

OUTBACK STEAKHOUSE INC

Form 10-Q/A

December 10, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended March 31, 2003

or

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

For the transition period from to

Commission File Number: 1-15935

OUTBACK STEAKHOUSE, INC.

(Exact name of registrant as specified in its charter)

Delaware

59-3061413

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

**2202 North West Shore Boulevard, 5th Floor,
Tampa, Florida**

33607

(Address of principal executive offices)

(Zip Code)

(813) 282-1225

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No.

As of May 13, 2003, there were approximately 75,531,913 shares of Common Stock, \$.01 par value, outstanding.

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EXPLANATORY NOTE

The Company is filing this Amendment No. 1 to Quarterly Report on Form 10-Q/A to restate the unaudited financial statements of Outback Steakhouse, Inc. for the quarters ended March 31, 2003 and 2002 and to revise certain disclosures. The Company has also filed an Amendment No. 1 to Annual Report on Form 10-K to restate the audited financial statements of the Company for the fiscal year ended December 31, 2002. The Amendments are in response to comments received from the Staff of the Division of Corporation Finance of the U.S. Securities and Exchange Commission in connection with its review of our periodic filings. We disclosed in our Quarterly Report on Form 10-Q for the third quarter ended September 30, 2003 that we would be restating our results.

The restatement reflects accounting for the Company's employee partner programs as compensation arrangements instead of as ownership interests. Additionally, the Company has provided additional disclosure on its consolidation policy. The Items of the Company's Quarterly Report on Form 10-Q as of and for the quarter ended March 31, 2003 which are amended and restated are as follows: Item 1 Financial Statements, and Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

The remaining Items contained within this Amendment No. 1 to Quarterly Report on Form 10-Q/A consist of all other Items originally contained in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 in the form filed on May 15, 2003. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q, nor modify or update those disclosures in any way other than as required to reflect the effects of the restatement, except for the "Consolidation of Variable Interest Entities" and "Stock Based Compensation" disclosed in Notes 11 and 12 to the unaudited Consolidated Financial Statements.

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(in thousands)

	March 31, 2003 (unaudited) (restated)	December 31, 2002 (restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 155,749	\$ 187,578
Short term investments	20,809	20,576
Inventories	48,515	34,637
Deferred income tax asset	14,565	12,105
Other current assets	33,079	31,386
	<hr/>	<hr/>
Total current assets	272,717	286,282
Property, fixtures and equipment, net	934,693	915,022
Investments in and advances to unconsolidated affiliates, net	34,851	38,180
Goodwill	50,011	46,337
Other assets	62,394	67,011
	<hr/>	<hr/>
	\$ 1,354,666	\$ 1,352,832
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 52,487	\$ 54,519
Sales taxes payable	19,099	16,205
Accrued expenses	73,217	70,127
Unearned revenue	27,053	68,926
Income taxes payable	28,528	15,647
Current portion of long-term debt	18,065	17,464
	<hr/>	<hr/>
Total current liabilities	218,449	242,888
Partner deposit and accrued buyout liability	59,725	55,720
Deferred income tax liability	13,684	15,916
Long-term debt	14,515	14,436
Other long-term liabilities	6,189	6,189
	<hr/>	<hr/>
Total liabilities	312,562	335,149
	<hr/>	<hr/>
Commitments and contingencies		
Interest of minority partners in consolidated partnerships	48,469	43,400
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Stockholders' Equity		
Common stock, \$0.01 par value, 200,000 shares authorized; 78,750 and 78,750		

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shares issued; 75,497 and 75,880 outstanding as of March 31, 2003 and December 31, 2002, respectively	788	788
Additional paid-in capital	241,744	240,083
Retained earnings	851,139	820,360
Accumulated other comprehensive loss	(328)	
	<u>1,093,343</u>	<u>1,061,231</u>
Less treasury stock, 3,253 shares and 2,870 shares at March 31, 2003 and December 31, 2002, respectively, at cost	(99,708)	(86,948)
Total stockholders' equity	<u>993,635</u>	<u>974,283</u>
	<u>\$ 1,354,666</u>	<u>\$ 1,352,832</u>

See notes to unaudited consolidated financial statements.

Table of Contents**OUTBACK STEAKHOUSE, INC.****CONSOLIDATED STATEMENTS OF INCOME**
(in thousands except per share data, unaudited)

	Three Months Ended March 31,	
	2003 (restated)	2002 (restated)
Revenues		
Restaurant sales	\$ 646,672	\$ 574,555
Other revenues	5,006	4,434
	<u>651,678</u>	<u>578,989</u>
Costs and expenses		
Cost of sales	232,831	214,808
Labor & other related	158,950	138,302
Other restaurant operating	135,004	114,049
Distribution expense to employee partners, excluding stock expense	15,183	13,498
Employee partner stock buyout expense	1,255	931
Depreciation	19,953	17,336
General & administrative	22,496	21,129
Income from operations of unconsolidated affiliates	(1,289)	(1,526)
	<u>584,383</u>	<u>518,527</u>
Income from operations	67,295	60,462
Other income (expense), net	(943)	(317)
Interest income	542	535
Interest expense	(353)	(299)
	<u>66,541</u>	<u>60,381</u>
Income before elimination of minority partners interest and income taxes	66,541	60,381
Elimination of minority partners interest	1,323	(3)
	<u>65,218</u>	<u>60,384</u>
Income before provision for income taxes	65,218	60,384
Provision for income taxes	22,643	21,033
	<u>42,575</u>	<u>39,351</u>
Income before cumulative effect of a change in accounting principle	42,575	39,351
Cumulative effect of a change in accounting principle (net of taxes)		(740)
	<u>\$ 42,575</u>	<u>\$ 38,611</u>
Basic earnings per common share		
Income before cumulative effect of a change in accounting principle	\$ 0.56	\$ 0.51
Cumulative effect of a change in accounting principle (net of taxes)		(0.01)
	<u>\$ 0.56</u>	<u>\$ 0.50</u>
Net income	\$ 0.56	\$ 0.50
Based weighted average number of common shares outstanding		
	75,755	77,078
Diluted earnings per common share		
Income before cumulative effect of a change in accounting principle	\$ 0.54	\$ 0.49
Cumulative effect of a change in accounting principle (net of taxes)		(0.01)

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Net income	\$ 0.54	\$ 0.48
Diluted weighted average number of common shares outstanding	78,215	80,039

See notes to unaudited consolidated financial statements.

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(in thousands, unaudited)

	Three Months Ended March 31,	
	2003 (restated)	2002 (restated)
Cash flows from operating activities:		
Net income	\$ 42,575	\$ 38,611
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	19,953	17,336
Employee partner stock buyout expense	1,255	931
Cumulative effect of a change in accounting principle (net of taxes)		740
Minority partners' interest in consolidated partnerships' income	1,323	(3)
Income from operations of unconsolidated affiliates	(1,289)	(1,526)
Loss on disposal of property, fixtures and equipment	759	
Change in assets and liabilities, net of effects of acquisitions:		
(Increase) decrease in inventories	(13,878)	2,674
(Increase) decrease in other current assets	(1,693)	11,005
(Increase) decrease in goodwill and other assets	(1,104)	4,027
Increase (decrease) in accounts payable, sales taxes payable and accrued expenses	3,952	(3,828)
Increase in partner deposit and accrued buyout liability	2,750	2,993
Decrease in unearned revenue	(41,873)	(36,338)
Increase in income taxes payable	14,183	15,502
Decrease in deferred income taxes	(4,333)	(1,698)
Net cash provided by operating activities	<u>22,580</u>	<u>50,426</u>
Cash flows used in investing activities:		
Purchase of investment securities	(233)	(93)
Capital expenditures	(38,488)	(45,891)
Payments from unconsolidated affiliates	7,034	260
Distributions to unconsolidated affiliates	(1,940)	(1,731)
Investments in and advances to unconsolidated affiliates	(652)	(4,292)
Net cash used in investing activities	<u>(34,279)</u>	<u>(51,747)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	871	232
Proceeds from minority partners' contributions	4,357	
Distributions to minority partners	(611)	(945)
Repayments of long-term debt	(191)	
Dividends paid	(9,109)	
Payments for purchase of treasury stock	(20,283)	(21,253)
Proceeds from reissuance of treasury stock	4,836	12,714
Net cash used in financing activities	<u>(20,130)</u>	<u>(9,252)</u>
Net decrease in cash and cash equivalents	(31,829)	(10,573)
Cash and cash equivalents at beginning of period	<u>187,578</u>	<u>115,928</u>
Cash and cash equivalents at end of period	<u>\$ 155,749</u>	<u>\$ 105,355</u>

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Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 403	\$ 93
Cash paid for income taxes	\$ 8,748	\$ 280
Non-Cash investing activities:		
Assets received for note (see Note 10)	\$ 5,569	\$

See notes to unaudited consolidated financial statements.

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OUTBACK STEAKHOUSE, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

1. Basis of Presentation and Restatement

The accompanying unaudited consolidated financial statements have been prepared by Outback Steakhouse, Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company, all adjustments (consisting only of normal recurring entries) necessary for the fair presentation of the Company's results of operations, financial position and cash flows for the periods presented have been included.

The December 31, 2002 consolidated balance sheet has been derived from the audited consolidated financial statements but does not include all of the disclosures required by generally accepted accounting principles. These financial statements should be read in conjunction with the financial statements and financial notes thereto included in the Company's 2002 Annual Report on Form 10-K/A.

The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

RESTATEMENT

In connection with a review of the Company's periodic filings by the staff of the Division of Corporation Finance of the U.S. Securities and Exchange Commission (the Staff), the Company is restating its Consolidated Financial Statements for the quarters ended June 30, 2003 and March 31, 2003 and for the years ended December 31, 2002, 2001 and 2000.

Since the Company's inception, the Company has required its general managers to enter into a five to seven year employment agreement and pay the Company for the right to receive a percentage of their restaurant's annual cash flows for the duration of the agreement. Upon completion of the employment agreement, the Company generally grants stock options to the general managers equal to an amount prescribed by a formula in their employment agreement. Stock option grants made under this plan are issued at the weighted average closing price of the Company's Common Stock in the prior three months and are exercisable in periods up to 10 years. Options expire five years after the options become exercisable.

The Company has also required its area operating partners to enter into a five-year employment agreement and pay the Company for the right to receive a percentage of their restaurants' annual cash flows for the duration of the agreement. Upon completion of the restaurant's fifth year of operation, the Company generally grants Common Stock to the area operating partners equal to the fair value of the partners' percentage of the cash flows.

The Company previously accounted for the arrangements under the general managers' and area operating partners' programs as ownership interests in the underlying restaurants. Accordingly, such interests were reflected as minority interests in the Consolidated Financial Statements. In addition, at the conclusion of the arrangements under the general managers' program, the Company recorded an intangible asset, amortized over five years, for amounts paid in excess of the carrying amount of the minority interests. Under the area operating partners' program, the Company recorded goodwill for value granted in excess of the minority interest's share of the restaurant's cash flow at the conclusion of the agreement.

As a result of the review of the Company's periodic filings by the Staff, the Company is restating its Consolidated Financial Statements as noted above and is accounting for these arrangements under the general managers' and area operating partners' programs as compensation arrangements. Accordingly, amounts received from the Company's general managers and area operating partners have now been recorded as other long-term liabilities. Payments made pursuant to both programs are now recognized as compensation expense in the period earned by the general managers and the area operating partners and included in the line Distribution expense to employee partners, excluding stock expense in the Consolidated Statements of Income. The Company now estimates future purchases of its area operating partners' cash flow interests using current information on store performance to calculate and record a liability in the line item Partner deposit and accrued buyout liability in the Consolidated Balance Sheets, with associated expenses in the line Employee partner stock buyout expense in the Consolidated Statements of Income.

In addition to the restatements, certain amounts shown in the 2002 consolidated financial statements have been reclassified to conform to the 2003 presentation. These reclassifications did not have an effect on total assets, total liabilities, stockholders' equity or net income.

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OUTBACK STEAKHOUSE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation and Restatement (continued)

RESTATEMENT (CONTINUED)

The effects of the Company's restatement on previously reported Consolidated Financial Statements as of December 31, 2002 and for the three months ended March 31, 2003 and 2002 are summarized below.

The following table reflects the effect of the restatement on the Consolidated Statements of Income (in thousands):

	Three months ended March 31, 2003		Three months ended March 31, 2002	
	(unaudited) As previously reported	As restated	(unaudited) As previously reported	As restated
Selected Statement of Income Data:				
Distribution expense to employee partners, excluding stock expense	\$	\$ 15,183	\$	\$ 13,498
Employee partner stock buyout expense		1,255		931
Depreciation & amortization	20,574	19,953	17,938	17,336
Income from operations of unconsolidated affiliates	(1,306)	(1,289)	(1,552)	(1,526)
Total costs and expenses	568,549	584,383	504,674	518,527
Income from operations	83,129	67,295	74,315	60,462
Income before elimination of minority partners' interest and income taxes	82,375	66,541	74,234	60,381
Elimination of minority partners' interest	12,827	1,323	10,368	(3)
Income before provision for income taxes	69,548	65,218	63,866	60,384
Provision for income taxes	24,481	22,643	22,481	21,033
Income before cumulative effect of a change in accounting principle	45,067	42,575	41,385	39,351
Cumulative effect of a change in accounting principle (net of taxes)			(4,422)	(740)
Net income	45,067	42,575	36,963	38,611
Basic earnings per common share				
Income before cumulative effect of a change in accounting principle	\$ 0.59	\$ 0.56	\$ 0.54	\$ 0.51
Cumulative effect of a change in accounting principle (net of taxes)			(0.06)	(0.01)
Net income	\$ 0.59	\$ 0.56	\$ 0.48	\$ 0.50
Diluted earnings per common share				
Income before cumulative effect of a change in accounting principle	\$ 0.58	\$ 0.54	\$ 0.52	\$ 0.49
Cumulative effect of a change in accounting principle (net of taxes)			(0.06)	(0.01)
Net income	\$ 0.58	\$ 0.54	\$ 0.46	\$ 0.48

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OUTBACK STEAKHOUSE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation and Restatement (continued)

RESTATEMENT (CONTINUED)

The following table reflects the effect of the restatement on the Consolidated Balance Sheets (in thousands):

	March 31, 2003		December 31, 2002	
	(unaudited)			
	As previously reported	As restated	As previously reported	As restated
Selected Balance Sheet Data:				
Investments in and advances to unconsolidated affiliates, net	\$ 35,203	\$ 34,851	\$ 38,667	\$ 38,180
Goodwill	89,516	50,011	85,842	46,337
Other assets and intangible assets, net	71,372	62,394	75,867	67,011
Total assets	1,403,501	1,354,666	1,401,680	1,352,832
Accrued expenses	68,395	73,217	66,360	70,127
Total current liabilities	213,627	218,449	239,121	242,888
Partner deposit and accrued buyout liability		59,725		55,720
Deferred income tax liability	48,280	13,684	47,470	15,916
Total liabilities	282,611	312,562	307,216	335,149
Interest of minority partners in consolidated partnerships	46,429	48,469	41,488	43,400
Additional paid-in capital	237,528	241,744	236,226	240,083
Retained earnings	936,181	851,139	902,910	820,360
Total stockholders' equity	1,074,461	993,635	1,052,976	974,283
Total liabilities and stockholders' equity	1,403,501	1,354,666	1,401,680	1,352,832

The following table reflects the effect of the restatement on the Consolidated Statements of Cash Flows (in thousands):

	Three Months Ended March 31, 2003		Three Months Ended March 31, 2002	
	(unaudited)			
	As previously reported	As restated	As previously reported	As restated
Selected Cash Flow Data:				
Net income	\$ 45,067	\$ 42,575	\$ 36,963	\$ 38,611
Amortization	621		602	
Employee partner stock buyout expense		1,255		931
Cumulative effect of a change in accounting principle (net of taxes)			4,422	740
Minority partners' interest in consolidated partnerships' income	12,827	1,323	10,368	(3)
Income from operations of unconsolidated affiliates	(1,306)	(1,289)	(1,552)	(1,526)
(Increase) decrease in goodwill, other assets and intangible assets, net	(1,695)	(1,104)	2,493	4,027
Increase (decrease) in accounts payable, sales taxes payable and accrued expenses	2,897	3,952	(5,216)	(3,828)
Increase in partner deposit and accrued buyout liability		2,750		2,993
(Decrease) increase in deferred income taxes	(1,650)	(4,333)	699	(1,698)
Net cash provided by operating activities	34,212	22,580	58,958	50,426

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Proceeds from minority partners contributions	6,350	4,357	2,732	
Distributions to minority partners	(14,236)	(611)	(12,209)	(945)
Net cash used in financing activities	(31,762)	(20,130)	(17,784)	(9,252)

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OUTBACK STEAKHOUSE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

2. Other Current Assets

Other current assets consisted of the following (in thousands):

	March 31, 2003 (unaudited)	December 31, 2002
Deposits (including income tax deposits)	\$ 4,916	\$ 4,911
Accounts receivable	7,277	8,614
Accounts receivable franchisees	2,511	2,920
Prepaid expenses	17,320	14,255
Other current assets	1,055	686
	<u>\$ 33,079</u>	<u>\$ 31,386</u>

3. Property, Fixtures and Equipment, Net

Property, fixtures and equipment consisted of the following (in thousands):

	March 31, 2003 (unaudited)	December 31, 2002
Land	\$ 166,190	\$ 166,600
Buildings & building improvements	468,243	454,682
Furniture & fixtures	124,542	119,450
Equipment	305,565	295,718
Leasehold improvements	207,317	201,975
Construction in progress	34,215	30,992
Accumulated depreciation	(371,379)	(354,395)
	<u>\$ 934,693</u>	<u>\$ 915,022</u>

4. Goodwill

The change in the carrying amount of goodwill for the three months ended March 31, 2003 is as follows (in thousands):

December 31, 2002, restated	\$46,337
Acquisitions (see Note 10 of Notes to Unaudited Consolidated Financial Statements)	3,674
	<u> </u>
March 31, 2003, restated	<u>\$50,011</u>

5. Other Assets

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Other assets consisted of the following (in thousands):

	March 31, 2003 (unaudited)	December 31, 2002
Other assets	\$38,281	\$43,157
Liquor licenses, net of accumulated amortization of \$3,168 and \$3,024, respectively	9,363	8,854
Deferred license fee, net of valuation provision of approximately \$1,250,000	14,750	15,000
	<u>62,394</u>	<u>67,011</u>

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OUTBACK STEAKHOUSE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

5. Other Assets (continued)

During January 2001, the Company entered into a ten-year licensing agreement with an entity owned by minority interest owners of certain non-restaurant operations. The licensing agreement transferred the right and license to use certain assets of these non-restaurant operations. License fees payable over the term of the agreement total approximately \$22,000,000.

In July 2002, the Company agreed to defer certain scheduled payments of approximately \$1,500,000 for one year. Subsequently, during the third quarter of 2002, the licensee made a \$325,000 payment towards this deferred amount. During the fourth quarter of 2002, the Company agreed to revise the remaining payment schedule.

During 2002, the licensee made additional payments towards amounts due under the licensing agreement. Accordingly, based upon meeting certain criteria pursuant to the applicable accounting provisions, the Company reduced the net book value of the assets subject to the licensing agreement with the deferred gain associated with the transaction. No gain has been recognized on the transaction and the remaining deferred gain of approximately \$2,189,000, as of March 31, 2003, associated with future licensing fees under the licensing agreement will not be recognized until such time as the amounts due under the licensing agreement are realized. (See Note 8 of Notes to Unaudited Consolidated Financial Statements.)

Other Assets also includes approximately \$10,059,000 in loans to the Company's operating partner in the Outback/Fleming's, LLC (the "LLC") for the partner's share of capital to build new restaurants required beyond the initial capital contributed by the Company pursuant to the partnership agreement. The Company expects to continue to make advances to its operating partner for the construction of new restaurants. The carrying value of the loan is exceeded by the value of the partner's interest in the partnership. The Company has a 50% ownership interest in the LLC, and is subject to a purchase or sale option after the twentieth restaurant is opened, which may require the Company to purchase an additional 40% in the LLC at a market value as determined by the terms of the partnership agreement.

6. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	March 31, 2003 (unaudited) (restated)	December 31, 2002 (restated)
Accrued payroll and other compensation	\$25,488	\$25,877
Accrued insurance	16,398	17,002
Accrued property taxes	7,390	8,361
Accrued advertising	11,115	4,989
Other accrued expenses	12,826	13,898
	\$73,217	\$70,127

During the year ended December 31, 2002, the Company recorded a provision for impaired assets and restaurant closings of approximately \$5,281,000. Provision accruals of approximately \$50,000 and \$300,000 were included in other accrued expenses as of March 31, 2003 and December 31, 2002, respectively.

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OUTBACK STEAKHOUSE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

7. Long-term Debt

Long-term debt consisted of the following (in thousands):

	March 31, 2003 (unaudited)	December 31, 2002
Revolving line of credit, interest at 1.88% and 2.39% at March 31, 2003 and December 31, 2002, respectively	\$ 10,000	\$ 10,000
Other notes payable, uncollateralized, interest rates ranging from 2.54% to 6.65% at March 31, 2003 and 3.07% to 6.75% at December 31, 2002	22,580	21,900
	<u>32,580</u>	<u>31,900</u>
Less current portion	<u>18,065</u>	<u>17,464</u>
Long-term debt	<u>\$ 14,515</u>	<u>\$ 14,436</u>

LONG-TERM DEBT

The Company has an uncollateralized revolving line of credit which permits borrowing of up to a maximum of \$125,000,000 at 57.5 basis points over the 30, 60, 90 or 180 day London Interbank Offered Rate (LIBOR) (1.23% to 1.34% at March 31, 2003 and 1.37% to 1.44% at December 31, 2002). At March 31, 2003 and December 31, 2002 the unused portion of the revolving line of credit was \$115,000,000. The credit agreement requires payment of a credit facility fee of 17.5 basis points on the total facility and matures in December 2004.

The Company has a \$15,000,000 uncollateralized line of credit bearing interest at rates ranging from 57.5 to 95.0 basis points over LIBOR. Approximately \$7,102,000 and \$4,042,000 of the line of credit was committed for the issuance of letters of credit at March 31, 2003 and December 31, 2002, respectively, as required by insurance companies that underwrite the Company's workers compensation insurance. The remaining \$7,898,000 at March 31, 2003 is available to the Company.

The Company has notes payable with banks bearing interest at rates ranging from 6.00% to 6.30% to support the Company's Korean operations. As of March 31, 2003 and December 31, 2002, the outstanding balance was approximately \$16,761,000 and \$16,353,000, respectively. The notes are denominated and payable in Korean won and mature at dates ranging from April 2003 to March 2004.

DEBT GUARANTEES

The Company is the guarantor of two uncollateralized lines of credit that permit borrowing of up to \$20,000,000 for its franchisee operating Outback Steakhouses in Japan. The lines of credit are denominated and payable in Japanese yen and renew every six months, with outstanding balances maturing at dates ranging from April through September 2003. At March 31, 2003 and December 31, 2002 the borrowings totaled approximately \$19,741,000 and \$16,953,000, respectively. Subsequent to March 31, 2003, the Company obtained a controlling interest in the Japanese franchise operations. As a result, the Company became directly liable for borrowings outstanding upon closing of the transaction. (See Note 13 of Notes to Unaudited Consolidated Financial Statements.)

The Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to \$35,000,000, maturing in December 2004, for one of its franchisees. At March 31, 2003 and December 31, 2002, the outstanding balance was approximately \$28,439,000 and \$28,496,000, respectively.

The Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of \$24,500,000, maturing in December 2004, for its joint venture partner in the development of Roy's restaurants. At March 31, 2003 and December 31, 2002, the outstanding balance was approximately \$20,439,000 and \$19,939,000, respectively.

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OUTBACK STEAKHOUSE, INC.
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7. Long-term Debt (continued)**DEBT GUARANTEES (CONTINUED)**

The Company is the guarantor of bank loans made to certain franchisees operating Outback Steakhouse restaurants. At March 31, 2003 and December 31, 2002, the outstanding balance on these loans was approximately \$157,000 and \$195,000, respectively.

The Company is the guarantor of up to approximately \$9,445,000 of a \$68,000,000 note for an unconsolidated affiliate in which the Company has a 22.22% equity interest and for which the Company operates catering and concession facilities. This note matures beginning December 2003 with final maturity December 2022. At March 31, 2003 and December 31, 2002, the outstanding balance on the note was approximately \$68,000,000.

The Company's contractual debt obligations and debt guarantees as of March 31, 2003 are summarized in the table below (in thousands):

	<u>Total</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Debt	\$32,580	\$18,065	\$14,515
Debt guarantees	\$89,103	\$20,359	\$68,744
Amount outstanding under debt guarantees	\$78,221	\$20,100	\$58,121

8. Other Long-Term Liabilities

Other long-term liabilities consisted of the following (in thousands):

	<u>March 31, 2003 (unaudited)</u>	<u>December 31, 2002</u>
Accrued insurance	\$4,000	\$4,000
Other deferred liability	2,189	2,189
	<u>\$6,189</u>	<u>\$6,189</u>

In January 2001, the Company entered into a ten-year licensing agreement with an entity owned by minority interest owners of certain non-restaurant operations. The licensing agreement transferred the right and license to use certain assets of these non-restaurant operations. The Company has deferred recognition of any gain associated with the transaction until such time as the amounts due under the licensing agreement are realized. (See Note 5 of Notes to Unaudited Consolidated Financial Statements.)

9. Foreign Currency Translation and Comprehensive Income

For all significant non-U.S. operations, the functional currency is the local currency. Assets and liabilities of those operations are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates for the reporting period. Translation gains and losses are reported as a separate component of accumulated other comprehensive income (loss) in stockholders' equity.

Comprehensive income includes net income and foreign currency translation adjustments. Total comprehensive income for the quarter ended March 31, 2003 was approximately \$42,247,000, which included the effect of loss from translation adjustments of approximately \$328,000.

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10. Business Combinations

In January 2003, the Company was conveyed two restaurants from Fleming's Prime Steakhouse II (FPSH II), the operator of three unaffiliated Fleming's Prime Steakhouses, which the Company had previously agreed to purchase. The estimated fair market value of the assets received was deemed to satisfy outstanding principal and accrued interest on amounts owed by FPSH II to the Company of approximately \$5,569,000. As a result of this transaction, the Company recorded goodwill of approximately \$3,674,000.

11. Recently Issued Financial Accounting Standards

Business Combinations and Goodwill and Other Intangible Assets

On June 30, 2001, the Financial Accounting Standards Board (FASB) finalized SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. With the adoption of SFAS No. 142 effective January 1, 2002, goodwill is no longer subject to amortization. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. Under the new rules, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged regardless of the acquirer's intent to do so. These intangible assets will be required to be amortized over their useful lives. Generally, the Company performs its annual assessment for impairment during the third quarter of its fiscal year unless facts and circumstances require differently.

In connection with the adoption of SFAS No. 142, the Company completed the transitional impairment testing of goodwill during the six months ended June 30, 2002. The adoption was made effective as of the beginning of 2002. The transitional impairment testing resulted in an initial goodwill impairment charge of approximately \$740,000, net of taxes of approximately \$446,000 during 2002, as restated. In accordance with SFAS No. 142, the initial impairment charge was recorded as a cumulative effect of a change in accounting principle in the Company's Consolidated Statements of Income for the six month period ended June 30, 2002.

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Statement No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company does not expect the implementation of SFAS No. 143 to have a material impact on its financial statements.

Accounting for the Impairment or Disposal of Long-Lived Assets

In August 2001, SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was issued, replacing SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and portions of APB Opinion 30, Reporting the Results of Operations. SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of and changes the criteria that would have to be met to classify an asset as held-for-sale. SFAS No. 144 retains the requirement of APB Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS No. 144 is effective January 1, 2002 and was adopted by the Company as of that date. The adoption of SFAS No. 144 did not have a material impact on the Company's financial condition or results of operations in the three months ended March 31, 2003.

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**OUTBACK STEAKHOUSE, INC.
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11. Recently Issued Financial Accounting Standards (continued)

Accounting for Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146, *Accounting for Exit or Disposal Activities*. SFAS No. 146 addresses significant issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The scope of SFAS No. 146 also includes (1) costs related to terminating a contract that is not a capital lease and (2) termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. The Company has adopted SFAS No. 146 effective January 1, 2003. The adoption did not have a material impact on the Company's financial condition or results of operations in the three months ended March 31, 2003.

Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect of Indebtedness of Others*. FIN 45 requires that upon the issuance of a guarantee, the guarantor must recognize the liability for the fair value of the obligation it assumes under the guarantee. FIN 45 provides that initial recognition and measurement should be applied on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year end. The disclosure requirements are effective for financial statements of both interim and annual periods that end after December 15, 2002. The Company has complied with the disclosure requirements and is in the process of determining the impact, if any, of adopting the provisions for initial recognition and measurement for guarantees issued or modified after December 31, 2002. The Company did not have any modifications of outstanding guarantees in the three months ended March 31, 2003.

Accounting for Stock-Based Compensation - Transition and Disclosure

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, an amendment of SFAS No. 123. This standard amends SFAS 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for companies that voluntarily change to the fair value based method of accounting for stock-based employee compensation. It also requires prominent disclosure about the effects on reported net income of a company's accounting policy decisions with respect to stock-based employee compensation in both annual and interim financial statements. The transition provisions and annual disclosure requirements are effective for all fiscal years ending after December 15, 2002, while the interim period disclosure requirements are effective for all interim periods beginning after December 15, 2002. (See Note 12 of Notes to Unaudited Consolidated Financial Statements.)

Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." This interpretation of Accounting Research Bulletin 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. The interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity must be included in the consolidated financial statements with those of the business enterprise.

This interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. FIN 46 initially applied to preexisting variable interest entities no later than the beginning of the first interim reporting period beginning after June 15, 2003. However, the implementation deadline has been delayed by the FASB to periods ending after December 15, 2003. The Company invests in joint ventures that operate certain of its restaurants, which may be considered variable interest entities and which may require consolidation beginning in the fourth quarter of 2003.

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The Company's joint ventures in the Outback/Fleming's LLC (the "LLC") and the Roy's/Outback Joint Venture (the "Roy's JV") are currently consolidated. These ventures would be considered variable interest entities under the provisions of FIN 46, and the Company believes it will continue to consolidate them upon adoption of that interpretation. The LLC and the Roy's JV restaurant systems consist of approximately 13 and 12 restaurants, respectively, as of March 31, 2003. The Company's maximum exposure to loss as a result of its involvement with the LLC is estimated to be the investment in the LLC and outstanding loans to its partner in the LLC (see Note 5 of Notes to Unaudited Consolidated Financial Statements) and totals approximately \$33,118,000 at March 31, 2003. The Company's maximum exposure to loss as a result of its involvement with the Roy's JV is estimated to be the investment in the Roy's JV and the outstanding debt guarantee on a line of credit for the Company's partner in the Roy's JV (see Note 7 of Notes to Unaudited Consolidated Financial Statements) and totals approximately \$40,895,000 at March 31, 2003.

The Company has ownership interests in 43 unconsolidated development joint venture restaurants. These ventures could be characterized as variable interest entities under the final interpretations of FIN 46, and the Company may be required to consolidate them upon adoption of that interpretation. The Company does not believe that consolidation of these entities would materially impact its Consolidated Financial Statements.

The Company has a minority investment in an unconsolidated affiliate in which it has have a 22.22% equity interest and for which it operates catering and concession facilities. Additionally, the Company guarantees a portion of the affiliate's debt (see Note 7 of Notes to Unaudited Consolidated Financial Statements). Although the Company holds an interest in this variable interest entity, it is currently believed that the Company is not the primary beneficiary of this entity and therefore will not consolidate its results upon adoption of FIN 46.

The Company is a franchisor of 165 restaurants and is currently assessing the impact of FIN 46 on the status of those franchisees as variable interest entities. As of the date of this filing, the FASB is in the process of modifying and/or clarifying certain provisions of FIN 46. Additionally, certain FASB Staff Positions ("FSPs") relating to FIN 46 are being deliberated. These modifications and FSPs, when finalized, could impact the Company's analysis of the applicability of FIN 46 to entities that are franchisees of its concepts. The Company does not possess any ownership interests in its franchisees and generally does not provide financial support to franchisees in its typical franchise relationship. However, the Company does guarantee an uncollateralized line of credit that permits borrowing of up to \$35,000,000, maturing in December 2004, for one of its franchisees (see Note 7 of Notes to Unaudited Consolidated Financial Statements). Depending on the final adoption provisions and interpretations of FIN 46, the Company may be required to consolidate certain of its franchisees, which could have a material effect on the Consolidated Financial Statements, and the Company is unable to quantify the total impact as of the date of this filing.

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OUTBACK STEAKHOUSE, INC.
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12. Stock-Based Compensation

The Company accounts for stock-based compensation under the intrinsic value method of accounting for stock-based compensation and has disclosed pro forma net income and earnings per share amounts using the fair value based method prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. (See Recently Issued Financial Accounting Standards in Note 11 of Notes to Unaudited Consolidated Financial Statements.)

	Three months ended March 31,	
	2003 (restated)	2002 (restated)
Net income	\$42,575	\$38,611
Stock-based employee compensation expense included in net income, net of related tax effects	803	694
Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(3,932)	(3,898)
Pro forma net income	\$39,446	\$35,407
Earnings per common share:		
Basic	\$ 0.56	\$ 0.50
Basic pro forma	\$ 0.52	\$ 0.46
Diluted	\$ 0.54	\$ 0.48
Diluted pro forma	\$ 0.50	\$ 0.44

13. Subsequent Event

On April 23, 2003, the Company announced that its Board of Directors declared a quarterly dividend of \$0.12 per share of the Company's Common Stock. The dividend is payable June 6, 2003 to shareholders of record as of May 23, 2003.

Subsequent to March 31, 2003, the Company obtained a controlling interest in its franchise operating restaurants in Japan. As part of this realignment, the Company contributed approximately \$2,488,000 in capital and became directly liable for approximately \$19,741,000 of debt that the Company previously guaranteed for the franchise.

Table of Contents**OUTBACK STEAKHOUSE, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the Unaudited Consolidated Financial Statements and the related Notes. Comparisons to reported amounts for 2002 are based upon restated results as discussed in Note 1 of the Notes to the Unaudited Consolidated Financial Statements.

Results of Operations (unaudited)

The following tables set forth, for the periods indicated, (i) the percentages that the items in the Company's Unaudited Consolidated Statements of Income bear to total revenues, or restaurant sales as indicated, and (ii) selected operating data:

	Three Months Ended March 31,	
	2003 (restated)	2002 (restated)
REVENUES		
Restaurant sales	99.2%	99.2%
Other revenues	0.8	0.8
TOTAL REVENUES	100.0	100.0
COSTS AND EXPENSES:		
Cost of sales (1)	36.0	37.4
Labor & other related (1)	24.6	24.1
Other restaurant operating (1)	20.9	19.8
Distribution expense to employee partners, excluding stock expense	2.3	2.3
Partner stock buyout expense	0.2	0.2
Depreciation & amortization	3.1	3.0
General & administrative	3.5	3.6
Income from operations of unconsolidated affiliates	(0.2)	(0.3)
Total costs and expenses	89.7	89.6
INCOME FROM OPERATIONS	10.3	10.4
OTHER INCOME (EXPENSE), NET	(0.1)	(0.1)
INTEREST INCOME	0.1	0.1
INTEREST EXPENSE	(0.1)	(*)
INCOME BEFORE ELIMINATION OF MINORITY PARTNERS' INTEREST AND INCOME TAXES	10.2	10.4
ELIMINATION OF MINORITY PARTNERS' INTEREST	0.2	(*)
INCOME BEFORE PROVISION FOR INCOME TAXES	10.0	10.4
PROVISION FOR INCOME TAXES	3.5	3.6
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	6.5	6.8
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (NET OF TAXES)		(0.1)
NET INCOME	6.5%	6.7%

(1) As a percentage of restaurant sales.

Table of Contents**OUTBACK STEAKHOUSE, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Results of Operations (unaudited) (continued)**

System-wide sales grew by 10.8%, to \$793,000,000, for the quarter ended March 31, 2003. System-wide sales is a non-GAAP financial measure that includes sales of all restaurants operating under the Company's brand names, whether the Company own them or not. The two components of system-wide sales, including those of Outback Steakhouse, Inc. and those of franchisees and unconsolidated development joint ventures, is provided below:

	Three Months Ended March 31,	
	2003	2002
OUTBACK STEAKHOUSE, INC. RESTAURANT SALES (in millions):		
Outback Steakhouses	\$ 526	\$ 486
Carrabba's Italian Grills	76	62
Other restaurants	45	27
	<u> </u>	<u> </u>
System-wide total	\$ 647	\$ 575
	<u> </u>	<u> </u>

The following information presents sales for the franchised and unconsolidated development joint venture restaurants. These are restaurants that are not owned by us and from which we only receive a franchise royalty or a portion of their total net income. Management believes that franchise and unconsolidated development joint venture sales information is useful in analyzing our revenues because franchisees and affiliates pay service fees and/or royalties that generally are based on a percent of sales. Management also uses this information to make decisions about future plans for the development of additional restaurants and new concepts as well as evaluation of current operations.

These sales do not represent sales of Outback Steakhouse, Inc., and are presented only as an indicator of the changes in the restaurant system, which we believe is important information regarding the health of our restaurant brands.

	Three Months Ended March 31,	
	2003	2002
FRANCHISE AND DEVELOPMENT JOINT VENTURE SALES (in millions) (1):		
Outback Steakhouses		
Domestic	\$ 96	\$ 93
International	24	23
	<u> </u>	<u> </u>
Total	120	116
Carrabba's Italian Grills	22	22
Other restaurants	4	3
	<u> </u>	<u> </u>
System-wide total	\$ 146	\$ 141
	<u> </u>	<u> </u>

(1) Franchise and development joint venture sales are not included in Company revenues as reported in our Consolidated Statements of Income.

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Results of Operations (unaudited) (continued)**

	March 31,	
	2003	2002
Number of restaurants (at end of the period):		
Outback Steakhouses		
Company owned	622	581
Domestic franchised and development joint venture	118	116
International franchised and development joint venture	55	49
	<u> </u>	<u> </u>
Total	795	746
	<u> </u>	<u> </u>
Carrabba's Italian Grills		
Company owned	98	77
Development joint venture	29	28
	<u> </u>	<u> </u>
Total	127	105
	<u> </u>	<u> </u>
Fleming's Prime Steakhouse and Wine Bars		
Company owned	18	13
	<u> </u>	<u> </u>
Roy's		
Company owned	15	12
Franchised and development joint venture	2	2
	<u> </u>	<u> </u>
Total	17	14
	<u> </u>	<u> </u>
Lee Roy Selmon's		
Company owned	1	1
	<u> </u>	<u> </u>
Bonefish Grills		
Company owned	15	4
Franchised and development joint venture	4	1
	<u> </u>	<u> </u>
Total	19	5
	<u> </u>	<u> </u>
Cheeseburger in Paradise		
Company owned	1	—
	<u> </u>	<u> </u>
System-wide total	978	884
	<u> </u>	<u> </u>

Table of Contents**OUTBACK STEAKHOUSE, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Three months ended March 31, 2003 and 2002 (unaudited)**

Revenues. Restaurant sales increased by 12.6% to \$646,672,000 during the first three months of 2003 compared with \$574,555,000 in the same period in 2002. The increase in restaurant sales was primarily attributable to the opening of new restaurants after March 31, 2002. The following table includes additional activities that influenced the changes in restaurant sales at domestic Company owned restaurants for the three months ended March 31, 2003 and 2002:

	Three Months Ended March 31,	
	2003	2002
Average unit volumes (weekly) for restaurants opened for one year or more (in thousands):		
Outback Steakhouses	\$66,967	\$66,998
Carrabba's Italian Grills	\$62,791	\$63,698
Average unit volumes (weekly) for restaurants opened for less than one year (in thousands):		
Outback Steakhouses	\$66,336	\$58,247
Carrabba's Italian Grills	\$59,538	\$66,492
Operating weeks		
Outback Steakhouses	7,425	7,035
Carrabba's Italian Grills	1,222	968
Menu price increases (1)		
Outback Steakhouses	2.1%	2.2%
Carrabba's Italian Grills	1.3%	1.4%
Year to year percentage change:		
Same-store sales (stores open 18 months or more):		
Outback Steakhouses	1.1%	(1.2)%
Carrabba's Italian Grills	(0.3)%	3.1%

- (1) Reflects nominal amounts of menu price changes, prior to any change in product mix because of price increases, and may not reflect amounts effectively paid by the customer.

Other revenues, consisting primarily of initial franchise fees and royalties, increased by \$572,000 to \$5,006,000 during the first three months of 2003 compared with \$4,434,000 in the same period in 2002. The increase was attributable to higher initial franchise fees and higher royalties from additional stores opened and operated as franchises during the first three months of 2003 compared with the same period in 2002. The increase was partially offset by the Company's decision to allow international franchisees in certain markets, including Costa Rica, the Dominican Republic, Indonesia, Mexico, Malaysia, Singapore, Thailand, the United Kingdom and Venezuela to spend the royalties due to the Company on additional advertising to increase brand awareness and penetration in new markets.

Costs and expenses. Cost of sales as a percentage of restaurant sales decreased by 1.4% to 36.0% in the first three months of 2003 compared with 37.4% in the same period in 2002. The decrease was attributable to commodity cost decreases for beef, ribs, shrimp and certain dairy products, partially offset by higher fresh fish costs. The decrease was also attributable to an increase in the proportion of consolidated sales and cost of sales associated with the Company's non-Outback Steakhouse restaurants which operate at lower cost of goods sold levels than Outback Steakhouse.

Labor and other related expenses include all direct and indirect labor costs incurred in operations, except for distribution expense to employee partners and employee partner stock buyout expense, described below. Labor and other related expenses increased as a percentage of restaurant sales by 0.5% to 24.6% in the first three months of 2003 compared with 24.1% in the same period in 2002. The increase resulted from lower average unit volumes at Carrabba's Italian Grills, higher hourly wage rates, and higher employee health insurance costs.

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OUTBACK STEAKHOUSE, INC.

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

Three months ended March 31, 2003 and 2002 (unaudited) (continued)

Other restaurant operating expenses include all other unit-level operating costs, the major components of which are operating supplies, rent, repairs and maintenance, advertising expenses, utilities, pre-opening costs and other occupancy costs. A substantial portion of these expenses are fixed or indirectly variable. These costs increased by 1.1% of restaurant sales to 20.9% in the first quarter of 2003, compared with 19.8% in the same period in 2002. The increase was attributable to increased advertising expense, higher natural gas, preopening, and supply costs and to lower average unit volumes at Carrabba's Italian Grills. The increase was also attributable to an increase in the proportion of new format restaurants and international Outback Steakhouses in operation which have higher average restaurant operating expenses as a percentage of restaurant sales than domestic Outback Steakhouses and Carrabba's Italian Grills.

Distribution expense to employee partners, excluding stock expense includes distributions to managing partners and area operating partners of their percentage of restaurant cash flows pursuant to their interest agreements and cash buyouts of managing partners' rights in the cash flows of their restaurants. These costs as a percentage of total revenues remained at 2.3% in the first quarter of 2003, compared with the same period in 2002. Increased overall restaurant operating margins across the consolidated brands were offset by fewer cash buyouts of managing partners occurring in 2003, compared to 2002.

Employee partner stock buyout expense includes non-cash expenses recorded for the accrual of future buyouts of area operating partners' rights in the cash flows of their restaurants. Upon buyout, area operating partners generally receive common stock in exchange for their rights in the cash flows of a restaurant. Employee partner stock buyout expense as a percentage of total revenues remained at 0.2% of total revenues in the first quarter of 2003, compared with the same period in 2002. Increases in expense due to new restaurants opened by area operating partners and increased overall restaurant operating margins across the consolidated brands were offset by buyouts of existing restaurants.

Depreciation costs increased as a percentage of total revenues by 0.1% to 3.1% in the first quarter of 2003 compared with 3.0% in the same period in 2002. The increase resulted primarily from additional depreciation related to new unit development and to higher depreciation costs for the new restaurant formats which have higher average construction costs than an Outback Steakhouse. Lower average unit volumes at Carrabba's Italian Grills also contributed to depreciation costs increasing as a percentage of restaurant sales.

General and administrative costs increased by \$1,367,000 to \$22,496,000 in the first quarter of 2003 compared with \$21,129,000 during the same period in 2002. This increase resulted from an increase in overall administrative costs associated with operating additional domestic and international Outback Steakhouses, Carrabba's Italian Grills, Fleming's Prime Steakhouses, Roy's and Bonefish Grills, as well as costs associated with the development of new restaurant formats.

Income from operations of unconsolidated affiliates represents the Company's portion of the income from restaurants operated as development joint ventures. Income from the development joint ventures was \$1,289,000 during the first quarter of 2003 compared with income of \$1,526,000 during the same period in 2002. This decrease was attributable to lower average unit volumes at Carrabba's Italian Grills operated as development joint ventures.

Income from operations. As a result of the increase in revenues, the changes in the relationship between revenues and expenses discussed above and the opening of new restaurants, income from operations increased by \$6,833,000 to \$67,295,000 in the first quarter of 2003 compared with \$60,462,000 in the same period in 2002.

Other income (expense), net. Other income (expense) includes the net of revenues and expenses from non-restaurant operations. Net other expense was \$943,000 during the first quarter of 2003 compared with net other expense of \$317,000 in the same period in 2002. The increase in net other expenses in 2003 is primarily the result of a gain of approximately \$500,000 from the sale of a non-operating asset during 2002, which did not recur in 2003.

Interest income. Interest income was \$542,000 during the first quarter of 2003 compared with interest income of \$535,000 in the same period in 2002. Interest income remained relatively unchanged due to higher short-term investment balances offset by lower interest rates during the first quarter of 2003 compared with the same period in 2002.

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OUTBACK STEAKHOUSE, INC.

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

Three months ended March 31, 2003 and 2002 (unaudited) (continued)

Interest expense. Interest expense was \$353,000 during the first quarter of 2003 compared with interest expense of \$299,000 in the same period in 2002. The increase in interest expense is due to higher average debt balances on borrowings used to support Outback Steakhouse's international operations during the first quarter of 2003 compared with the first quarter of 2002.

Elimination of minority partners' interest. The allocation of minority partners' income included in this line item represents the portion of income or loss from operations included in consolidated operating results attributable to the ownership interests of minority partners. As a percentage of revenues, these allocations were 0.2% and less than 1/10 of one percent during the quarters ended March 31, 2003 and 2002, respectively. The increase in the ratio is the result of an increase in overall restaurant operating margins and improvement in the performance of new format restaurants which have a higher percentage of minority interest than the Company's older formats.

Provision for income taxes. The provision for income taxes in the first quarter of both 2003 and 2002 reflected the expected income taxes due at federal statutory rates and state income tax rates, net of the federal benefit. The effective income tax rate was 34.7% and 34.8% during the first quarter of 2003 and 2002, respectively. Approximately 50% of the Company's international restaurants in which the Company has a direct investment are owned through a Cayman Island corporation.

Cumulative effect of a change in accounting principle. The cumulative effect of a change in accounting principle represents the effect of the adoption of the transitional impairment provisions of SFAS No. 142, Goodwill and Other Intangible Assets. The adoption was made effective as of the beginning of 2002. The cumulative effect of the change in accounting principle in the first quarter of 2002 was approximately \$740,000, net of taxes of approximately \$466,000. Basic and diluted earnings per share were both reduced by \$0.01 due to the impact of the change in accounting principle.

Net income and earnings per share. Net income for the first quarter of 2003 was \$42,575,000 compared with \$38,611,000 in the same period in 2002. Basic earnings per share increased to \$0.56 during the first quarter of 2003 compared with \$0.50 for the same period in 2002. Diluted earnings per share increased to \$0.54 during the first quarter of 2003 compared with \$0.48 for the same period in 2002.

Table of Contents**OUTBACK STEAKHOUSE, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Liquidity and Capital Resources (unaudited)**

The following table presents a summary of the Company's cash flows from operating, investing and financing activities for the periods indicated (in thousands):

	Year Ended December 31, 2002	Three Months Ended	
		March 31, 2003	March 31, 2002
Net cash provided by operating activities	\$ 294,000	\$ 22,580	\$ 50,426
Net cash used in investing activities	(168,066)	(34,279)	(51,747)
Net cash used in financing activities	(54,284)	(20,130)	(9,252)
Net increase (decrease) in cash and cash equivalents	\$ 71,650	\$ (31,829)	\$ (10,573)

The Company requires capital principally for the development of new restaurants, remodeling of older restaurants and investment in technology. The Company also requires capital to pay dividends to common stockholders (refer to additional discussion in the Dividend section of Management's Discussion and Analysis of Financial Condition and Results of Operation). Capital expenditures totaled approximately \$181,798,000 for year ended December 31, 2002 and approximately \$38,488,000 and \$45,891,000 during the first three months of 2003 and 2002, respectively. The Company either leases its restaurants under operating leases for periods ranging from five to 30 years (including renewal periods) or builds free standing restaurants where it is cost effective.

If there was a decrease in demand for the Company's products and services as a result of increased competition, changing consumer tastes, changes in local, regional and national economic conditions or changes in the level of consumer acceptance of the Company's restaurant brands, the Company's total revenues could decline significantly. The following table sets forth approximate amounts by which cash generated by operating activities may decline in the event of a decrease in revenues of 5%, 10% and 15% as compared with Total Revenues for the period ended December 31, 2002 (in thousands):

	5%	10%	15%
Decrease in total revenues	\$ (118,105)	\$ (236,211)	\$ (354,316)
Decrease in net income	\$ (23,104)	\$ (46,208)	\$ (69,312)
Decrease in cash generated by operating activities	\$ (28,787)	\$ (57,573)	\$ (86,360)

The estimates above are based on the assumption that income before minority partners' interest and provision for income taxes decreases approximately \$0.35 for every \$1.00 decrease in total revenues. These numbers are estimates only and do not consider other measures the Company could implement were such decreases in revenue to occur.

During 2001, the Company entered into an agreement with the founders of Bonefish Grill (Bonefish) to develop and operate Bonefish restaurants. Under the terms of the Bonefish agreement, the Company purchased the Bonefish restaurant operating system for approximately \$1,500,000. In addition, the interest in the three existing Bonefish Grills was contributed to a partnership formed between the Bonefish founders and the Company, and, in exchange, the Company committed to the first \$7,500,000 of future construction costs in the development of new restaurants of which approximately \$7,086,000 has been expended as of March 31, 2003.

The Company has formed joint ventures to develop Outback Steakhouses in Brazil and the Philippines. The Company is also developing Company owned restaurants internationally in Puerto Rico, Korea, Hong Kong and Japan.

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OUTBACK STEAKHOUSE, INC.

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

Liquidity and Capital Resources (unaudited) (continued)

In connection with the realignment of the Company's international operations, the Company expects to merge the interests of its franchisee operating restaurants in Japan into a new Japanese corporation which will be majority owned by the Company and which will have responsibility for the future development of Outback Steakhouse restaurants in Japan. As part of the realignment, the Company expects to become directly liable for the debt which it now guarantees, which totaled approximately \$19,741,000, with a potential maximum of \$20,000,000, as of March 31, 2003, referred to above and in Note 7 of Notes to Unaudited Consolidated Financial Statements. As part of this transaction, the Company also expects to invest approximately \$2,500,000 in equity in addition to the assumption of the bank debt. Subsequent to March 31, 2003, the Company completed the merger described above (see Note 13 of Notes to Unaudited Consolidated Financial Statements).

LONG-TERM DEBT

At March 31, 2003, the Company had two uncollateralized lines of credit totaling \$140,000,000. Approximately \$7,102,000 is committed for the issuance of letters of credit required by insurance companies that underwrite the Company's workers compensation insurance.

As of March 31, 2003, the Company had borrowed \$10,000,000 on the line of credit to finance the development of new restaurants.

The Company expects that its capital requirements through the end of 2003 will be met by cash flows from operations and, to the extent needed, advances on its line of credit. The revolving line of credit contains certain restrictions and conditions that require the Company to maintain net worth of \$574,509,000 as of March 31, 2003, a fixed charge coverage ratio of 3.5 to 1.0, and a maximum total debt to EBITDA ratio of 2.0 to 1.0. At March 31, 2003, the Company was in compliance with all of the above debt covenants. (See Note 7 of Notes to Unaudited Consolidated Financial Statements.)

The Company has notes payable with banks bearing interest at rates ranging from 6.00% to 6.30% to support the Company's Korean operations. As of March 31, 2003, the outstanding balance was approximately \$16,761,000. The notes are denominated and payable in Korean won and mature at dates ranging from April 2003 to March 2004.

DEBT GUARANTEES

As of the end of the quarter, the Company is the guarantor of two uncollateralized lines of credit that permit borrowing of up to \$20,000,000 for its franchisee operating Outback Steakhouses in Japan. At March 31, 2003 the borrowings totaled approximately \$19,741,000. (See Note 13 of Notes to Unaudited Consolidated Financial Statements.)

The Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to \$35,000,000 for its franchisee operating Outback Steakhouses in California. At March 31, 2003, the balance on the line of credit was approximately \$28,439,000.

The Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of \$24,500,000 for its joint venture partner in the development of Roy's restaurants. At March 31, 2003, the outstanding balance was approximately \$20,439,000.

The Company is the guarantor of bank loans made to certain franchisees operating Outback Steakhouses. At March 31, 2003, the outstanding balance on the loans was approximately \$157,000.

Table of Contents**OUTBACK STEAKHOUSE, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Liquidity and Capital Resources (unaudited) (continued)****DEBT GUARANTEES (CONTINUED)**

The Company is the guarantor of up to approximately \$9,445,000 of a \$68,000,000 note for an unconsolidated affiliate in which the Company has a 22.22% equity interest and for which the Company operates catering and concession facilities. At March 31, 2003, the outstanding balance on the note was approximately \$68,000,000. The Company's investment is included in the line item entitled Investments In and Advances to Unconsolidated Affiliates. This affiliate has not yet reached its operating break-even point. Accordingly, the Company has made two additional working capital contributions, \$667,000 in December 2001 and \$444,000 in July 2002, in addition to its original investment. The Company anticipates that it may need to make additional contributions for its pro rata portion of future losses, if any.

The Company is not aware of any non-compliance with the underlying terms of the borrowing agreements for which it provides a guarantee that would result in the Company having to perform in accordance with the terms of the guarantee.

DEBT AND DEBT GUARANTEE SUMMARY

The Company's contractual debt obligations, debt guarantees and commitments, excluding lease commitments, as of March 31, 2003 are summarized in the table below (in thousands):

	Total	Current Portion	Long-term Portion
	<u> </u>	<u> </u>	<u> </u>
Debt	\$ 32,580	\$ 18,065	\$ 14,515
Debt guarantees	\$ 89,103	\$ 20,359	\$ 68,744
Amount outstanding under debt guarantees	\$ 78,221	\$ 20,100	\$ 58,121
Commitments	\$ 414	\$ 414	\$

SHARE REPURCHASE

On July 26, 2000, the Company's Board of Directors authorized the repurchase of up to 4,000,000 shares of the Company's Common Stock, with the timing, price, quantity and manner of the purchases to be made at the discretion of management, depending upon market conditions. In addition, the Board of Directors also authorized the repurchase of shares on a regular basis to offset shares issued as a result of stock option exercises. During the period from the authorization date through March 31, 2003, approximately 3,249,000 shares of the Company's Common Stock have been issued as the result of stock option exercises. The Company will fund the repurchase program with available cash and bank credit facilities. As of March 31, 2003, under these authorizations the Company has repurchased approximately 6,520,000 shares of its Common Stock for approximately \$181,797,000.

DIVIDEND

On January 22 and April 23, 2003, the Company's Board of Directors declared a quarterly dividend of \$0.12 for each share of the Company's Common Stock. The January dividend was paid March 7, 2003 to shareholders of record as of February 21, 2003. The April dividend is payable June 6, 2003 to shareholders of record as of May 23, 2003. At the current dividend rate, the annual dividend payment is expected to be between \$35,000,000 and \$40,000,000 depending on the shares outstanding during the respective quarters. The Company intends to pay the dividend with cash flow from operations.

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OUTBACK STEAKHOUSE, INC.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Unaudited Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities during the reporting period (see Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K). The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K. The Company considers the following policies to be the most critical in understanding the judgments that are involved in preparing its financial statements.

Property, Fixtures and Equipment

Property, fixtures and equipment are recorded at cost. The Company expenses repair and maintenance costs incurred to maintain the appearance and functionality of the restaurant that do not extend the useful life of any restaurant asset or are less than \$1,000. Depreciation is computed on the straight-line basis over the following estimated useful lives:

Buildings and building improvements	20 to 31.5 years
Furniture and fixtures	7 years
Equipment	2 to 15 years
Leasehold improvements	5 to 20 years

The Company's accounting policies regarding property, fixtures and equipment include certain management judgments and projections regarding the estimated useful lives of these assets and what constitutes increasing the value and useful life of existing assets. These estimates, judgments and projections may produce materially different amounts of depreciation expense than would be reported if different assumptions were used.

Impairment of Long-Lived Assets

The Company assesses the potential impairment of identifiable intangibles, long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability of assets is measured by comparing the carrying value of the asset to the future cash flows expected to be generated by the asset. In evaluating long-lived restaurant assets for impairment, the Company considers a number of factors such as:

- a) Restaurant sales trends;
- b) Local competition;
- c) Changing demographic profiles;
- d) Local economic conditions;
- e) New laws and government regulations that adversely affect sales and profits; and/or
- f) The ability to recruit and train skilled restaurant employees.

Table of Contents**OUTBACK STEAKHOUSE, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Impairment of Long-Lived Assets (continued)**

If the aforementioned factors indicate that the Company should review the carrying value of the restaurant's long-lived assets, the Company performs an impairment analysis. Identifiable cash flows that are largely independent of other assets and liabilities typically exist for land and buildings, and for combined fixtures, equipment and improvements for each restaurant. If the total future cash flows are less than the carrying amount of the asset, the carrying amount is written down to the estimated fair value, and a loss resulting from value impairment is recognized by a charge to earnings.

Judgments and estimates made by the Company related to the expected useful lives of long-lived assets are affected by factors such as changes in economic conditions and changes in operating performance. As the Company assesses the ongoing expected cash flows and carrying amounts of its long-lived assets, these factors could cause the Company to realize a material impairment charge.

Insurance Reserves

The Company self-insures a significant portion of expected losses under its workers compensation, general liability, health and property insurance programs. The Company purchases insurance for individual claims that exceed the amounts listed in the following table:

Workers Compensation	\$ 1,000,000
General Liability	\$ 1,000,000
Health	\$ 230,000
Property damage	\$5,000,000

The Company records a liability for all unresolved claims and for an estimate of incurred but not reported claims at the anticipated cost to the Company based on estimates provided by a third party administrator and insurance company. The Company's accounting policies regarding insurance reserves include certain actuarial assumptions and management judgments regarding economic conditions, the frequency and severity of claims and claim development history and settlement practices. Unanticipated changes in these factors may produce materially different amounts of expense that would be reported under these programs.

Revenue Recognition

The Company records revenues for normal recurring sales upon the performance of services. Revenues from the sales of franchises are recognized as income when the Company has substantially performed all of its material obligations under the franchise agreement. Continuing royalties, which are a percentage of net sales of franchised restaurants, are accrued as income when earned. These revenues are included in the line "Other revenues" in the Unaudited Consolidated Statements of Income.

Unearned revenues primarily represent the Company's liability for gift certificates which have been sold but not yet redeemed and are recorded at the anticipated redemption value. When the gift certificates are redeemed, the Company recognizes restaurant sales and reduces the related deferred liability.

Employee Partner Stock Buyout Expense

Area operating partners are required to purchase a 4-9% interest in the restaurants they develop for an initial investment of \$50,000. This interest gives the area operating partner the right to receive a percentage of his or her restaurants' annual cash flows for the duration of the agreement. Under the terms of these partners' employment agreements, the Company has the option to purchase their interest after a five-year period under the conditions of the agreement. The Company estimates future purchases of area operating partners' interests using current information on restaurant performance to calculate and record an accrued buyout liability in the line item "Partner deposit and accrued buyout liability" in the Consolidated Balance Sheets. When partner buyouts occur, they are primarily completed through issuance of the Company's Common Stock to the partner equivalent to the fair value of their interest. In the period the Company completes the buyout, an adjustment is recorded to recognize any remaining expense associated with the purchase and reduce the related accrued buyout liability.

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OUTBACK STEAKHOUSE, INC.

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

Principles of Consolidation

The Consolidated Financial Statements include the accounts and operations of the Company and affiliated partnerships in which the Company is a general partner and owns a controlling financial interest. The Consolidated Financial Statements also include the accounts and operations of consolidated ventures in which the Company has a less than majority ownership. The Company consolidates these ventures because the Company controls the board of directors or has control through representation on the board by related parties and is able to direct or cause the direction of management and operations on a day-to-day basis. Additionally, the majority of capital contributions made by partners in the consolidated ventures have been funded by loans to the partners either directly from the Company, or from a third party where the Company is required to be a guarantor of the debt, which provides the Company control through its collateral interest in the joint venture partners membership interests. The portion of income or loss attributable to the minority interests, not to exceed the minority interest's equity in the consolidated entity, is eliminated in the line item in the Consolidated Statements of Income entitled "Elimination of minority partners' interest." All material intercompany balances and transactions have been eliminated.

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OUTBACK STEAKHOUSE, INC.

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

OUTLOOK

The following discussion of the Company's future operating results and expansion strategy and other statements in this report that are not historical statements constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements represent the Company's expectations or beliefs concerning future events and may be identified by words such as believes, anticipates, expects, plans, should, estimates and similar expressions. The Company's forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated or implied in the forward-looking statement. We have endeavored to identify the most significant factors that could cause actual results to differ materially from those stated or implied in forward-looking statements in the section entitled "Cautionary Statement" below. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

In the Outlook portion of Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2002, the Company provided information on the outlook for its businesses in 2003 and factors that may affect the Company's financial results for that year.

The remaining paragraphs in this Outlook section update the information provided in the Form referenced above and the Company recommends that this section be read in conjunction with that Outlook section.

Future Operating Results

As of the date of this report substantial uncertainty exists as to the strength of consumer spending as a result of the economic downturn. The Company's revenue growth expectations summarized in the following paragraph assume that current spending trends do not worsen in the remaining quarters of 2003. The Company's revenues and financial results in the remainder of 2003 could vary significantly depending upon consumer and business spending trends.

During the three month period ended March 31, 2003, compared with the same period a year ago, average unit volumes for Outback increased by approximately 1.2% and average unit volumes for Carrabba's Italian Grills (Carrabba's) decreased by approximately 3.6%. Average unit volumes for Carrabba's Italian Grills were below those anticipated in the Company's comments in Form 10-K referenced above. As a result of the decline in average unit volumes for Carrabba's Italian Grills, the Company is now anticipating gains of only zero to one percent for the remainder of 2003 for Carrabba's Italian Grills. To the extent negative sales trends continue, the Company's revenues and operating results for the full year may fall short of its original objectives.

During the quarter ended March 31, 2003, the Company benefited from lower than expected commodity costs for potatoes and certain produce items. As a result of lower commodity costs, the Company now expects cost of goods sold as a percentage of restaurant sales for the full year to be 20 to 30 basis points lower than originally expected, for a total of approximately 70 basis points.

Because of higher health insurance costs, lower average unit volumes at Carrabba's Italian Grill and higher wage rates for kitchen employees, the Company now expects labor costs as a percentage of restaurant sales for the full year to be 10 to 20 basis points higher than originally planned, for a total of 30 to 40 basis points.

Because higher than anticipated advertising, natural gas, supply costs associated with the take-out business, and lower average unit volumes at Carrabba's Italian Grills, the Company is now planning for restaurant operating expenses as a percentage of sales for the remainder of the year to be 10 to 20 basis points higher than originally expected, for a total of 50 to 60 basis points.

The Company is now planning for the remainder of 2003 for all other expense ratio variances to be comparable to those experienced in and reported for the first quarter of 2003.

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS***Expansion Strategy.*

The Company's goal is to add new restaurants to the system during the remainder of 2003. The following table presents a summary of the expected restaurant openings during the full year 2003:

	<u>2003</u>
Outback Steakhouses - Domestic	
Company owned	26 to 28
Franchised	1 to 2
Outback Steakhouses - International	
Company owned	10 to 12
Franchised	4 to 5
Carrabba's Italian Grills	
Company owned	24 to 26
Fleming's Prime Steakhouse and Wine Bars	
Company owned	6 to 8
Roy's	
Company owned	1 to 2
Lee Roy Selmon's	
Company owned	1
Bonefish Grills	
Company owned	15 to 18
Franchised	1 to 2
Cheeseburger in Paradise	
Company owned	1 to 2

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OUTBACK STEAKHOUSE, INC.

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

Cautionary Statement

As noted above, the Company's actual results could differ materially from those stated or implied in the forward-looking statements included in the discussion of future operating results and expansion strategy and elsewhere in this report as a result, among other things, of the following:

- (i) The restaurant industry is a highly competitive industry with many well-established competitors;
- (ii) The Company's results can be impacted by changes in consumer tastes and the level of consumer acceptance of the Company's restaurant concepts; local, regional and national economic conditions, which could be adversely affected by further weakening in consumer spending; the seasonality of the Company's business; demographic trends; traffic patterns; consumer perception of food safety; employee availability; the cost of advertising and media; government actions and policies; inflation; and increases in various costs;
- (iii) The Company's ability to expand is dependent upon various factors such as the availability of attractive sites for new restaurants, ability to obtain appropriate real estate sites at acceptable prices, ability to obtain all required governmental permits including zoning approvals and liquor licenses on a timely basis, impact of government moratoriums or approval processes, which could result in significant delays, ability to obtain all necessary contractors and subcontractors, union activities such as picketing and hand billing that could delay construction, the ability to generate or borrow funds, the ability to negotiate suitable lease terms, and the ability to recruit and train skilled management and restaurant employees;
- (iv) Price and availability of commodities, including but not limited to such items as beef, chicken, shrimp, pork, seafood, dairy, potatoes, onions and energy costs are subject to fluctuation and could increase or decrease more than the Company expects; and/or
- (v) Weather and acts of God could result in construction delays and also adversely affect the results of one or more stores for an indeterminate amount of time.

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**OUTBACK STEAKHOUSE, INC.
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on debt, changes in foreign currency exchange rates and changes in commodity prices.

The Company's exposure to interest rate risk relates to its outstanding bank debt. Borrowings under the Company's revolving lines of credit of \$140,000,000 bear interest at rates ranging from 57.5 to 95 basis points over the 30, 60, 90 or 180 London Interbank Offered Rate. At March 31, 2003 and December 31, 2001, the Company had \$10,000,000 outstanding on its lines of credit. The Company has notes payable bearing interest at rates ranging from 6.00% to 6.30% to support the Company's Korean operations. As of March 31, 2003, the outstanding Korean debt balance was approximately \$16,761,000. As of the end of the quarter, the Company is the guarantor of two uncollateralized lines of credit that permit borrowing of up to \$20,000,000 for its franchisee operating Outback Steakhouses in Japan. At March 31, 2003, the borrowings totaled approximately \$19,741,000. Subsequent to March 31, 2003, the Company became directly liable for the outstanding amounts under these lines of credit (see Note 13 of Notes to Unaudited Consolidated Financial Statements).

The Company's exposure to foreign currency exchange risk relates primarily to its direct investment in restaurants in Korea, Hong Kong, the Philippines and Brazil and to its royalties from international franchisees in 21 countries. The Company does not use financial instruments to hedge foreign currency exchange rate changes.

Many food products purchased by the Company and its franchisees are affected by commodity pricing and are, therefore, subject to unpredictable price volatility. These commodities are generally purchased based upon market prices established with vendors. The purchase arrangement may contain contractual features that limit the price paid by establishing certain price floors and caps. The Company does not use financial instruments to hedge commodity prices because these purchase arrangements help control the ultimate cost paid. Extreme changes in commodity prices and/or long-term changes could affect the Company adversely. However, any changes in commodity prices would affect the Company's competitors at about the same time as the Company. The Company expects that in most cases increased commodity prices could be passed through to its consumers via increases in menu prices. From time to time, competitive circumstances could limit menu price flexibility, and in those cases margins would be negatively impacted by increased commodity prices.

This market risk discussion contains forward-looking statements. Actual results may differ materially from the discussion based upon general market conditions and changes in domestic and global financial markets.

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**OUTBACK STEAKHOUSE, INC.
CONTROLS AND PROCEDURES**

Item 4. CONTROLS AND PROCEDURES

The Company has established and maintains disclosure controls and procedures that are designed to ensure that material information relating to the Company and its subsidiaries required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Within the 90 days prior to the date of this quarterly report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the date of such evaluation.

The Chief Executive Officer and Chief Financial Officer have also concluded that there were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date that the Company completed its evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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OUTBACK STEAKHOUSE, INC.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to legal proceedings, claims and liabilities, such as liquor liability, sexual harassment and slip and fall cases etc., which arise in the ordinary course of business and are generally covered by insurance. In the opinion of management, the amount of the ultimate liability with respect to those actions will not have a materially adverse impact on the Company's financial position or result of operations and cash flows.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act

31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act

32.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002¹

32.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002¹

¹ These certifications are not deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. These certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates them by reference.

(b) Reports on Form 8-K

The Company filed a report on Form 8-K with the Securities and Exchange Commission dated March 4, 2003 announcing a 10b5-1 plan entered into by Timothy Gannon.

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SIGNATURE

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

Date: December 10, 2003

OUTBACK STEAKHOUSE, INC.
(Registrant)

By: /s/ Robert S. Merritt

Robert S. Merritt
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)