LONE STAR STEAKHOUSE & SALOON INC
Form 10-K
March 26, 2001

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

FORM 10-K

/ X / ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 26,2000

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ______ to ______

Commission file number 0-19907

LONE STAR STEAKHOUSE & SALOON, INC.
(Exact name of Registrant as specified in its charter)

Delaware	48-1109495
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

224 East Douglas, Suite 700
Wichita, Kansas 67202
(Address of principal executive offices) (Zip code)

(316) 264-8899
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes /X/ No / /

As of March 19, 2001, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was $203,356,230. Solely for the purpose of this calculation, shares held by directors and officers of the Registrant have been

excluded. Such exclusion should not be deemed a determination by or an admission by the Registrant that such individuals are, in fact, affiliates of the Registrant.

As of March 19, 2001, there were 24,031,614 shares outstanding of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III will be incorporated by reference to certain portions of a definitive proxy statement, which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

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PART I

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act, which are intended to be covered by the safe harbors created thereby. Stockholders are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, changes in costs of food, the impact of specific events such as the outbreak of "mad cow disease" or "foot/mouth disease", retail merchandise, labor, and employee benefits, our ability to continue to acquire and retain prime locations at acceptable lease or purchase terms, as well as general market conditions, competition, and pricing. Although we believe that the assumptions underlying the forward-looking statements included in this Annual Report will prove to be accurate, in light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Our forward-looking statements may be identified by words such as "believes," "expects," "anticipates," intends," "estimates" or similar expressions.

Item 1. Business

Background

As of March 19, 2001, Lone Star Steakhouse & Saloon, Inc. (the "Company") owned and operated 243 mid-priced, full service, casual dining restaurants located in the United States, which operate under the trade name Lone Star Steakhouse & Saloon ("Lone Star" or " Lone Star Steakhouse & Saloon"), and 20 upscale steakhouse restaurants, five operating as Del Frisco's Double Eagle Steak House ("Del Frisco's") restaurants and 15 operating as Sullivan's Steakhouse ("Sullivan's") restaurants. In addition, a licensee operates three Lone Star restaurants in California and a licensee operates a Del Frisco's restaurant in Orlando.

Internationally, the Company operates 26 Lone Star Steakhouse & Saloon restaurants in Australia. In addition, licensees operate a Lone Star Steakhouse & Saloon restaurant in Guam and a Lone Star theme restaurant under the trade name Texas Star Steakhouse & Saloon in Canada. The Company does not own exclusive rights to the Lone Star name in Canada.

Steak continues to be one of the most frequently ordered dinner entrees at restaurants. In 2000, the United States Department of Agriculture estimated the average annual per capita consumption of beef to be 69.6 pounds, up slightly from 1999. Company management believes the limited menu of its restaurants, which concentrates primarily on high quality USDA choice-graded steaks, and the appeal of its "Texas Roadhouse" ambiance, distinguishes the Lone Star restaurants and provides the Company with a competitive advantage. Company management believes its emphasis on attentive service and consistent, high quality food products distinguishes its upscale concepts and provides them with a competitive advantage.

The Company's focus on selection, training and in-store execution along with Lone Star's continued marketing initiatives, the successful creation of the Sullivan's upscale concept and the development of the Del Frisco's concept, differentiate the Company from other restaurant companies that operate steakhouse restaurants. The Company believes that through its operation of three (3) distinct steak restaurant concepts, it has positioned itself as "The Steak Company".

Restaurant Concepts

Lone Star restaurants are positioned as "destination restaurants" that attract loyal clientele. The Lone Star restaurants embrace a Texas-style concept that features Texas artifacts and country and western music. The authentic "Texas Roadhouse" concept was developed to capitalize on the enduring popularity of Texas

related themes. Lone Star is further distinguished by its high quality, USDA choice-graded steaks which are hand-cut fresh daily at each restaurant and mesquite grilled to order. Meals are generous "Texas-sized" portions and full bar service is available. The exciting and vibrant atmosphere created by the restaurants' "Texas Roadhouse" ambiance includes neon beer signs and specially selected upbeat country and western music. The decor includes planked wooden floors, dim lighting, flags and other Texas memorabilia, all of which enhance the casual dining experience and establish a distinct identity. Lone Star restaurants are open seven days a week and most serve both lunch and dinner with an average check per customer for 2000 of approximately $12.50 at lunch and $17.00 at dinner.

Del Frisco's Double Eagle Steak House is designed to serve a sophisticated clientele, including business related dining occasions, and is the recipient of the prestigious Ivy Award and has been elected to the fine dining hall of fame. The Del Frisco's concept embraces an elegant and timeless early twentieth century motif. The concept features old ways of cooking, such as master broiling and roasting. Del Frisco's decor and ambiance include dark woods, fabric walls, fireplaces, separate dining rooms and soft background music. These elements enhance the dining experience and establish a distinct identity for Del Frisco's. Del Frisco's is further distinguished by its high quality, USDA prime-graded steaks hand cut in each restaurant. Del Frisco's restaurants serve dinner only, except for the New York City restaurant which is also open for lunch, and are generally open Monday through Saturday with an average guest check of approximately $80.00.

Sullivan's Steakhouse was named after the legendary boxer, John L. Sullivan, and embraces a Chicago style 1940's steakhouse theme with nostalgic influences that feature jazz and swing music. In 1997, Sullivan's was named the hot concept of the year by Nation's Restaurant News. The bar features live jazz music several nights a week. The decor includes an open kitchen, separate dining rooms, dark wood paneling, carpeted floors, warm lighting, and white tablecloths. Sullivan's is distinguished by its high quality, well-aged, mid-west grain fed steaks, chops, and seafood. Most Sullivan's restaurants serve dinner only, and are generally open Monday through Sunday with an average guest check of approximately $57.00.

Corporate Strategy

During 2000, the Company opened one Lone Star restaurant, one Sullivan's restaurant and two Del Frisco's restaurants. In addition, the Company's licensee in Canada opened one restaurant.

During 2000, the Company closed (i) 14 restaurants in Australia, (ii) 24 domestic Lone Star restaurants and (iii) one Mexican food restaurant. The Company periodically assesses the performance and potential of each of its restaurants and selectively closes those which future performance is deemed marginal.

As of March 19, 2001, the Company had eight Lone Star restaurants where construction is substantially completed, but will not open for business until these restaurants can be adequately staffed with personnel who meet the Company's required standards. The Company expects to open all of these restaurants in 2001.

In 1998, the Company suspended the aggressive growth of the Lone Star concept to focus on implementing certain improvement initiatives in existing restaurants. These improvements include (a) improving operational consistency and guest satisfaction at existing Lone Star restaurants; (b) improving management and financial systems including installing Point of Sale (P.O.S.) Systems in all units; (c) improving the quality of management at its restaurants and on the regional manager and general manager levels; and (d) testing and implementing selective marketing and advertising programs. A number of these improvements have been successfully implemented and management continues to focus on improving operation efficiencies at its Lone Star restaurants. In fiscal 2001, the Company has no plans to expand its number of Lone Star restaurants other than the opening of the eight completed units.

The Company believes it can continue to distinguish itself in the upscale market by employing many of the strategies that have been successful in the mid-priced steakhouse market. The Company will continue to

actively monitor expansion opportunities for its upscale operations and is currently active in seeking additional sites for future expansion in the upscale markets.

Unit Economics

The Company's management team focuses on selecting locations with the potential of producing significant revenues while controlling capital expenditures and occupancy costs. The Company's Lone Star restaurants averaged approximately $1.85 million in sales on an annualized basis during 2000. Of the 243 Lone Star restaurants open at March 19, 2001, 89 were leased facilities and had an average cash investment of approximately $1.0 million and 154 were owned and had an average cost for land acquisition, construction and equipment of approximately $1.9 million.

The Company anticipates the average total investment per restaurant for a typical Del Frisco's restaurant and Sullivan's restaurant will range from $3.0 million to $5.0 million. The Del Frisco's, which opened in New York City on March 7, 2000, cost approximately $13 million to complete.

Menu

The dinner menu at a Lone Star restaurant features a limited selection of high quality, specially seasoned and mesquite grilled steaks, prime rib, ribs, chicken, fish, shrimp and various combinations. Most dinners offer a complete meal including salad, bread and butter and a choice of baked potato, baked sweet potato, steak fries or Texas rice. The lunch menu offers a selection of hamburgers, chicken sandwiches, luncheon steaks, ribs, soups and salads. Depending on local availability and quality, a fresh fish selection is also offered at lunch and dinner. The lunch and dinner menus also include appetizers and desserts, together with a full bar service. Alcoholic beverage service accounts for approximately 10% of the restaurant's net sales.

The menu at Sullivan's features high quality, well-aged, mid-west grain fed steaks, chops, seafood and quality side dishes. Sullivan's also features a number of high quality wines and full bar. Alcoholic beverage service accounts for approximately 40% of the restaurants' sales.

The menu at Del Frisco's features high quality USDA prime-graded steaks, chops, seafood, and quality side dishes. Del Frisco's wine list offers over 300 high quality wines and a full bar. Alcoholic beverage service accounts for approximately 38% of the restaurants' sales.

Site Selection

The Company believes site selection is critical for the potential success of a particular restaurant and senior management devotes significant time and resources to analyzing each prospective site. Among the factors considered in site selection are the specific steakhouse concept to be developed, local market demographics, and site visibility. Consideration is given to accessibility and proximity to significant generators of potential customers such as major retailers, retail centers and office complexes, office and hotel concentrations, and entertainment centers (stadiums, arenas, theaters, etc.). The Company also reviews potential competition and attempts to analyze the profitability of other national chain restaurants operating in the area.

Leases are negotiated generally with initial terms of three to five years, with multiple renewal options. The Company has generally required between 150 and 280 days after the signing of a lease or the closing of a purchase to complete construction and open a new restaurant. Additional time is sometimes required to obtain certain government approvals and licenses, such as liquor licenses.

Restaurant Layout

The Company believes the decor and interior design of its restaurants significantly contribute to its success. The Lone Star Steakhouse & Saloon restaurants' open layout permits dining customers to view the

bar and Texas memorabilia and enhance the casual dining atmosphere. The Company also designs its kitchen space for efficiency of workflow, thereby minimizing the amount of space required.

Lone Star restaurants currently average approximately 5,800 square feet and include a dining area with seating for approximately 220 customers. In addition, a bar area is located adjacent to the dining room primarily to accommodate customers waiting for dining tables or to accommodate overflow. In some restaurants, an outside patio area provides additional seating. The Company anticipates future Lone Star restaurants will average approximately 5,500 square feet with less in small town markets.

The original Del Frisco's restaurant in Dallas, Texas is approximately 10,000 square feet and seats approximately 350 persons and includes an extended wine cellar and a cigar lounge with private dining available in the wine cellar. In addition, Del Frisco's features a bar area adjacent to the dining room primarily to accommodate customers waiting for tables. The Ft. Worth, Texas and Denver, Colorado Del Frisco's restaurants are approximately 8,000 and 12,000 square feet and seat approximately 300 and 360 persons, respectively. The New York City location is approximately 16,500 square feet and the Las Vegas location is approximately 11,000 square feet. Future Del Frisco's restaurants are planned to be approximately 7,000-8,000 square feet and will include a dining area for approximately 175-200 customers.

The first Sullivan's restaurant, in Austin, Texas has been expanded to 12,000 square feet and can now seat 320 customers. A separate jazz bar area called "Ringside" is utilized at the Baton Rouge, Louisiana, Dallas and Houston, Texas Sullivan's restaurants. The Sullivan's bar area is separate from the dining room and is designed to be a destination unto itself, featuring live jazz music six nights a week and an upbeat, convivial atmosphere. Future Sullivan's restaurants are planned to be approximately 8,000-9,000 square feet and will include a dining area for approximately 175-200 customers.

Marketing

Lone Star Steakhouse & Saloon restaurants are "destination location restaurants" that focus on the mid-priced full service casual dining market segments. The Company has relied principally on its commitment to customer service, an excellent price-value relationship and the unique "Texas Roadhouse" ambiance of its restaurants to attract and retain customers. Accordingly, the Company has focused its resources on providing its customers with superior service, value and an exciting and vibrant atmosphere, and has relied primarily on word of mouth to attract new customers. The Company also utilizes radio and billboard advertising to promote its restaurants and build customer awareness. The Company also employs some print and direct mail advertising, and conducts some local restaurant promotions. To create additional Lone Star name recognition and customer identification, the Company sells T-shirts and other items bearing the Lone Star name and logo. In 2000, the Company spent approximately $9,000,000 for radio and television advertising campaigns in the domestic Lone Star markets. The Company plans to continue its use of radio and television advertising in those markets where it is cost effective.

Sullivan's and Del Frisco's both utilize print and radio along with charitable event promotions throughout the year.

Restaurant Operations and Management

The Company strives to maintain quality and consistency in its restaurants through careful hiring, training and supervision of personnel and the establishment of standards relating to food and beverage preparation, maintenance of facilities and conduct of personnel.

The typical Lone Star management team consists of one general manager and four managers. Each restaurant also employs a staff consisting of approximately 50 to 90 hourly employees, many of whom work part-time. Typically, each general manager reports directly to a district manager who reports to a regional manager. Restaurant managers complete an eight-week training program during which they are instructed in all areas of the operation including food quality and preparation, customer satisfaction, alcoholic beverage

service, governmental regulations compliance, liquor liability avoidance and employee relations. Restaurant management is also provided with a proprietary operations manual relating to food and beverage preparation, all areas of restaurant management and compliance with governmental regulations. Working in concert with restaurant managers, the Company's senior management defines operations and performance objectives for each restaurant and monitors implementation. An incentive cash bonus program has been established in which each restaurant's management team participates. Awards under the incentive plan are tied to achievement of specified operating targets. Senior management regularly visits Company restaurants and meets with the respective management teams to ensure the Company's strategies and standards of quality are met in all respects of restaurant operations and personnel development.

The Company's commitment to customer service and satisfaction is evidenced by several practices and policies, including periodic visits by restaurant management to customers' tables, active involvement of restaurant management in responding to customer comments, and assigning wait persons to a limited number of tables, generally three for dinner and four for lunch. Teamwork is emphasized through a runner system for delivering food to the tables that is designed to serve customers in an efficient and timely manner.

Each new restaurant employee of the Company participates in a training program during which the employee works under the close supervision of a restaurant manager. Management strives to instill enthusiasm and dedication in its employees and create a stimulating and rewarding working environment where employees know what is expected of them in measurable terms. Management continuously solicits employee feedback concerning restaurant operations and strives to be responsive to employee concerns.

Purchasing

Approximately 60% of the consumable products used in the restaurants are distributed through and delivered by a single vendor. The Company negotiates directly with suppliers for food and beverage products to ensure consistent quality and freshness of products and to obtain competitive prices. The Company purchases substantially all food and beverage products from local or national suppliers. Food and supplies are shipped directly to the restaurants, although invoices for purchases are sent to the Company for payment. The Company does not maintain a central product warehouse or commissary. The Company has not experienced any significant delays in receiving restaurant supplies and equipment. From time to time, the Company engages in forward pricing and may consider other risk management strategies with regard to its meat and other food costs in order to minimize the impact of potential fluctuations in prices. This practice could help stabilize the Company's food costs during times of fluctuating prices. As of March 19, 2001, the Company has no significant forward pricing contracts.

Management Information Systems

The Company continually monitors its management information system to take advantage of technological improvements. The P.O.S. system is designed to, improve labor scheduling and food cost management, provide corporate management quicker access to financial data and reduce the restaurant manager's administrative time. Each general manager uses the system for production planning, labor scheduling and food cost variance analysis. The system generates daily reports for the Company's management on sales, bank deposit and variance data.

The Company maintains financial and accounting controls for each of its restaurants through the use of centralized accounting and management information systems. Sales information is collected daily from each restaurant, and restaurant managers are provided with daily, weekly and twenty-eight day period operating statements for their locations. Cash is controlled through daily deposits of sales proceeds in local operating accounts which are wire transferred periodically to the Company's principal operating account.

The Company generates weekly, consolidated sales reports and food and labor cost variance reports at its corporate headquarters, and detailed profit and loss statements for each restaurant every four weeks.

Additionally, the Company monitors the average check, customer count, product mix and other sales trends on a daily basis.

The Company expects to continue to develop its management information systems to improve efficiencies and assist management in analyzing business results and opportunities.

Competition

The restaurant industry is intensely competitive with respect to price, service, location and food quality, and there are many well-established competitors with substantially greater financial and other resources than the Company. Some of the Company's competitors have been in existence for a substantially longer period than the Company and may be better established in the markets where the Company's restaurants are or may be located. The restaurant business is often affected by changes in consumer tastes, national, regional or local economic conditions, demographic trends, traffic patterns and the type, number and location of competing restaurants. In addition, factors such as inflation, increased food, labor and benefits costs and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and the Company's restaurants in particular. The Company believes that its concepts, attractive price-value relationship and quality of food and service enable it to differentiate itself from its competitors. The Company believes that its ability to compete will depend upon attracting and retaining high quality employees and continuing to offer high quality, competitively priced food in a full service, distinctive dining environment.

Government Regulation

The Company's restaurants are subject to numerous federal, state and local laws affecting health, sanitation, safety and ADA accessibility standards, as well as to state and local licensing regulation of the sale of alcoholic beverages. Each restaurant has appropriate licenses from regulatory authorities allowing it to sell liquor, beer and wine, and has food service licenses from local health authorities. The Company's licenses to sell alcoholic beverages must be renewed annually and may be suspended or revoked at any time for cause, including violation by the Company or its employees of any law or regulation pertaining to alcoholic beverage control, such as those regulating the minimum age of patrons or employees, advertising, wholesale purchasing, and inventory control. The failure of a restaurant to obtain or retain liquor or food service licenses could have a material adverse effect on its operations. In order to reduce this risk, each restaurant is operated in accordance with standardized procedures designed to ensure compliance with all applicable codes and regulations.

The Company may be subject in certain states to "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. The Company carries liquor liability coverage as part of its existing comprehensive general liability insurance.

Any future development and construction of additional restaurants will be subject to compliance with applicable zoning, land use and environmental regulations. The Company's restaurant operations are also subject to federal and state minimum wage laws governing such matters as working conditions, overtime and tip credits and other employee matters. Significant numbers of the Company's food service and preparation personnel are paid at rates related to the federal minimum wage and, accordingly, further increases in the minimum wage could increase the Company's labor costs.

Trademarks

The Company regards its primary marks, Lone Star Steakhouse & Saloon(R), Lone Star Cafe(R), Del Frisco's(R) Double Eagle Steak House(R), and Sullivan's Steakhouse(R) as having significant value and as being an important factor in the marketing of its restaurants. The Company is aware of names and marks similar to the service marks of the Company used by other persons in certain geographic areas. However, the Company believes such uses will not have a material adverse effect on the Company's financial condition or its results of operation. The Company's policy is to pursue registration of its marks whenever possible and to oppose vigorously any infringement of its marks the Company has obtained registration of its marks in numerous foreign countries.

Employees

As of March 19, 2001, the Company employed approximately 18,200 persons, 9 of whom are executive officers, 87 of whom are office support personnel, 8 of whom are regional managers, 28 of whom are district managers, approximately 1,120, of whom are restaurant management personnel and the remainder of whom are hourly restaurant personnel. None of the Company's employees are currently covered by a collective bargaining agreement. The Company considers its employee relations to be good.

Item 2. Properties.

As of March 19, 2001, the Company leased 89 and owned 154 of its Lone Star restaurant locations. At such date, the Company leased three and owned two Del Frisco's restaurants locations. Of the 15 Sullivan's restaurants 13 are leased, and two are owned. Lease terms are generally five years, with multiple renewal options. All of the Company's leases provide for a minimum annual rent and some provide for additional rent based on sales volume at the particular location over specified minimum levels. Generally, the leases are triple net leases, which require the Company to pay the costs of insurance, taxes and maintenance. The Company intends to continue to purchase restaurant locations where cost-effective.

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RESTAURANT LOCATIONS AS OF MARCH 19, 2001

The following table sets forth the location of the Company's existing, open domestic Lone Star Steakhouse & Saloon (243) Restaurants, Del Frisco's (5) restaurants, and Sullivan's (15) restaurants

LONE STAR	Carbondale	MASSACHUSETTS	Durham	SOUTH DAKOTA
	Champaign	Boston	Fayetteville	Sioux Falls
ALABAMA	Chicago (10)		Greensboro (2)	
Anniston	Decatur	MICHIGAN	Greenville	
Birmingham (2)	Hodgkins	Ann Arbor	Jacksonville	TENNESSEE
Huntsville	Mt. Vernon	Battle Creek	Raleigh (3)	Jackson
Mobile	Peoria	Bay City	Rocky Mount	Johnson City
Montgomery	Rockford	Brighton	Salisbury	Memphis (2)
Trussville	Springfield	Dearborn Heights	Southern Pines	

Tuscaloosa

ALASKA
Anchorage

ARIZONA
Mesa
Phoenix (4)

ARKANSAS
Ft. Smith
Little Rock
Springdale

COLORADO
Colorado Springs
Denver (6)
Ft. Collins
Loveland

DELAWARE
Dover
Wilmington (2)

FLORIDA
Bradenton
Clearwater
Ft. Lauderdale
Ft. Myers
Gainesville
Lakeland
Ocala
Orlando
Pensacola
Port Richey
Sarasota
St. Petersburg
Tampa

GEORGIA
Atlanta
Augusta

IDAHO
Boise

ILLINOIS
Bloomington
Bradley

INDIANA
Anderson
Evansville
Ft. Wayne
Indianapolis (4)
Lafayette
Merrillville
South Bend
Terre Haute

IOWA
Cedar Rapids
Coralville
Davenport
Des Moines
Waterloo

KANSAS
Garden City
Hutchinson
Overland Park

KENTUCKY
Bowling Green
Florence
Lexington
Louisville

LOUISIANA
Baton Rouge (2)
Houma
Lafayette
Monroe
New Orleans (3)

MAINE
South Portland

MARYLAND
Bel Air
Columbia
Frederick
Gaithersburg
Laurel
Lexington Park
Waldorf
Westminster

Detroit (6)
Grand Rapids
Jackson
Saginaw

MISSISSIPPI
Hattiesburg
Jackson

MISSOURI
Branson
Independence
Kansas City
Springfield
St. Louis (5)

NEBRASKA
Lincoln
Omaha (2)

NEVADA
Las Vegas (4)

NEW JERSEY
Atlantic City
Bridgewater
Cherry Hill
Delran
Hanover Township
Hazlet
Marlton
Ocean County
Scotch Plains
Turnersville
Voorhees
Wayne

NEW MEXICO
Albuquerque

NEW YORK
Albany

NORTH CAROLINA
Asheville
Boone
Charlotte (4)

Winston-Salem

NORTH DAKOTA
Fargo

OHIO
Akron
Canton
Cincinnati (2)
Cleveland (3)
Columbus (4)
Dayton (2)
Lancaster
Middletown
Niles
Springfield
Toledo (2)
Youngstown

OKLAHOMA
Lawton
Oklahoma City
Tulsa (2)

PENNSYLVANIA
Allentown
Easton
Harrisburg
Johnstown
King of Prussia
Lancaster
Middletown
Philadelphia
Pittsburgh (5)
Pottstown
Reading
Scranton
Wilkes-Barre
York

RHODE ISLAND
Warwick

SOUTH CAROLINA
Greenville
Myrtle Beach (2)

UTAH
Centerville
Layton
Salt Lake Ci

VIRGINIA
Alexandria
Centreville
Chesapeake
Fairfax
Fredericksbu
Herndon
Norfolk
Potomac Mill
Richmond (3)
Sterling
Virginia Bea

WEST VIRGINI
Beckley
Charleston
Huntington

WISCONSIN
Racine

SULLIVAN'S
Anchorage, A
Austin, TX
Baton Rouge,
Charlotte,
Chicago, IL
Dallas, TX
Denver, CO
Houston, TX
Indianapolis
King of Prus
Naperville,
Palm Desert,
Raleigh, NC
Tucson, AZ
Wilmington,

DEL FRISCO'S
Denver, CO
Dallas, TX
Fort Worth,
Las Vegas, N
New York, NY

Item 3. Legal Proceedings

The Company is involved from time to time in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on the financial condition or results of operations of the Company.

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

No matters were submitted to a vote of the holders of the Company's Common Stock during the fourth quarter of the Company's fiscal year ended December 26, 2000.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Market Information

The Company's Common Stock (ticker symbol: STAR) is traded over-the-counter on the Nasdaq National Market (Nasdaq). The following table sets forth, for the periods indicated, the high and low sale prices for the Common Stock, as reported by Nasdaq.

	Bid Prices	
Calendar 2000	High	Low
First Quarter	9 7/16	7 27/32
Second Quarter	12 3/4	8 3/4
Third Quarter	11 9/16	7 29/32
Fourth Quarter	8 15/16	6 11/16

	Bid Prices	
Calendar 1999	High	Low
First Quarter	11 1/4	6 5/8
Second Quarter	12 3/8	9 7/16
Third Quarter	10 7/16	7 1/4
Fourth Quarter	10 1/8	7

Dividends

The Company initiated the payment of quarterly cash dividends in April 2000 and has paid cash dividends at the rate of $0.125 per share each quarter thereafter. The Company plans to continue the quarterly dividend payments for the foreseeable future.

Number of Stockholders

As of March 19, 2001, there were approximately 450 holders of record of the Company's Common Stock. The Company believes there are in excess of 15,000 beneficial owners of the Company's Common Stock.

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data and is qualified by reference to and should be read in conjunction with the consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K. The selected consolidated financial data of the Company as of December 26, 2000, December 28, 1999, December 29, 1998, December 30, 1997, and December 31, 1996, and for each of the five years in the period ended December 26, 2000, were derived from the Company's audited consolidated financial statements. The pro forma data set forth below for the periods presented are unaudited and have been prepared by management solely to facilitate period-to-period comparison and do not represent the actual results of operations for the periods presented. The pro forma amounts reflect the adjustment amounts applicable for the fiscal years 1996 and 1997 to give retroactive effect to the change in accounting for pre-opening costs adopted in fiscal 1998 (see Note 4 to the Company's Consolidated Financial Statements).

The following table should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K.

	Year Ended In December,(1) (Amounts in thousands, except			
	2000	1999	1998	
Income Statement Data:				
Net sales	$ 575,863	$ 585,755	$616,692	$5
Costs and expenses:				
Costs of sales	202,343	207,696	231,787	2
Restaurant operating expenses	276,974	263,940	270,495	2
Restaurant depreciation and amortization	28,574	30,970	26,346	
General and administrative expenses	42,472	38,057	32,070	
Provision for impaired assets and restaurant closings	4,310	38,931	4,646	
Loss on divestiture of foreign operations	--	--	--	
Total costs and expenses	554,673	579,594	565,344	4

Income from operations	21,190	6,161	51,348	1
Other income, net	2,530	2,190	2,906	
Income before provision for income taxes and minority interest	23,720	8,351	54,254	1
Provision for income taxes	(7,590)	(2,950)	(21,843)	(
Minority interest	--	--	--	
Income before cumulative effect of change in accounting principle	16,130	5,401	32,411	
Cumulative effect of change in accounting principle (net of income tax of $2,921)	--	--	(6,904)	
Net income	$ 16,130	$ 5,401	$ 25,507	$
Basic earnings per share:				
Income before cumulative effect of change in accounting principle	$ .62	$ .15	$ .81	$
Cumulative effect of change in accounting principle	--	--	(.17)	
Basic earnings per share	$ .62	$ .15	$ .64	$
Weighted average shares outstanding	26,189,600	35,089,084	39,989,091	41,0
Pro forma net income (2)				$
Pro forma basic earnings per share				$

At fiscal year end in December, (1)

(Dollars in thousands)

2000	1999	1998	1997	1996

Balance Sheet Data:

Working capital (deficit)	$ (1,716)	$ 20,215	$ 67,593	$ 117,127	$ 126,244
Total assets	488,923	533,533	608,583	620,812	542,152
Long-term debt, including current portion	--	--	--	--	387
Stockholders' equity	437,783	484,379	553,441	566,148	495,239

(1) The Company operates on a 52 or 53-week fiscal year ending the last Tuesday in December. The fiscal quarters for the Company consist of accounting periods of 12, 12, 12, and 16 or 17 weeks, respectively. The Company's 1996, 1997, 1998, 1999, and 2000 fiscal years ended on December 31, 30, 29, 28, and 26 respectively. 1996 included 53-weeks of operations, and all other fiscal years were 52-week fiscal years.

(2) Pro forma net income amounts reflect the adjustments for fiscal years 1996 and 1997 to give retroactive effect to the change in accounting for pre-opening costs adopted in fiscal 1998 (see Note 4 to the Company's consolidated financial statements).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis should be read in conjunction with the information set forth under "Selected Financial Data" and the Consolidated Financial Statements including the notes thereto included elsewhere in this Form 10-K.

In May 1998, the Company temporarily suspended development of new Lone Star restaurants other than properties which had been committed for or were under construction. During 1998, the Company completed the remodel/construction of twelve of these restaurants. The Company opened one restaurant in 1999, one in 2000 and two to date in fiscal 2001. The Company intends to open the remaining eight restaurants during fiscal 2001.

In addition, the Company has seven sites available for future development, five of which are owned and two of which are under lease. There were 243 operating domestic Lone Star restaurants as of March 19, 2001. In addition, licensees operate three Lone Star restaurants in California, one in Guam, and one in Canada.

The Company currently operates five Del Frisco's, including the New York City and Las Vegas, Nevada restaurants which opened in 2000. A licensee operates a Del Frisco's in Orlando, Florida.

The Company currently operates fifteen Sullivan's restaurants, including the Sullivan's restaurant opened in Tucson, Arizona in November 2000.

Internationally, as of March 19, 2001, the Company currently operates 26 Lone Star Steakhouse & Saloon restaurants in Australia. The Company closed nine restaurants in Australia during 2000 and an additional five restaurants in January 2001.

Results of Operations

The following table sets forth for the periods indicated (i) the percentages which certain items included in the Consolidated Statements of Income bear to net sales, and (ii) other selected operating data.

	December 26, 2000
	(Dol
Income Statement Data:	
Net sales	100%
Costs and expenses:	
Costs of sales	35.1
Restaurant operating expenses	48.1
Provision for impaired assets and restaurant closings	.7
Depreciation and amortization	5.0
Restaurant costs and expenses	88.9
Restaurant operating income	11.1
General and administrative expenses	7.4
Income from operations	3.7
Other income	.4
Income before income taxes and cumulative effect of change in accounting principle	4.1
Provision for income taxes	1.3
Income before cumulative effect of change in accounting principle	2.8
Cumulative effect of change in accounting principle	-
Net income	2.8%
Restaurant Operating Data:	
Average sales per restaurant on an annualized basis (1)	$1,938
Number of restaurants at end of period(2)	287
Number of full restaurant periods open during the period (3)	3,863

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(1) Average sales per restaurant on an annualized basis are computed by dividing a restaurant's total sales for full accounting periods by the number of full accounting periods open in the reporting period, and annualizing the result.

(2) Restaurants open at end of period after giving effect to five Australian restaurants closed in January 2001.

(3) Full restaurant periods are four-week accounting periods within the fiscal year (excluding the first partial accounting period of operations) that a restaurant is open.

LONE STAR STEAKHOUSE & SALOON, INC.

Year ended December 26, 2000 compared to Year ended December 28, 1999
(Dollar amounts in thousands)

Net sales decreased $9,892 (1.7%) to $575,863 for the year ended December 26, 2000 ("fiscal 2000"), compared to $585,755 for the year ended December 28, 1999 ("fiscal 1999"). The decrease was principally attributable to closing 24 domestic Lone Star restaurants in January 2000, and nine Lone Star restaurants in Australia in August 2000 partially offset by additional sales of $10,800 from one domestic Lone Star restaurant, one Sullivan's restaurant and two Del Frisco's restaurants opened in fiscal 2000. Same store sales decreased 0.1% from fiscal 1999.

Costs of sales, primarily food and beverages, decreased as a percentage of net sales to 35.1% from 35.5% due primarily to improved procedures in controlled food and beverage costs.

Restaurant operating expenses for fiscal 2000 increased $13,034 from $263,940 in fiscal 1999 to $276,974, and increased as a percentage of net sales from 45.1% to 48.1%. The increase in restaurant operating expenses is primarily attributable to an $8,072 increase in media advertising. In addition, increased costs were incurred for restaurant labor, building maintenance and pre-opening expenses.

Depreciation and amortization decreased $2,396 in fiscal 2000, compared to fiscal 1999. The decrease is primarily attributable to restaurants closed during fiscal 2000.

Provisions for impaired assets and restaurant closings in fiscal 2000 were $4,310 compared to $38,931 in fiscal 1999. The provision in fiscal 2000 reflects a pre-tax charge of $3,000 for the write down of certain under-performing Australian restaurants and $1,310 related to costs of closing 14 Australian restaurants. The pre-tax charges for fiscal 1999 include $35,797 for the write down of both domestic and Australian impaired assets and $3,134 related to costs of closing 25 domestic restaurants. The Company periodically reviews its long-lived assets for indications of impairment.

General and administrative expenses increased $4,415 in fiscal 2000 compared to fiscal 1999. This increase was primarily attributable to (1) salaries and wage-related expenses reflecting the costs associated with the new positions added to strengthen the Company's corporate infrastructure, general salary increases and costs related to employee retirement benefit plans, (2) costs for software amortization and (3) travel and recruiting expenses.

Other income, net for fiscal 2000 was $2,530, compared to $2,190 in fiscal 1999. The increase is attributable to gains on the sale of assets of $1,305 offset in part by an increase in interest expense and a decrease in interest income.

The effective income tax rate for fiscal 2000 was 32.0% compared to 35.3% in fiscal 1999. The difference in the effective tax rate is primarily attributable to a mix of foreign and domestic income and the impact of FICA tip credits on the relative pre-tax income for the two years.

LONE STAR STEAKHOUSE & SALOON, INC.

Year ended December 28, 1999 compared to Year ended December 29, 1998
(Dollar amounts in thousands)

Net sales decreased $30,937 to $585,755 for fiscal 1999 compared to $616,692 for the fiscal year ended December 29, 1998 ("fiscal 1998"). The decrease is principally attributable to a decline in average sales per restaurant resulting from lower customer counts during fiscal 1999 partially offset by additional sales of $8,038 from one new domestic Lone Star and four Sullivan's restaurants opened in fiscal 1999. Same store sales decreased 7.6% from fiscal 1998.

Costs of sales, primarily food and beverages, decreased as a percentage of net sales to 35.5% from 37.6% due primarily to improved margins as a result of lower promotional discounting of menu prices and lower beef prices. During most of fiscal 1999, the Company purchased beef under contracted prices that provided the Company a favorable pricing advantage compared with cash market pricing.

Restaurant operating expenses for fiscal 1999 decreased $6,555 from $270,495 in fiscal 1998 to $263,940, and increased as a percentage of net sales from 43.9% to 45.1%. The absolute dollar amounts reflect the impact of increased operating costs for the new restaurants opened during fiscal 1998, and increased costs related to manager training expenses and certain insurance costs. The increases were partially offset by decreases in hourly labor costs related to cost control measures taken to improve operating efficiencies at the restaurants and by decreases in costs for operating supplies and building and equipment maintenance expenses. In addition, fiscal 1998 includes costs incurred in connection with a national advertising campaign, which was not renewed during fiscal 1999. The increase as a percentage of sales primarily reflects the fixed cost components of restaurant operating expenses on lower average restaurant sales experienced in fiscal 1999.

Depreciation and amortization increased $4,624 in fiscal 1999 compared to fiscal 1998. The increase is attributable to restaurants open less than a full year in fiscal 1998 and to restaurants opened in fiscal 1999. In addition, fiscal 1999 reflects depreciation related to the installations of new point of sale systems during the year.

Provisions for impaired assets and restaurant closings in fiscal 1999 were $38,931 compared to $4,646 in fiscal 1998. The decision was made in the fourth quarter of fiscal 1999 to close 24 domestic Lone Star restaurants and one domestic Mexican restaurant. The pretax charge includes $35,797 for the write down of both domestic and Australian impaired assets and $3,134 related to costs of closing the 25 domestic restaurants.

General and administrative expenses increased $5,987 in fiscal 1999 compared to fiscal 1998. The increase was primarily attributable to increased (i) travel costs incurred in connection with restaurant operation review programs (ii) recruiting costs related to the recruitment of new managers and (iii) costs related to expenses incurred in connection with the installation of the point-of-sale systems and the new database information systems.

Other income, principally interest, for fiscal 1999 was $2,190 compared to $2,906 in fiscal 1998. The decrease is attributable to reduced funds available for short-term investment purposes.

The effective income tax rate for fiscal 1999 was 35.3% compared to 42.6% in fiscal 1998. The decrease in fiscal 1999 is due in part to a lower valuation allowance attributable to Australian operating losses in fiscal 1999, as well as the impact of FICA tip credits on lower pre-tax earnings. The decrease in the rate was partially offset by the impact of Australian losses resulting in higher effective state income taxes on domestic earnings.

The cumulative effect of change in accounting principle represents the effect of adoption of Statement of Position 98-5, "Reporting on Costs of Start Up Activities". This statement impacted the Company's accounting for pre-opening costs (see Note 4 of Notes to the Consolidated Financial Statements).

Impact of Inflation

The primary inflationary factors affecting the Company's operations include food and labor costs. A large number of the Company's restaurant personnel are paid at Federal and state established minimum wage levels and, accordingly, changes in such wage levels affect the Company's labor costs. As costs of food and labor have increased, the Company has historically been able to offset these increases through economies of scale and improved operating procedures, although there is no assurance that such offsets will continue. To date, inflation has not had a material impact on operating margins.

Liquidity and Capital Resources

The following table presents a summary of the Company's cash flows for the years ended:

	December 26, 2000	December 28, 1999	December 29 1998
Net cash provided by operating activities	$ 49,345	$ 70,886	$ 62,598
Net cash used in investment activities	(12,271)	(33,637)	(73,251)
Net cash used by financing activities	(58,710)	(76,453)	(35,378)
Net effect of exchange rate changes on cash	(8)	30	(119)
Net decrease in cash and cash equivalents	$ (21,644)	$ (39,174)	$ (46,150)

During fiscal 2000, 1999, and 1998, the Company's purchases of property and equipment were $21,665, $34,085, and $63,122, respectively. In fiscal 2000, the Company received proceeds from the sale of assets of $10,213.

The Company has opened 11 restaurants in the past three fiscal years of which two opened during 1998, five in 1999 and four in 2000. The Company does not have significant accounts receivable or inventory.

At December 26, 2000, the Company had $29,029 in cash and cash equivalents. The Company has entered into a $20,000 revolving term loan agreement with a bank. At December 26, 2000, the Company had no outstanding borrowings.

The Company's Board of Directors has authorized the repurchase of shares of the Company's common stock from time to time in the open market or in privately negotiated transactions. During fiscal 2000, the Company purchased 5,605,074 shares at a cost of $49,261. During fiscal 1999 and 1998, the Company purchased 8,758,005 shares at a cost of $76,488, and 2,610,000 shares at a cost of $36,375, respectively.

In the second quarter of fiscal 2000, the Company began paying dividends on its common stock. For the year, the Company paid cash dividends of $9,630, or $0.375 per share.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB No. 25. The Interpretation requires, among other things, that stock options which have been modified after December 15, 1998 to reduce the exercise price must be accounted for as variable. The Company has adopted the accounting change for modified stock options on a prospective basis effective July 1, 2000, as required by the Interpretation. Pursuant to the rules for the initial application of the Interpretation, imputed non-cash compensation expense is to be recognized on a prospective basis to the extent that the market price of the Company's common stock after July 1, 2000 exceeds the common stock price on July 1, 2000, of $10.125. The Company has repriced options during fiscal 1999 and in January 2000, which are subject to the Interpretation. At December 26, 2000, there were approximately 4,731,000 shares subject to the

Interpretation. These options are accounted for as variable from July 1, 2000, until the options are excised, forfeited or expire unexercised. Prior to the adoption of the Interpretation, the Company accounted for these repriced options as fixed. Because the market price of the Company's common stock was lower on December 26, 2000 than on July 1, 2000, the adoption of the Interpretation had no effect upon the Company's net income for year ended December 26, 2000; however, the Company may incur significant volatility in reporting earnings in future periods as fluctuations in market prices of its common stock may greatly impact non-cash expenses on a periodic basis.

On January 3, 2001, the Board of Directors declared the Company's quarterly cash dividend of $0.125 per share, payable January 26, 2001 to stockholders of record on January 12, 2001.

From time to time, the Company utilizes derivative financial instruments in the form of commodity futures contracts to manage market risks and reduce its exposure in the price of meat resulting from fluctuations in the market. The Company uses live beef cattle futures contracts in an attempt to accomplish its objective. Realized and unrealized changes in the fair values of the derivative instruments are recognized in income in the period in which the change occurs. Realized and unrealized gains and losses related to these derivative instruments have not been significant. As of December 26, 2000, the Company had no positions in futures contracts.

Risk Factors

If we are unable to compete effectively with our competitors we will not be able to increase revenues or generate profits.

Our inability to increase revenues is directly related to our ability to compete effectively with our competitors. Key competitive factors include:

- The quality and numbers of employees needed to adequately staff our restaurants;
- the quality and value of the food products offered;
- the quality of service;
- the price of the food products offered;
- the restaurant locations; and
- the ambiance of facilities.

We compete with other steakhouse restaurants specifically and with all other restaurants generally. We compete with national and regional chains, as well as individually owned restaurants. The restaurant industry has few non-economic barriers to entry, and as our competitors expand operations, competition from steakhouse restaurants with concepts similar to ours can be expected to intensify. Many of our competitors are well established in the upscale and mid-scale steak segments and certain competitors have substantially greater financial, marketing and other resources than us. Such increased competition could adversely affect our revenues.

Changing consumer preferences and discretionary spending patterns and other factors affecting the availability of beef could force us to modify our restaurant's concept and menu and could result in a reduction in our revenues.

Even if we are able to successfully compete with other restaurant companies with similar concepts, we may be forced to make changes in one or more of our concepts in order to respond to changes in consumer tastes or dining patterns. Consumer preferences could be affected by health concerns about the consumption of beef, the primary item on our menus, or by specific events such as the outbreak of "mad cow disease" or "foot/mouth disease" which occurred in the Untied Kingdom. In addition, these events could reduce the

available supply of beef or significantly raise the price of beef. If we change a restaurant concept, we may lose additional customers who do not prefer the new concept and menu, and we may not be able to attract a sufficient new customer base to produce the revenue needed to make the restaurant profitable. In addition, we may have different or additional competitors for our intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. Our success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenues and operating income.

Unforeseen Cost Increases Could Adversely Affect Our Profitability.

Our profitability is highly sensitive to increases in food, labor and other operating costs. Our dependence on frequent deliveries of fresh food supplies means that shortages or interruptions in supply could materially and adversely affect our operations. In addition, unfavorable trends or developments concerning the following factors could adversely affect our results:

- Inflation, food, labor and employee benefit costs; and
- rent increases resulting from rent escalation provisions in our leases.

We may be unable to anticipate or react to changing prices. If we are unable to modify our purchasing practices or quickly or readily pass on increased costs to customers, our business could be materially affected.

Failure to Comply with Government Regulations Could Adversely Affect Our Operating Performance.

Our restaurant operations are subject to certain federal, state and local laws and government regulations, such as:

- The obtaining of licenses for the sale of food and alcohol beverages;
- national and local health sanitation laws and regulations;
- national and local employment and safety laws and regulations; and
- local zoning, building code and land-use regulations.

While we have never experienced any significant difficulties in obtaining necessary governmental approvals, the failure to obtain or retain food and liquor licenses or any other governmental approvals could have a material adverse effect on our operating results.

We may be subjected to "dram-shop" liability, which generally provides a person injured by an intoxicated person with the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Although we carry liquor liability coverage as part of our comprehensive general liability insurance, if we lost a lawsuit related to this liability, our business could be materially harmed.

The Restaurant Industry is Affected by a Number of Trends, As Well As by Competition.

The restaurant industry is affected by changes in consumer tastes and by national, regional, and local economic conditions and demographic trends. The performance of individual restaurants may be affected by factors such as traffic patterns, demographic considerations and the type, number and location of competing

restaurants. In addition, factors such as inflation, increased food, labor and employee benefit costs and the availability of experienced management and hourly employees may also adversely affect the restaurant industry in general and our restaurants in particular.

Our Business Depends on A Limited Number of Key Personnel, The Loss of Whom Could Adversely Affect us.

Some of our senior executives are important to our success because they have been instrumental in setting the strategical direction of our Company, operating our business, identifying areas for expansion and arranging necessary financing. These key personnel include Jamie B. Coulter, our Chairman and Chief Executive Officer, and certain of our other executive officers. Although we feel that there is a significant pool of talented personnel in the restaurant industry, if these members of our senior management team become unable or unwilling to continue in their present positions, it could adversely affect our business and development.

Shareholders May Not Be Able to Resell Their Stock or May Have to Sell At A Price Substantially Lower Than the Price They Paid For It.

The trading price for our common stock has been highly volatile and could continue to be subject to significant fluctuations in response to variations in our quarterly operating results, general conditions in the restaurant industry or the general economy, and other factors. In addition, the stock market is subject to price and volume fluctuations affecting the market price for public companies generally, or within broad industry groups, which fluctuations may be unrelated to the operating results or other circumstances of a particular company. Such fluctuations may adversely affect the liquidity of our common stock, as well as price that holders may achieve for their shares upon any future sale.

Staggered Board; Blank-Check Preferred Stock; Poison Pill; Change of Control Agreements.

Our certificate of incorporation and bylaws provide for three classes of directors, to be elected on a staggered basis. This enables existing management to exercise significant control over our affairs, and may act as an impediment to any future attempts by third parties to take control of our board of directors. In addition, our board of directors has the authority without further action by the stockholders to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. The exercise of this authority may act as a further impediment to any future attempts by third parties to take control of our board of directors.

Furthermore, our certificate of incorporation authorizes, and we have adopted in 1997, a preferred share purchase rights plan, commonly referred to as a "poison pill." The terms of the rights and the circumstances under which they may be exercised are contained in a rights agreement, which has been filed with the SEC. These terms have been designed to deter hostile takeovers of us, even though our stockholders might favor a takeover, especially if it were to afford them an opportunity to sell their stock at a price above the prevailing market rate. Finally, our executive officers and certain employees are entitled to receive severance payments under certain circumstances if there has been a change of control of the company. The terms and the circumstances under which the executive officers will receive the severance payments are contained in change of control agreements which have been filed as exhibits to this Form 10-K.

Item 7. A. Quantitative and Qualitative Disclosures about Market Risks

Not applicable.

Item 8. Financial Statements and Supplementary Data

See the Consolidated Financial Statements listed in the accompanying Index to Financial Statements on Page F-1 herein. Information required for financial schedules under Regulation S-X has been omitted since the required information is not present.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item 10 will be in the Company's definitive proxy materials to be filed with the Securities and Exchange Commission and is incorporated in this Annual Report on Form 10-K by this reference.

Item 11. Executive Compensation

The information required by this Item 11 will be in the Company's definitive proxy materials to be filed with the Securities and Exchange Commission and is incorporated in this Annual Report on Form 10-K by this reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item 12 will be in the Company's definitive proxy materials to be filed with the Securities and Exchange Commission and is incorporated in this Annual Report on Form 10-K by this reference.

Item 13. Certain Relationships and Related Transactions

The information required by this Item 13 will be in the Company's definitive proxy materials to be filed with the Securities and Exchange Commission and is incorporated in this Annual Report on Form 10-K by this reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and and Reports on Form 8-K

(a) The following documents are filed as part of this report:
(1) Financial Statements.
See Index to Financial Statements which appears on page F-1 herein.
All financial statement schedules have been omitted since the required information is not present.

Exhibits

INDEX TO EXHIBITS

Exhibit Number	Exhibit
**3.1	Company's Certificate of Incorporation as amended.
*******3.2	Rights Agreement, dated as of October 3, 1997, between Lone Star Steakhouse & Saloon, Inc. and First Union National Bank, which includes the Form of Certificate of Designations setting forth the terms of the Series A Participating Preference Stock, par value $.01 per share, as Exhibit A, and the Summary of Rights to Purchase Preference Shares as Exhibit B.
***3.3	Company's Amended and Re-Stated By-Laws.
******10.1	Agreement, date October 19, 1998, between LS Management, Inc., a wholly-owned subsidiary of Lone Star Steakhouse & Saloon, Inc., and Coulter Enterprises, Inc., date October 19, 1998.

**10.2	1992 Lone Star Steakhouse & Saloon, Inc. Directors' Stock Option Plan.
****10.3	1992 Lone Star Steakhouse & Saloon, Inc. Incentive and Non-qualified Stock Option Plan (the "Plan") as amended.
**10.4	Form of Indemnification Agreement for officers and directors of the Company.
**10.5	Non-Competition, Confidentiality and Non-Solicitation Agreement between the Company and Jamie B. Coulter, dated March 12, 1992.
*10.6	Amended Agreement dated January 1, 1999 between the Company and Jamie B. Coulter.
********10.7	Employment Agreement between the Company and Gerald T. Aaron, dated March 22, 2000.
********10.8	Employment Agreement between the Company and Randall H. Pierce, dated March 22, 2000.
********10.9	Employment Agreement between the Company and T.D. O'Connell, dated March 22, 2000.

********10.10	Employment Agreement between the Company And Jeffrey Bracken, dated March 22, 2000.
********10.11	Employment Agreement between the Company and Robert A. Martin, dated March 22, 2000.
********10.12	Employment Agreement between the Company and John D. White, dated March 22, 2000.
*10.13	Change of Control Agreement between the Company and Jamie B. Coulter dated January 3, 2001.
*10.14	Change of Control Agreement between the Company and Gerald T. Aaron dated January 3, 2001.
*10.15	Change of Control Agreement between the Company and Randall H. Pierce dated January 3, 2001.
*10.16	Change of Control Agreement between the Company and T. D. O'Connell dated January 3, 2001.
*10.17	Change of Control Agreement between the Company and Jeffrey Bracken dated January 3, 2001.
*10.18	Change of Control Agreement between the Company and John D. White dated January 3, 2001.
*10.19	Change of Control Agreement between the Company and Deidra Lincoln dated January 3, 2001.
*********10.21	Non-Qualified Deferred Compensation Plan
*21.1	Subsidiaries of the Company.
*23.1	Independent Auditors' consent to the incorporation by reference in the Company's Registration Statements on Form S-8 of the independent auditors' report included herein.

(b) Reports on Form 8-K filed in the fourth quarter of 2000: none

* Filed herewith.

** Incorporated by reference to the Company's Registration Statement on Form S-1, filed with the Commission on January 31, 1992 (Commission File No. 33-45399), as amended.

*** Incorporated by reference to the Company's Form 10-Q for the quarter ended June 13, 2000.

**** Incorporated by reference to the Company's Registration Statement on Form S-8, filed with the Commission on January 12, 1996 (Commission File No. 33-00280), as amended.

***** Incorporated by reference to the Company's Form 10-K for the quarter ended March 24, 1998.

****** Incorporated by reference to the Company's Form 10-Q for the quarter ended September 8, 1998.

******* Incorporated by reference to the Company's Form 8-A12G/A filed October 9, 1997.

******** Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 1999.

********* Incorporated by reference to the Company's Registration Statement on Form S-8, filed with the Commission on March 31, 2000 (Commission File No. 333-33762).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Wichita, State of Kansas, on this 26th day of March 2001.

LONE STAR STEAKHOUSE & SALOON, INC.
(Registrant)

/s/ Randall H. Pierce

Randall H. Pierce
Chief Financial Officer and
Principal Accounting Officer

SIGNATORIES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE

/s/ Jamie B. Coulter Jamie B. Coulter	Chairman of the Board and Chief Executive Officer	March 26, 2001
/s/ John D. White John D. White	Executive Vice President Treasurer and Director	March 26, 2001
/s/ Randall H. Pierce Randall H. Pierce	Chief Financial Officer and Principal Accounting Officer	March 26, 2001
/s/ Fred B. Chaney Fred B. Chaney	Director	March 26, 2001
/s/ Clark R. Mandigo Clark R. Mandigo	Director	March 26, 2001
/s/ William B. Greene William B. Greene	Director	March 26, 2001

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Steakhouse & Saloon, Inc.

Index to Financial Statements

Report of Independent Auditors

The Board of Directors and Stockholders
Lone Star Steakhouse & Saloon, Inc.

We have audited the accompanying consolidated balance sheets of Lone Star Steakhouse & Saloon, Inc. (the Company) and subsidiaries as of December 26, 2000 and December 28, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 26, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lone Star Steakhouse & Saloon, Inc. and subsidiaries at December 26, 2000 and December 28, 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 26, 2000, in conformity with accounting principles generally accepted in the United States.

Kansas City, Missouri
February 2, 2001

Lone Star Steakhouse & Saloon, Inc.

Consolidated Balance Sheets
(In Thousands, Except Share Amounts)

	December 26, 2000	December 28, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 29,029	$ 50,673
Accounts receivable	230	836
Inventories	12,704	11,440
Deferred income taxes	1,997	2,430
Other	3,188	3,990
Total current assets	47,148	69,369
Property and equipment:		
Land	123,841	128,457

Buildings	174,849	181,262
Leasehold improvements	116,145	116,378
Equipment	99,673	90,342
Furniture and fixtures	21,364	21,693
	535,872	538,132
Less accumulated depreciation and amortization	129,111	107,650
	406,761	430,482
Deferred compensation plan investments	2,276	--
Other assets:		
Intangible assets, net	27,322	30,757
Deferred income taxes	2,880	1,713
Other	2,536	1,212
	32,738	33,682
Total assets	$488,923	$533,533

	December 26, 2000	December 28, 1999
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 12,918	$ 9,155
Sales tax payable	2,748	2,571
Accrued payroll	9,801	8,473
Real estate taxes	2,070	2,875
Gift certificates	8,209	7,478
Income taxes payable	1,207	4,520
Restaurant closure accrual	2,209	3,134
Other	9,702	10,948
Total current liabilities	48,864	49,154
Deferred compensation obligation	2,276	--
Stockholders' equity:		
Preferred stock, $.01 par value, 2,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 98,000,000 shares authorized; 24,275,619 shares issued and outstanding (29,858,553 in 1999)	243	299
Additional paid-in capital	188,976	238,000
Retained earnings	260,423	253,923
Accumulated other comprehensive loss	(11,859)	(7,843)
Total stockholders' equity	437,783	484,379
Total liabilities and stockholders' equity	$ 488,923	$ 533,533

See notes to consolidated financial statements.

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Lone Star Steakhouse & Saloon, Inc.

Consolidated Statements of Income
(In Thousands, Except for Per Share Amounts)

	For the Ye	
	December 26, 2000	Decem 199
Net sales	$575,863	$
Costs and expenses:		
Costs of sales	202,343	
Restaurant operating expenses	276,974	
Depreciation and amortization	28,574	
Provision for impaired assets and restaurant closings	4,310	
Restaurant costs and expenses	512,201	
Restaurant operating income	63,662	
General and administrative expenses:		
Related parties	-	
Other	42,472	
Income from operations	21,190	
Other income, net	2,530	
Income before income taxes and cumulative effect of a change in accounting principle	23,720	
Provision for income taxes	(7,590)	
Income before cumulative effect of a change in accounting principle, net of income taxes of $2,921	16,130	
Cumulative effect of change in accounting principle	-	
Net income	$ 16,130	$
Basic earnings per share:		
Income before cumulative effect of a change in accounting principle	$ 0.62	$
Cumulative effect of change in accounting principle	-	
Basic earnings per share	$ 0.62	$
Diluted earnings per share:		
Income before cumulative effect of a		

change in accounting principle	$ 0.61	$
Cumulative effect of change in accounting principle	-	
Diluted earnings per share	$ 0.61	$

See notes to consolidated financial statements.

Lone Star Steakhouse & Saloon, Inc.

Consolidated Statements of Stockholders' Equity
(In Thousands, Except Share Amounts)

	Preferred Stock	Common Stock Number
Balance, December 30, 1997	-	41,156,151
Stock options exercised	-	61,817
Tax benefit related to options exercised	-	-
Common stock repurchased and retired	-	(2,610,000)
Comprehensive income:		
Net income	-	-
Foreign currency translation adjustments	-	-
Comprehensive income		
Balance, December 29, 1998	-	38,607,968
Stock options exercised	-	8,590
Common stock purchased and retired	-	(8,758,005)
Comprehensive income:		
Net income	-	-
Foreign currency translation adjustments	-	-
Comprehensive income		
Balance, December 28, 1999	-	29,858,553
Stock options exercised	-	22,140
Common stock purchased and retired	-	(5,605,074)
Cash dividends ($0.375 per share)	-	-
Comprehensive income:		
Net income	-	-
Foreign currency translation adjustments	-	-
Comprehensive income		
Balance, December 26, 2000	-	24,275,619

	Retained Earnings	Accumu Othe Comprehe Los
Balance, December 30, 1997	$223,015	$ (6,
Stock options exercised	-	
Tax benefit related to options exercised	-	
Common stock repurchased and retired	-	
Comprehensive income:		
Net income	25,507	
Foreign currency translation adjustments	-	(2,
Comprehensive income		
Balance, December 29, 1998	248,522	(9,
Stock options exercised	-	
Common stock purchased and retired	-	
Comprehensive income:		
Net income	5,401	
Foreign currency translation adjustments	-	1,
Comprehensive income		
Balance, December 28, 1999	253,923	(7,
Stock options exercised	-	
Common stock purchased and retired		
Cash dividends ($0.375 per share)	(9,630)	
Comprehensive income:		
Net income	16,130	
Foreign currency translation adjustments	-	(4,
Comprehensive income		
Balance, December 26, 2000	$260,423	$(11,

See notes to consolidated financial statements.

Lone Star Steakhouse & Saloon, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

	For the	
	December 26, 2000	Dece
Operating activities		
Net income	$16,130	$
Adjustments to reconcile net income to net cash		

provided by operating activities:		
Amortization	2,902	
Depreciation	29,669	3
Provision for impaired assets and restaurant closings	4,310	3
Gain on sales of assets	(1,304)	
Cumulative effect of accounting change	-	
Deferred income taxes	(734)	(1
Net change in operating assets and liabilities:		
Accounts receivable	606	
Inventories	(1,335)	
Other current assets	702	
Accounts payable	3,763	
Income taxes payable	(3,313)	
Other current liabilities	(2,051)	(
Net cash provided by operating activities	49,345	7
Investing activities		
Purchases of property and equipment	(21,665)	(3
Proceeds from sales of assets	10,213	
Payment for acquisition of business from related party	-	
Other	(819)	
Net cash used in investing activities	(12,271)	(3
Financing activities		
Net proceeds from issuance of common stock	181	
Proceeds from revolver	6,955	
Payment on revolver	(6,955)	
Common stock repurchased and retired	(49,261)	(7
Dividends paid	(9,630)	
Net cash used in financing activities	(58,710)	(7
Increase (decrease) in cash and cash equivalents		
Effect of exchange rate changes on cash	(8)	
Net decrease in cash and cash equivalents	(21,644)	(3
Cash and cash equivalents at beginning of year	50,673	8
Cash and cash equivalents at end of year	$29,029	$5
Supplemental disclosure of cash flow information		
Cash paid for income taxes	$11,484	$1

See notes to consolidated financial statements.

Lone Star Steakhouse & Saloon, Inc.

Notes to Consolidated Financial Statements
(All Amounts in Thousands, Except Share and Per Share Amounts)

December 26, 2000

1. Background and Significant Accounting Policies

Background

Lone Star Steakhouse & Saloon, Inc. (the Company) owns and operates a chain of mid-priced full service, casual dining restaurants in the United States, as well as in Australia. The restaurants serve mesquite-grilled steaks, ribs, chicken, and fish in a "Texas Roadhouse" atmosphere that is positioned to attract local clientele. In addition, the Company operates restaurants in the upscale steakhouse market through Del Frisco's Double Eagle Steak House and Sullivan's Steakhouse. As of December 26, 2000, the Company owns and operates 241 Lone Star Steakhouse & Saloons in the United States and 26 in Australia. In addition, the Company owns and operates five Del Frisco's Double Eagle Steak Houses and 15 Sullivan's Steakhouses.

Significant Accounting Policies

- Principles of Consolidation

  The consolidated financial statements include the accounts of Lone Star Steakhouse & Saloon, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

- Foreign Currency Translation

  Assets and liabilities of the Company's foreign operations in Australia are translated at current exchange rates, while revenue and expenses are translated at average exchange rates prevailing during the year. Translation adjustments are reported as a component of comprehensive income in stockholders' equity.

- Concentration of Credit Risk

  The Company's financial instruments exposed to concentration of credit risk consist primarily of cash and short-term investments (cash equivalents). The Company places its cash with high credit quality financial institutions and, at times, such cash may be in excess of the federal depository insurance limit. The Company has cash equivalents

1. Background and Significant Accounting Policies (continued)

  of approximately $21,089 and $37,751 at December 26, 2000 and December 28, 1999, respectively, in investment grade securities with municipal, state, and U.S. government agencies.

- Use of Estimates

  The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

o Cash and Cash Equivalents

The Company considers cash and cash equivalents to include currency on hand, demand deposits with banks or other financial institutions, and short-term investments with maturities of three months or less when purchased. Cash and cash equivalents are carried at cost which approximates fair value.

o Financial Instruments

The Company sometimes utilizes derivative financial instruments in the form of commodity futures contracts to manage market risks and reduce its exposure resulting from fluctuations in the prices of meat. The Company uses live beef cattle futures contracts to accomplish its objective. Realized and unrealized changes in the fair values of the derivative instruments are recognized in income in the period in which the change occurs. Realized and unrealized gains and losses related to these derivative instruments have not been significant. The Company held no live beef cattle futures contracts at December 26, 2000. These instruments are with counterparties of high credit quality; therefore, the risk of nonperformance by the counterparties is considered to be negligible.

1. Background and Significant Accounting Policies (continued)

o Inventories

Inventories consist of food and beverages and are stated at the lower of cost (first-in, first-out) or market.

o Property and Equipment

Property and equipment are stated at cost. Maintenance, repairs, and renewals which do not enhance the value of or increase the life of the assets are expensed as incurred.

Buildings are depreciated using the straight-line method over 20 years, which is the estimated useful life of the assets. Leasehold improvements are amortized on the straight-line method over the lesser of the maximum life of the lease or 20 years or the estimated useful lives of the assets. Equipment and furniture and fixtures are depreciated using the straight-line method over seven years, which is the estimated useful life of the assets.

o Preopening Costs

Prior to 1998, labor costs and costs of hiring and training personnel and certain other costs relating to opening new restaurants were capitalized until the restaurant opened and then were amortized over the subsequent 12 months. During 1998, the Company changed its method of accounting for preopening costs (see Note 4) and now expenses preopening costs when the costs are incurred.

o Intangible Assets

Intangible assets include goodwill, intellectual properties, and licensing permits which are amortized on a straight-line basis over the estimated periods of benefit, generally 10 to 20 years. Accumulated amortization for intangible assets as of December 26, 2000 and December 28, 1999 is $9,975 and $7,073, respectively.

1. Background and Significant Accounting Policies (continued)

o Deferred Compensation Plan

In connection with the Company's deferred compensation plan, the Company has created a trust to which it contributes amounts equal to employee participant's qualified deferrals and the Company's matching portion. The funds are invested by a financial institution, as trustee for the Company, in a selected list of mutual funds. An account balance is maintained for each participant reflecting elected deferrals, the employer match, plus or minus investment gains or losses. A participant may direct the trustee to invest an amount equal to his assigned account balance in any investment identified in the selected list; however, the Company has reserved the right to veto any investment direction of the participant. All assets held by the trust remain the unrestricted property of the Company; however, the Company does not currently intend to use such assets for any purpose other than to fund payments to the participants pursuant to the terms of the deferred compensation plan. The investments held by the trustee are carried at the fair value of the underlying assets. Because the investment assets of the deferred compensation plan are assets of the Company, the accompanying consolidated balance sheet reflects such investments as assets with an offsetting liability for deferred compensation reflected in long-term liabilities.

o Impairment of Long-Lived Assets

Long-lived assets and certain intangibles, including goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company reviews applicable intangible assets and long-lived assets related to each restaurant on a periodic basis. When events or changes in circumstances indicate an asset may not be recoverable, the Company estimates the future cash flows expected to result from the use of the asset. If the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss is recognized. The impairment loss is recognized by measuring the difference between the carrying value of the assets and the fair market value of the assets. The Company's estimates of fair values are based on the best information available and require the use of estimates, judgments and projections as considered necessary. The actual results may vary significantly.

1. Background and Significant Accounting Policies (continued)

- Advertising Costs

  Advertising costs are expensed as incurred. Advertising expense for the years ended December 26, 2000, December 28, 1999, and December 29, 1998 are $18,065, $8,591, and $9,268, respectively.

- Accounting for Stock-Based Compensation

  In accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations, the Company uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of the quoted market price of company common stock at the grant date over the amount the employee must pay for the stock (see Note 4). Required pro forma disclosures of compensation expense determined under the fair value method of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, are presented in Note 7.

- Earnings Per Share

  Basic earnings per share amounts are computed based on the weighted-average number of shares outstanding. For purposes of diluted computations, the number of shares that would be issued from the exercise of dilutive stock options has been reduced by the number of shares which could have been purchased from the proceeds of the exercise at the average market price of the Company's stock or the price of the Company's stock on the exercise date.

- Recent Accounting Pronouncements

  In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which the Company adopted effective December 27, 2000. The statement requires the Company to recognize all derivatives on the consolidated balance sheet at fair value. Derivatives not considered hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the

1. Background and Significant Accounting Policies (continued)

derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company's adoption of SFAS No. 133 will not have a significant effect on its results of operations or financial position.

o Reclassifications

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

o Fiscal Year

The Company operates on a 52- or 53-week fiscal year ending the last Tuesday in December. The fiscal quarters for the Company consist of accounting periods of 12, 12, 12, and 16 or 17 weeks, respectively. Fiscal 2000, 1999, and 1998 each included 52 weeks of operations.

2. Acquisition of Business From Related Party

On October 19, 1998, the Company acquired the operations and purchased certain assets and assumed certain liabilities of Coulter Enterprises, Inc. (CEI), a restaurant management services company owned by Jamie B. Coulter, the Company's Chairman of the Board of Directors and Chief Executive Officer. CEI had provided accounting and administrative services to the Company since the Company's inception. The aggregate purchase price was approximately $11,432, consisting of $10,500 of internally generated cash with the balance comprised of assumed liabilities. The Company accounted for the transaction using the purchase method of accounting. In connection with the purchase price allocation, the Company recorded an intangible asset of approximately $9,760 representing intellectual properties which are being amortized over a period of 10 years. The acquisition was approved by the Company's independent directors. In addition, the Company engaged an independent financial advisor who rendered an opinion that the transaction was fair to the Company and its stockholders from a financial point of view. Pro forma amounts are not presented since the amounts would not be significant.

3. Treasury Stock Transactions

The Board of Directors has authorized the Company to purchase shares of the Company's common stock in open market or in privately negotiated transactions. Pursuant to such authorization, the Company has purchased 5,605,074, 8,758,005, and 2,610,600 shares of its common stock at average prices of $8.79, $8.73, and $13.93 per share during the fiscal years ended 2000, 1999, and 1998, respectively. The Company is accounting for the purchases using the constructive retirement method of accounting wherein the aggregate par value of the stock is charged to the common stock account and the excess of cost over par value is charged to paid-in capital.

4. Accounting Changes

o Stock Options

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25. The Interpretation requires, among other things, that stock options which have been modified after December 15, 1998 to reduce the exercise price must be accounted for as variable. The Company has adopted the accounting change for modified stock options on a prospective basis effective July 1, 2000, as required by the Interpretation. Pursuant to the rules for the initial application of the Interpretation, imputed non-cash compensation expense is to be recognized on a prospective basis to the extent that the market price of the Company's common stock after July 1, 2000 exceeds the common stock price on July 1, 2000, of $10.125. The Company has repriced options during fiscal 1999 and in January 2000, which are subject to the Interpretation. At December 26, 2000, there were approximately 4,731,000 shares under options subject to the Interpretation. These options are accounted for as variable from July 1, 2000, until the options are exercised, forfeited, or expire unexercised. Prior to the Interpretation, the Company accounted for these repriced options as fixed. Because the market price of the Company's common stock was lower on December 26, 2000 than on July 1, 2000, the adoption of the Interpretation had no effect on the Company's net income for the year ended December 26, 2000.

4. Accounting Changes (continued)

o Preopening Costs

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-5, Reporting the Costs of Start-Up Activities, requiring the costs related to start-up activities be expensed as incurred. Prior to 1998, the Company capitalized certain preopening costs incurred in connection with the opening of new restaurant locations. The Company adopted the provisions of the SOP in its consolidated financial statements for the year ended December 29, 1998. The effect of the adoption of the SOP was to decrease net income in 1998 by $2,703 ($0.07 per share) and to record a charge for the cumulative effect of an accounting change of $6,904, net of income taxes of $2,921 ($0.17 per share), to expense costs that had been capitalized prior to 1998.

5. Long-Term Revolver

The Company has entered into a $20,000 revolving term loan agreement with a bank, under which no borrowings were outstanding at December 26, 2000. The loan commitment matures in April 2005 and requires interest only payments through April 2003, at which time the loan will convert to a term note with monthly principal and interest payments sufficient to amortize the loan over its remaining term. The interest rate is at the daily prime rate as published in The Wall Street Journal. In addition, the Company pays a facility fee of 1/4 of one percent on the unused portion of the facility.

6. Preferred Stock

The Company's Board of Directors has the authority to issue up to 2,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges, and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference, and the numbers of shares constituting any series or the designation of such series.

7. Stock Options

The Company has elected to follow APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its employee stock options because, as described below, the alternative fair value accounting provided under SFAS No. 123 requires use of option valuation models that were not developed for use in valuing employee stock options.

o 1992 Stock Option Plan

In January 1992, the Board of Directors adopted a stock option plan (the Plan), last amended in June 1996, providing for incentive and nonqualified stock options pursuant to which up to 10,000,000 shares of common stock are available for issuance. Options granted under this Plan vest in periods ranging from three to five years in equal annual installments commencing from the date of grant.

o Directors Stock Option Plan

In January 1992, the Board of Directors adopted a stock option plan as amended June 9, 2000, providing for nondiscretionary grants to nonemployee directors pursuant to which up to 700,000 shares of common stock are available for issuance. All options granted under this plan have 10-year terms and vest equally over a three-year period commencing from the date of grant.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 using the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2000, 1999, and 1998, respectively: risk-free interest rates of 6.0%, 6.0%, and 6.5%; no dividend yields; volatility factors of the expected market price of the Company's common stock of 0.436, 0.443, and 0.357; and a weighted-average expected life of the option ranging from four to five years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock

Notes to Consolidated Financial Statements (continued)
(All Amounts in Thousands, Except Share and Per Share Amounts)

7. Stock Options (continued)

options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option's vesting period. The Company's pro forma information follows:

	2000	1999
Pro forma net income	$3,020	$2,704
Pro forma earnings per share:		
Basic	0.12	0.08
Diluted	0.11	0.08
Weighted-average fair value of options granted during the year	3.68	3.84

A summary of the Company's stock option activity and related information for the years ended December 26, 2000, December 28, 1999, and December 29, 1998 is as follows:

	2000		1999	
	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price	Options (0
Outstanding at beginning of year	$16.57	6,456	$16.91	6,982
Granted	8.55	6,394	8.15	616
Exercised	8.16	(22)	4.01	(9)
Canceled	17.32	(5,001)	13.04	(1,133)
Outstanding at end of year	9.57	7,827	16.57	6,456

(All Amounts in Thousands, Except Share and Per Share Amounts)

7. Stock Options (continued)

On January 7, 2000, the Board of Directors approved the repricing of 4,591,757 options held by certain current employees, including officers of the Company with an exercise price in excess of the closing price of the Company's common stock on that date of $8.47 and whose options were not repriced at the time of the December 14, 1998 repricing. Other than the change in the exercise price, there was no other change in the terms of the original options as granted.

On September 10, 1999, the Company repriced 148,400 options where the previous exercise price of the options was in excess of the closing price of the Company's stock on that date of $7.94. The options were held by nonemployee directors. The terms of the repriced options were the same as the original options, except that the expiration date was extended five years.

The options repriced on January 7, 2000 and September 10, 1999, of which 4,731,000 are outstanding at December 26, 2000, are subject to the application of variable accounting pursuant to FASB Interpretation No. 44.

On December 14, 1998, the Company canceled 1,711,253 options previously outstanding and reissued 767,584 new options with an exercise price of $8.00. The options were held by current officers and employees, excluding the Company's Chairman and Chief Executive Officer. The terms of the new options were the same as the original options, except the new options vest equally over a three-year period commencing one year from the date of grant.

For options outstanding as of December 26, 2000, the number of options, weighted-average exercise price, and weighted-average remaining contract life for each group of options are as follows:

	Options Outstanding	
Range of Prices	Number Outstanding at December 26 2000	Weighted-Average Exercise Price
$3.38 to $7.94	227,136	$ 7.41
$8.00 to $17.94	6,760,211	8.57
$18.25 to $18.81	839,448	18.28

(All Amounts in Thousands, Except Share and Per Share Amounts)

7. Stock Options (continued)

The number of shares and weighted-average exercise price of options exercisable at December 26, 2000 are as follows:

Options Exercisable		
Range of Prices	Number Exercisable at December 26, 2000	Weighted-Average Exercise Price
$3.38 to $7.94	145,724	$ 7.33
$8.00 to $17.94	4,852,912	8.53
$18.25 to $18.81	839,051	18.29

8. Related-Party Transactions

Prior to the acquisition of CEI on October 19, 1998, the Company utilized its affiliate to provide certain accounting, computer and administrative services. The Company incurred fees of $4,367, related to such services for the fiscal year 1998. In addition, the Company reimbursed CEI $856 during fiscal 1998 for the use of an airplane and pilot services provided by an affiliated entity.

The Company leases on a month-to-month basis meeting room space, parking lot space and document storage space from entities owned by Jamie B. Coulter, the Company's Chairman and Chief Executive Officer. Total rental fees paid to these related entities in 2000, 1999, and 1998 were $30, $47, and $38, respectively. In addition, in 2000, 1999, and 1998 the Company purchased business gifts and awards from a retail store owned by Jamie B. Coulter totaling $56, $8, and $24, respectively.

The Company believes the charges reimbursed are at least as favorable as the charges that would have been incurred for similar services or purchases from unaffiliated third parties.

9. Leases

The Company leases certain facilities under noncancelable operating leases having terms expiring between 2001 and 2025. The leases have renewal clauses of five to 20 years, which are exercisable at the option of the lessee. In addition, certain leases contain

escalation clauses based on a fixed percentage increase and provisions for contingent rentals based on a percentage of gross revenues, as defined. Total rental expense for the fiscal years ended 2000, 1999, and 1998 was $12,310, $11,575, and $10,227, respectively, including contingent rentals of approximately $228, $266, and $273, respectively.

Lease payments under noncancelable operating leases for each of the next five years and in the aggregate are as follows at December 26, 2000:

(All Amounts in Thousands, Except Share and Per Share Amounts)

	Operating Leases
2001	$12,161
2002	10,792
2003	8,453
2004	5,989
2005	3,326
Thereafter	4,970
Total minimum lease payments	$45,691

10. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	2000	
Numerator:		
Numerator for basic and diluted earnings per share - income available to common stockholders	$ 16,130	$
Denominator:		
Denominator for basic earnings per share - weighted-average shares	26,189,600	35
Effect of dilutive employee stock options	296,333	
Denominator for diluted earnings per share - adjusted weighted-average shares	26,485,933	35
Basic earnings per share	$ 0.62	$
Diluted earnings per share	$ 0.61	$

11. Income Taxes

Income taxes are included in the consolidated statements of income as follows:

	2000	1999	1998
Income tax expense on income before cumulative effect of change in accounting principle	$7,590	$2,950	$21,843
Cumulative effect of income tax benefit for change in accounting principle	-	-	(2,921)
Total provision for income taxes	$7,590	$2,950	$18,922

The components of the provision for income taxes consist of the following:

	2000	1999	1998
Current tax expense:			
Federal	$6,997	$14,526	$15,778
State	1,327	1,491	1,556
Total current	8,324	16,017	17,334
Deferred tax expense (benefit):			
Federal	137	(17,861)	1,456
Foreign	(886)	6,981	-
State	15	(2,187)	132
Total deferred	(734)	(13,067)	1,588
Total provision for income taxes	$7,590	$ 2,950	$18,922

The difference between the reported provision for income taxes and taxes determined by applying the applicable U.S. federal statutory income tax rate to income before taxes is reconciled as follows:

	2000		1999	
	Amount	Rate	Amount	Rat
Income tax expense at federal statutory rate	$8,302	35%	$2,923	35%
State tax expense, net	878	4	1,105	13
Valuation allowance	-	-	78	3
Other items, net, principally tip credits	(1,590)	(7)	(1,156)	(16)
Actual provision for income taxes	$7,590	32%	$2,950	35%

Lone Star Steakhouse & Saloon, Inc.

Notes to Consolidated Financial Statements (continued)
(All Amounts in Thousands, Except Share and Per Share Amounts)

11. Income Taxes (continued)

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes.

Significant components of deferred tax liabilities and assets are presented below:

	December 26, 2000	December 28, 1999
Deferred tax assets:		
Foreign NOL carryforward	$ 7,612	$ 8,450
Preopening costs	1,077	--
Accrued liabilities	1,107	1,411
Deferred compensation	930	--
Other	2,183	1,139
	12,909	11,000
Valuation allowance	(3,839)	(3,839)
Total deferred tax assets	9,070	7,161
Deferred tax liabilities:		
Property and equipment	1,814	723
Basis differences in foreign investments	2,185	2,139
Other	194	156
Total deferred tax liabilities	4,193	3,018
Net deferred tax assets	$ 4,877	$ 4,143

As of December 26, 2000, the Company has net operating loss (NOL) carryforwards of approximately $22,069 for foreign tax purposes currently having indefinite expiration dates.

The valuation allowance for deferred tax assets at December 26, 2000 was $3,839. The valuation allowance is unchanged for the year ended December 26, 2000 and increased $78 for the year ended December 28, 1999. In assessing the realizability of the deferred tax assets, the Company 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 the deferred

11. Income Taxes (continued)

tax assets associated with the Foreign NOL carryforward is dependent on the generation of future taxable income in Australia during the periods in which the underlying temporary differences can be used to offset taxable income. The Company has considered the projected future taxable income and tax planning strategies in making this assessment. Based on the relevant factors considered, the Company believes it is more likely than not that it will realize the benefits of the deferred tax assets, net of the existing valuation allowance, at December 26, 2000.

Pretax net loss attributable to foreign operations was $9,274 and $15,157 for the years ended December 26, 2000 and December 28, 1999, respectively.

12. Provision for Impaired Assets and Restaurant Closings

The Company periodically reviews its long-lived assets for indications of impairment. Based on those reviews, the trends of operations of certain restaurants indicated the undiscounted cash flows from their operations would be less than the carrying value of the long-lived assets of the restaurants. As a result, the carrying values were written down to the Company's estimates of fair value. Fair value was estimated utilizing the best information available using whatever estimates, judgments, and projections were considered necessary.

In the third and fourth quarters of 2000, the Company recorded a provision of $3,000 for the write-down of impaired assets relating to certain underperforming Australian restaurants. In addition, a charge of $1,310 was recorded for severance, rents, and certain other costs associated with closing 14 Australian restaurants.

In the third and fourth quarters of 1999, the Company recorded a provision of $38,931 which included approximately $35,797 for the write-down of impaired assets related to certain underperforming restaurants and $3,134 related to the costs of closing 25 domestic restaurants. The Company also incurred an impairment charge of $4,646 to reflect the write-down of certain underperforming restaurants in the fourth quarter of 1998.

To the extent there are "assets held for disposal" recorded in the Company's consolidated balance sheets, such amounts are included in property and equipment at the lower of cost or fair market value less estimated selling costs. The remaining carrying value of the

12. Provision for Impaired Assets and Restaurant Closings (continued)

related assets is not significant. Net sales for all closed restaurants included in the Company's operating results were $6,196, $32,050, and $39,741 and operating losses at the restaurant level were $827, $4,144, and $4,956 for the years ended 2000, 1999, and 1998, respectively.

13. Retirement Plans

In August 1999, the Company approved the adoption of two plans which provide retirement benefits to the participants. The salary reduction plans are provided through a qualified 401(k) plan and a nonqualified deferred compensation plan (the Plans). Under the Plans, employees who meet minimum service requirements and elect to participate may make contributions of their annual salaries of up to 15% under the 401(k) plan and up to 20% under the deferred compensation plan. The Company may make additional contributions at the discretion of the Board of Directors. The Plans were effective beginning October 7, 1999, and during 2000 and 1999, the Company's contributions to the Plans were $1,953 and $475, respectively.

14. Quarterly Financial Summaries (Unaudited)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2000 and 1999:

	1st Quarter	2nd Quarter	3rd Quarter
2000			
Net sales	$139,254	$134,187	$130,953
Restaurant operating income (a) and (b)	21,938	17,687	12,415
Net income (a) and (b)	7,102	5,858	2,547
Basic earnings per share	0.25	0.22	0.10
Diluted earnings per share	0.25	0.22	0.10

(a) The third quarter of fiscal 2000 includes a charge to earnings of $541 ($352 net of income tax) related to the provision for Australian restaurant store closings recorded in the quarter.

(b) The fourth quarter of fiscal 2000 includes a charge to earnings of $3,769 ($2,480 net of income tax) related to the provision for asset impairment and store closing costs recorded in the quarter for certain Australian restaurants.

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Notes to Consolidated Financial Statements (continued)
(All Amounts in Thousands, Except Share and Per Share Amounts)

14. Quarterly Financial Summaries (Unaudited) (continued)

	1st Quarter	2nd Quarter
1999		
Net sales	$139,938	$134,753
Restaurant operating income (loss) (a) and (b)	20,690	19,042
Net income (loss) (a) and (b)	7,781	7,083
Basic earnings (loss) per share	0.21	0.20
Diluted earnings (loss) per share	0.21	0.20

(a) The third quarter of fiscal 1999 includes a charge to earnings of $19,365 ($12,103 net of income tax) related to the provision for asset impairment recorded in the quarter.

(b) The fourth quarter of fiscal 1999 includes a charge to earnings of $19,566 ($12,304 net of income tax) related to the provision for asset impairment and store closing costs recorded in the quarter.

15. Other Income, Net

The components of other income, net are as follows:

	2000	1999
Interest income	$1,431	$2,171
Interest expense	(327)	-
Gain on sale of assets	1,304	-
Other	122	19
	$2,530	$2,190

16. Subsequent Events

On January 3, 2001, the Board of Directors declared the Company's quarterly cash dividend of $.125 per share, payable January 26, 2001, to stockholders of record on January 12, 2001.