In addition, on the day immediately preceding the release of the Company's financial results for the 2006 fiscal year, each non-employee director serving on such date will receive an annual stock option grant to purchase 7,500 shares of Common Stock, provided the Company achieved certain performance measures for the preceding fiscal year. Non-employee directors also receive an allowance of \$400 per fiscal month for dining at the Company's restaurants, and an allowance of \$1,000 per fiscal year for dining at restaurants of the Company's competitors. Non-employee directors also receive a \$1,000 allowance for charitable donations (which fall under the IRS-defined Donations/Contributions category), and a \$2,000 allowance for public relations (which do not fall under the IRS-defined Donations/Contributions category), both per fiscal year. Directors who are also employees of the Company are not paid any compensation for their services as directors. The Company has increased the annual retainer for new and existing non-employee directors for fiscal year 2007. Beginning in fiscal year 2007, directors of the Company who are not also employees will receive an annual retainer of \$40,000.

Effective for fiscal 2008, on the date that a new non-employee director is initially elected or appointed to the Board or, in the case of a director who was employed by the Company on the date that such director was initially elected or appointed to the Board and who remains a director following the termination of his or her employment, on the date such non-employee director's employment with the Company is terminated, such director will receive an initial equity award, which shall consist of (i) a number of restricted stock units determined by dividing (a) \$30,000, if such date is on or before June 30 of the fiscal year in question, or \$15,000, if such date is on or after July 1 of the fiscal year in question, by (b) the fair market value of the stock on the date of grant, and (ii) a number of options determined by dividing (a) \$30,000, if such date is on or before June 30 of the fiscal year in question, or \$15,000, if such date is on or after July 1 of the fiscal year in question, by (b) per share fair value on the date of grant of such options (based on Black-Scholes valuation or other appropriate option pricing methodology approved by the Committee).

Beginning in fiscal 2008, non-employee directors will receive an annual equity award on the day immediately preceding the earlier of (i) the Company's release of its financial results for the preceding fiscal year, or (ii) the Company's release of an estimate of its financial results for the preceding year, made after the end of such year and before the release of full financial results for such year, each non-employee director who is serving in such capacity as of such date and was serving as a non-employee director for at least one day during the preceding fiscal year, which shall consist of (i) a number of restricted stock units determined by dividing \$30,000 by the fair market value of the stock on the date of grant, and (ii) a number of options determined by dividing \$30,000 by the per share fair value on the date of grant of such options (based on a Black-Scholes valuation or other appropriate option pricing methodology approved by the Committee).

The following table shows the compensation paid to each of the directors during fiscal 2006:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Option Awards(1)	Total
Carolyn H. Byrd	\$ 45,000	\$ 51,572	\$ 96,572
Dick R. Holbrook	40,000	51,572	91,572
Roger L. Boeve	40,000	51,572	91,572
Don L. Chapman	40,000	51,572	91,572
Lewis H. Jordan	35,000	51,572	86,572
Ronald W. San Martin	45,000	51,572	96,572
James D. Dixon	35,000	51,572	86,572

- (1) Represents the amount recognized by the Company as expense for financial statement reporting purposes in fiscal 2006 for stock options granted in fiscal 2006, which is equal to the grant date fair value of these awards determined in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) *Share-Based Payment* (123R). The aggregate number of options held by each director as of December 31, 2006 was as follows: Ms. Byrd, 30,937; Mr. Holbrook, 28,125; Mr. Boeve, 11,250; Mr. Chapman, 45,000; Mr. Jordan, 28,125; Mr. San Martin, 85,500; and Mr. Dixon, 15,875.

CORPORATE GOVERNANCE

The Board of Directors is committed to ethical business practices and believes that strong corporate governance is important to ensure that the Company is managed for the long-term benefit of its shareholders. The Company regularly monitors developments in the area of corporate governance and has implemented a number of best practices, including the following:

Corporate Governance Principles and Practices. The Company adopted a Corporate Governance Policy in 2003, which is regularly reviewed by the Governance/Nominating Committee.

Code of Conduct. The Company has adopted a Code of Conduct as part of its corporate compliance program. The Code of Conduct applies to all of the Company's directors, officers and employees. The Code of Conduct is posted on the Investor Relations Corporate Governance section of the Company's website at www.rarehospitality.com and includes a code of ethics for all employees, including the principal executive officer, principal financial officer, principal accounting officer or controller and other persons performing similar functions. Any amendments to the Code of Conduct, and any waivers of its provisions with respect to the principal executive officer, principal financial officer, principal accounting officer or controller and other persons performing similar functions, will be posted on the Investor Relations Corporate Governance section of the Company's website.

Chief Executive Officer Succession. Working with the Company's Chairman and Chief Executive Officer, the Board of Directors has developed a succession plan for the Company's Chief Executive Officer that is reviewed periodically by the Board of Directors.

Director Nominating Process. The Governance/Nominating Committee identifies potential nominees for director through a variety of business contacts, including current executive officers, directors, community leaders and shareholders. The Governance/Nominating Committee may, to the extent it deems appropriate, retain professional search firms and other advisors to identify potential nominees for director.

The Governance/Nominating Committee evaluates director candidates by reviewing their biographical information and qualifications. If the Governance/Nominating Committee determines that a candidate may be qualified to serve on the Board of Directors, such candidate is interviewed by at least one member of the Governance/Nominating Committee and the Chairman of the Board of Directors and Chief Executive Officer. The Governance/Nominating Committee then determines, based on the background information and the information obtained in the interviews, whether to recommend to the Board of Directors that a candidate be nominated for

approval by the shareholders to fill a directorship. With respect to an incumbent director whom the Governance/Nominating Committee is considering as a potential nominee for re-election, the Governance/Nominating Committee reviews and considers the incumbent director's service to the Company during his or her term, including the number of meetings attended, level of participation, and overall contribution to the Company in addition to such person's biographical information and qualifications.

The Governance/Nominating Committee will consider written recommendations from shareholders for nominees to the Board of Directors. The manner in which the Governance/Nominating Committee evaluates a potential nominee does not differ based on whether the candidate is recommended by a shareholder of the Company. A shareholder who wishes to recommend a person to the Governance/Nominating Committee for nomination by the Company must submit a written notice by mail to the Governance/Nominating Committee c/o Corporate Secretary, RARE Hospitality International, Inc., 8215 Roswell Road, Building 600, Atlanta, Georgia 30350. In order to be considered in connection with nominations at any annual meeting of shareholders, such a written recommendation must be received no later than one hundred fifty (150) days in advance of the annual meeting of shareholders and should include (i) the candidate's name, business address and other contact information, (ii) a complete description of the candidate's qualifications, experience and background, as would be required to be disclosed in the Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act), and other information responsive to the qualifications and criteria considered by the Governance/Nominating Committee, (iii) a signed statement by the candidate in which he or she consents to being named in the Proxy Statement as a nominee and to serve as a director if elected and (iv) the name and address of the shareholder(s) of record making such a recommendation.

The Governance/Nominating Committee recommends nominees for election to the Board of Directors based on its evaluation of a number of qualifications, including, but not limited to: character and integrity; financial literacy; career achievements; vision and imagination; sound business experience and acumen; relevant technological, political, economic or business expertise; social consciousness; familiarity with issues affecting the Company's business; independence and absence of conflicts of interest; and contribution to the Board of Directors' desired level of diversity and balance. The Governance/Nominating Committee endorses the value of seeking qualified directors from diverse backgrounds otherwise relevant to the Company's mission, strategy and business operations and the perceived needs of the Board of Directors at a given time.

Shareholder Communications. The Board of Directors accepts communications sent to the Board of Directors (or to specified individual directors) by shareholders of the Company. Shareholders may communicate with the Board of Directors (or with specified individual directors) by writing to them c/o Corporate Secretary, RARE Hospitality International, Inc., 8215 Roswell Road, Building 600, Atlanta, GA 30350. All written communications received in such manner from shareholders of the Company shall be forwarded to the members of the Board of Directors to whom the communication is directed or, if the communication is not directed to any particular member(s) of the Board of Directors, the communication shall be forwarded to all members of the Board of Directors.

Procedures for the Receipt, Retention and Handling of Complaints. The Company maintains procedures for the confidential, anonymous submission by employees of any complaints or concerns about the Company, including complaints regarding accounting, internal accounting controls or auditing matters.

Meetings of Non-Management Directors. The non-management directors of the Company meet separately on a regular basis.

Independence. The Board of Directors has affirmatively determined that all of the non-management directors (Messrs. San Martin, Dixon, Boeve, Holbrook, Chapman, Jordan and Ms. Byrd), who comprise a majority of the Board of Directors, are independent under the standards of independence of the NASDAQ listing standards.

Lead Director. The Board of Directors has adopted a Lead Director Policy and maintains a lead director among its non-management directors to ensure that there is clear, open and regular communication between non-management and management directors. Currently, the non-employee directors, other than those serving on the Governance/Nominating Committee, rotate the position of lead director among them.

Director Education. The Company encourages and financially supports the continued education of directors on corporate governance issues.

Company Policies and Committee Charters. Shareholders may view a current copy of the Company's Corporate Governance Policy, the Company's Code of Conduct, and the current charters for the Audit, Compensation, and Governance/Nominating Committees in the Investor Relations Corporate Governance section of the Company's website at www.rarehospitality.com.

EXECUTIVE OFFICERS OF THE COMPANY

Except for Messrs. Hickey, Jr. and Lee, Jr. discussed above under Nominees to the Board of Directors and Members of Board of Directors Continuing in Service and Ms. Joia M. Johnson (Executive Vice President, General Counsel, and Secretary who resigned from the Company in January 2007), the following table sets forth the names of the executive officers of the Company (including Ms. Cathy Hampton who has agreed to join Company on April 16, 2007, to serve as Vice President, General Counsel and Secretary), their ages, their position(s) with the Company, their principal occupations and employers for at least the last five years, and any other directorships held by them in certain other companies. All executive officers serve at the pleasure of the Board of Directors. For information concerning ownership of Common Stock, see Beneficial Owners of More Than Five Percent of the Company's Common Stock; Shares Held by Directors and Executive Officers below.

Name	Age	Positions with the Company, Principal Occupations During at Least the Past Five Years
W. Douglas Benn	52	Mr. Benn became the Company's Executive Vice President of Finance, Chief Financial Officer and Secretary in March 1998. Before joining the Company, Mr. Benn was an independent financial consultant providing consulting services primarily to companies in the restaurant industry, including the Company, from February 1997 until March 1998. From April 1987 until February 1997, Mr. Benn was the Chief Financial Officer of Innovative Restaurant Concepts, Inc., an operator and franchisor of casual dining restaurants that was acquired by Applebee's International, Inc. in March 1995.
Thomas W. Gathers	51	Mr. Gathers became the Company's Executive Vice President of Human Resources in December 1998. For more than five years prior to joining the Company, he was Senior Vice President Human Resources with Uno Restaurant Corporation.
David C. George	51	Mr. George became President of the Company's LongHorn Steakhouse division in May 2003. From October 2001 until May 2003, Mr. George was Senior Vice-President of Operations for LongHorn Steakhouse. Prior to that, he served as Vice President of Operations for The Capital Grille from May 2000 until October 2001. From April 1998 until May 2000, he served as Regional Vice President of Operations for LongHorn Steakhouse. From March 1996 until April 1998, he was a joint venture partner for the LongHorn Steakhouse restaurants in North and South Carolina. For

M. John Martin

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more than five years prior to joining the Company, he served as a Vice President of Operations at Battleground Restaurant Group, a privately held, multi-concept company based in North Carolina. Mr. Martin became President of the Company's The Capital Grille division in September 2004. Mr. Martin began his career with the Company in 1990 as a Manager of the original The Capital Grille in Providence, Rhode Island. Over the past 14 years, he has held various positions of increasing responsibility and was promoted to Vice President of Operations for The Capital Grille division in 2001.

Name	Age	Positions with the Company, Principal Occupations During at Least the Past Five Years
Benjamin A. Waites	45	Mr. Waites became the Company's Chief Accounting Officer, Vice President and Corporate Controller in February 2005. Mr. Waites began his career with the Company in 1997 as Corporate Controller and was promoted to Vice President and Corporate Controller in 1999. Prior to joining the Company, he was Vice President of Finance for Apple South, Inc., an operator of casual dining restaurants.
Cathy D. Hampton	39	Ms. Hampton has agreed to join the management team effective April 16, 2007, as Vice President, General Counsel and Secretary. From August 2001 until March of 2007, Ms. Hampton served in increasing levels of responsibility at EarthLink, Inc., including Vice President and Assistant General Counsel and General Counsel and Secretary of Earthlink's PeoplePC subsidiary. Prior to her tenure at EarthLink, Ms. Hampton held corporate counsel positions at Turner Broadcasting System, Inc. and the National Basketball Association. Ms. Hampton began practicing corporate law at the New York law firm of Shearman & Sterling LLP in 1993.

**BENEFICIAL OWNERS OF MORE THAN FIVE PERCENT OF THE COMPANY'S COMMON STOCK;
SHARES HELD BY DIRECTORS AND EXECUTIVE OFFICERS**

Based solely on information made available to the Company, the following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock as of March 16, 2007 by (i) each person who is known by the Company to beneficially own more than 5% of the outstanding shares of Common Stock of the Company, (ii) each director and nominee for director of the Company, (iii) the Named Executive Officers of the Company (as defined under "Executive Compensation" below) other than Ms. Johnson who resigned from the Company effective in January 2007, and (iv) all of the Company's executive officers and directors as a group.

Names(1)	Shares Beneficially Owned	
	Shares	Percent
Philip J. Hickey, Jr.	820,701(2)	2.6%
Eugene I. Lee, Jr.	480,682(3)	1.6%
W. Douglas Benn	355,262(4)	1.1%
Ronald W. San Martin	261,827(5)	*
M. John Martin	69,831(6)	*
Don L. Chapman	56,946(7)	*
Lewis H. Jordan	46,125(8)	*
Carolyn H. Byrd	33,937(9)	*
Dick R. Holbrook	31,800(10)	*
James D. Dixon	16,875(11)	*
Roger L. Boeve	16,875(12)	*

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Wellington Management Company, LLP	4,169,109(13)	13.6%
T. Rowe Price Associates, Inc.	4,008,850(14)	13.1%
Fidelity Management and Research Company	1,874,637(15)	6.1%
All executive officers and directors as a group (fourteen persons)	2,495,908(16)	7.7%

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* Less than one percent.

- (1) The named shareholders have sole voting and investment power with respect to all shares shown as being beneficially owned by them, except as otherwise indicated. Shares underlying stock options that are exercisable within 60 days are deemed to be outstanding for the purpose of computing the outstanding shares owned by the particular person and by the group, but are not deemed outstanding for any other purpose.
- (2) Includes 15,750 shares held in an irrevocable trust for Mr. Hickey, Jr.'s daughter, 15,750 shares held in an irrevocable trust for Mr. Hickey, Jr.'s son, and 674,216 shares that are subject to stock options exercisable within 60 days.
- (3) Includes 414,182 shares that are subject to stock options exercisable within 60 days.
- (4) Includes 1,500 shares held as custodian for Mr. Benn's children and 312,740 shares that are subject to stock options exercisable within 60 days.
- (5) Includes 73,375 shares that are subject to stock options exercisable within 60 days, 32,000 shares pledged to secure a loan to Mr. San Martin over which he has sole voting and shared investment power and 156,302 shares held by the Ronald W. San Martin Living Trust. Mr. San Martin is the sole trustee of such trust and has sole voting and investment power over all 156,302 shares held by the trust.
- (6) Includes 58,466 shares that are subject to stock options exercisable within 60 days.
- (7) Includes 39,375 shares that are subject to stock options exercisable within 60 days.
- (8) Includes 28,125 shares that are subject to stock options exercisable within 60 days.
- (9) Includes 30,937 shares that are subject to stock options exercisable within 60 days.
- (10) Includes 28,125 shares that are subject to stock options exercisable within 60 days.
- (11) Includes 15,875 shares that are subject to stock options exercisable within 60 days.
- (12) Includes 11,250 shares that are subject to stock options exercisable within 60 days.
- (13) Based on a Schedule 13G/A filed with the SEC on February 14, 2007 by Wellington Management Company, LLP. The address of Wellington Management Company, LLP is 75 State Street, Boston, Massachusetts 02109.
- (14) Based on a Schedule 13G/A filed with the SEC on February 14, 2007 by T. Rowe Price Associates, Inc. (Price Associates). The address of Price Associates is 100 East Pratt Street, Baltimore, Maryland 21202. These securities are owned by various individual and institutional investors, which Price Associates serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
- (15) Based on a Schedule 13G filed with the SEC on February 14, 2007 by Fidelity Management and Research Company. The address of Fidelity Management and Research Company is 82 Devonshire Street, Boston,

Massachusetts 02109.

(16) Includes 1,963,518 shares that are subject to stock options exercisable within 60 days.

COMPENSATION DISCUSSION AND ANALYSIS

Our executive compensation program is administered by the Compensation Committee, which is composed solely of non-employee directors. The following discussion describes (i) the objectives of our executive compensation program, (ii) the elements of compensation provided to our executive officers and (iii) the factors considered in determining the levels, elements and mix of compensation provided to our executive officers. Specifically, this discussion will focus on the compensation awarded to, earned by, and paid to the following individuals, whom we refer to as our Named Executive Officers:

Philip J. Hickey, Jr., our Chief Executive Officer,