OUTBACK STEAKHOUSE INC
Form 10-Q
August 14, 2002

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2002
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.(R)
(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 X No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 9, 2002, there were 76,705,445 shares of Common Stock, $.01 par value, outstanding.

OUTBACK STEAKHOUSE, INC.(R)

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited consolidated financial statements have been prepared by Outback Steakhouse, Inc.(R) and Affiliates (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of 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.

OUTBACK STEAKHOUSE, INC.(R)
CONSOLIDATED BALANCE SHEETS
(in thousands, unaudited)

ASSETS	June 30, 2002	December 31, 2001
CURRENT ASSETS		
Cash and cash equivalents	$150,845	$115,928
Short term investments	20,567	20,310
Inventories	29,034	38,775
Other current assets	24,736	31,347
Total current assets	225,182	206,360
PROPERTY, FIXTURES AND EQUIPMENT, NET	866,125	813,065
INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES, NET	50,289	46,485
GOODWILL AND OTHER INTANGIBLE ASSETS, NET	97,153	94,453
OTHER ASSETS	72,458	77,385
	$1,311,207	$1,237,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 41,088	$ 47,179
Sales taxes payable	14,992	13,096
Accrued expenses	64,008	56,587
Unearned revenue	17,494	60,135
Income taxes payable	14,023	
Current portion of long-term debt	15,254	12,763
Total current liabilities	166,859	189,760
DEFERRED INCOME TAXES	32,839	22,878
LONG-TERM DEBT	14,661	13,830
OTHER LONG-TERM LIABILITIES	23,675	24,500
Total liabilities	238,034	250,968
INTEREST OF MINORITY PARTNERS IN CONSOLIDATED PARTNERSHIPS	42,453	44,936
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value, 200,000 shares authorized;		

78,750 and 78,554 shares issued; and 77,470 and 76,913 shares outstanding as of June 30, 2002 and December 31, 2001, respectively..	788	786
Additional paid-in capital.........	234,550	220,648
Retained earnings..................	836,794	762,414
	1,072,132	983,848
Less treasury stock, 1,280 and 1,641 shares as of June 30, 2002 and December 31, 2001, respectively, at cost..........................	(41,412)	(42,004)
Total stockholders' equity.........	1,030,720	941,844
	$1,311,207	$1,237,748

See notes to unaudited consolidated financial statements.

OUTBACK STEAKHOUSE, INC.(R)
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, unaudited)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
REVENUES				
Restaurant sales..............	$591,422	$534,309	$1,165,977	$1,050,963
Other revenues................	4,871	4,535	9,305	9,134
TOTAL REVENUES..............	596,293	538,844	1,175,282	1,060,097
COSTS AND EXPENSES:				
Cost of sales...............	217,333	205,344	432,141	400,468
Labor & other related.......	144,659	127,910	282,961	250,900
Other restaurant operating..	118,381	105,413	232,430	206,458
Depreciation & amortization.	18,738	16,821	36,676	32,789
General & administrative....	22,207	20,478	43,336	39,740
Income from operations of unconsolidated affiliates.	(1,549)	(977)	(3,101)	(1,978)
Total costs and expenses...	519,769	474,989	1,024,443	928,377
INCOME FROM OPERATIONS.........	76,524	63,855	150,839	131,720
OTHER INCOME (EXPENSE), NET....	(663)	275	(980)	(960)
INTEREST INCOME (EXPENSE), NET.	320	637	556	1,761
INCOME BEFORE ELIMINATION OF MINORITY PARTNERS' INTEREST AND INCOME TAXES............	76,181	64,767	150,415	132,521
ELIMINATION OF MINORITY PARTNERS' INTEREST....................	10,647	8,550	21,015	17,656
INCOME BEFORE PROVISION FOR INCOME TAXES.................	65,534	56,217	129,400	114,865
PROVISION FOR INCOME TAXES.....	23,068	19,671	45,549	40,432
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE....................	42,466	36,546	83,851	74,433
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (NET OF TAXES)......................	-	-	(4,422)	-

NET INCOME....................	$42,466	$36,546	$ 79,429	$74,433
	=======	=======	========	========

See notes to unaudited consolidated financial statements.

OUTBACK STEAKHOUSE, INC.(R)
CONSOLIDATED STATEMENTS OF INCOME
(in thousands except per share data, unaudited)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
BASIC EARNINGS PER COMMON SHARE				
Income before cumulative effect of a change in accounting principle.........	$ 0.55	$ 0.48	$ 1.09	$ 0.97
Cumulative effect of a change in accounting principle (net of taxes)...................	-	-	(0.06)	-
Net Income..................	$ 0.55	$ 0.48	$ 1.03	$ 0.97
BASIC WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING....	77,274	76,538	77,176	76,539
DILUTED EARNINGS PER SHARE				
Income before cumulative effect of a change in accounting principle.........	$ 0.53	$ 0.47	$ 1.05	$ 0.95
Cumulative effect of a change in accounting principle (net of taxes)...................	-	-	(0.06)	-
Net Income..................	$ 0.53	$ 0.47	$ 0.99	$ 0.95
DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING...	80,406	78,265	80,223	78,010

See notes to unaudited consolidated financial statements.

OUTBACK STEAKHOUSE, INC.(R)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Cash flows from operating activities:		
Net income............................	$ 79,429	$ 74,433
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation.........................	35,360	29,667
Amortization.........................	1,316	3,122
Cumulative effect of a change in accounting principle.................	4,422	
Minority partners' interest in		

consolidated partnerships' income..	21,015	17,656
Income from unconsolidated affiliates.	(3,101)	(1,978)
Change in assets and liabilities:		
Decrease (increase) in inventories.	9,741	(7,204)
Decrease (increase) in other current assets..................	6,611	(8,363)
Decrease in goodwill, intangible assets and other assets..........	4,365	5,618
Increase (decrease) in accounts payable, sales taxes payable, and accrued expenses............	3,226	(4,374)
Decrease in unearned revenue.......	(42,641)	(36,977)
Increase (decrease) in income taxes payable..................	20,927	(13,621)
Increase (decrease) in deferred income taxes....................	9,961	(1,159)
Decrease in other long-term liabilities.....................	(825)	
Net cash provided by operating activities......................	149,806	56,820
Cash flows used in investing activities:		
Purchase of investment securities.....	(257)	
Capital expenditures.................	(88,420)	(86,675)
Change in investments in and advances to unconsolidated affiliates........	(703)	(16,305)
Net cash used in investing activities......................	(89,380)	(102,980)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	3,923	14,533
Proceeds from minority partners' contributions......................	4,459	3,223
Distributions to minority partners....	(27,946)	(21,645)
Repayments of long-term debt.........	(601)	(10,058)
Payments for purchase of treasury stock.............................	(30,136)	(16,276)
Proceeds from reissuance of treasury stock.............................	24,792	13,112
Net cash used in financing activities......................	(25,509)	(17,111)
Net increase (decrease) in cash and cash equivalents.....................	34,917	(63,271)
Cash and cash equivalents at beginning of period...........................	115,928	131,604
Cash and cash equivalents at end of period..............................	$150,845	$ 68,333
Supplemental disclosures of cash flow information:		
Cash paid for interest...............	$ 613	$ 356
Cash paid for income taxes...........	$ 5,084	$ 40,363
Supplemental disclosures of non-cash items:		
Assets/liabilities of businesses transferred under contractual arrangements.......................		$ 22,000
Purchase of minority partners' interest..........................	$ 7,876	$ 4,161

See notes to unaudited consolidated financial statements.

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by Outback Steakhouse, Inc.(R) (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.

Certain amounts shown in the 2001 consolidated financial statements have been reclassified to conform to the 2002 presentation. These reclassifications did not have an effect on total assets, total liabilities, stockholders' equity or net income.

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

The December 31, 2001 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. It is suggested that these financial statements be read in conjunction with the financial statements and financial notes thereto included in the Company's 2001 Annual Report.

2. Other Current Assets

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

	June 30, 2002 (unaudited)	December 31, 2001
Deposits (including income tax deposits)	$ 1,896	$ 9,275
Accounts receivable	6,126	7,710
Accounts receivable franchisees	2,932	3,560
Prepaid expenses	13,771	8,212
Other current assets	11	2,590
	$ 24,736	$31,347

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

3. Property, Fixtures and Equipment, Net

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

	June 30, 2002 (unaudited)	December 31, 2001

Land..............................	$166,048	$ 158,314
Buildings & building improvements..	424,489	382,793
Furniture & fixtures..............	109,004	99,767
Equipment.........................	265,652	238,285
Leasehold improvements............	198,051	185,623
Construction in progress..........	23,388	35,464
Accumulated depreciation..........	(320,507)	(287,181)
	$866,125	$ 813,065

4. Goodwill and Other Intangible Assets, Net

Goodwill and other intangible assets consisted of the following (in thousands):

	June 30, 2002 (unaudited)	December 31, 2001
Goodwill, net.....................	$81,720	$ 80,074
Intangible assets, net (including liquor licenses)................	15,433	14,379
	$97,153	$ 94,453

"Intangible assets" included the following intangible assets subject to amortization (in thousands):

	June 30, 2002 (unaudited)	December 31, 2001
Non-compete/non-disclosure and related contractual agreements....	$ 12,245	$ 10,141
Accumulated amortization...........	(5,798)	(4,482)
	$ 6,447	$ 5,659

Aggregate amortization expense on the intangible assets subject to amortization was approximately $1,316,000 for the six months ended June 30, 2002 and is estimated to be approximately $2,500,000 to $3,000,000 for each of the years ended December 31, 2002 through 2006. The net carrying amount of goodwill as of June 30, 2002 and December 31, 2001 was approximately $81,720,000 and $80,074,000, respectively.

5. Other Assets

Other assets consisted of the following (in thousands):

	June 30, 2002 (unaudited)	December 31, 2001
Other assets........................	$37,973	$ 42,885
Assets of business transferred under		

contractual arrangement...........	13,985	15,500
Deferred license fee................	20,500	19,000
	$72,458	$ 77,385

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 (referred to in some Company literature as Outback Sports). 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 of which $20,500,000 is outstanding and is included in "Other Assets" in the Unaudited Consolidated Balance Sheet.

In July 2002, the Company agreed to defer the July 31, 2002 scheduled payment of $1,125,000 and the November 30, 2002 scheduled payment of $375,000 for one year. The remaining eight scheduled annual installments of $2,375,000 per year were also extended by one year from 2003 through 2010 to 2004 through 2011.

The net book value of these assets is approximately $13,985,000 and has been reclassified from the line item entitled "Property, Fixtures and Equipment" to "Other Assets" in the Consolidated Balance Sheet. The corresponding long-term liability is included in the line item entitled "Other Long Term Liabilities" in the Consolidated Balance Sheet. The Company has deferred the gain associated with the transaction until such time as the amounts due under the licensing agreement are realized. See Note 8 of Notes to Unaudited Consolidated Financial Statements.

6. Long-term Debt

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

	June 30, 2002 (unaudited)	December 31, 2001
Revolving line of credit, interest at 2.79% and 3.67% at June 30, 2002 and December 31, 2001, respectively...	$10,000	$10,000
Other notes payable, uncollateralized, interest rates ranging from 3.55% to 6.75% at June 30, 2002 and 4.40% to 7.50% at December 31, 2001...........	19,915	16,593
	29,915	26,593
Less current portion..................	15,254	12,763
Long-term debt........................	$14,661	$13,830

LONG-TERM DEBT

The Company has an uncollateralized revolving line of credit that permits borrowing 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") (1.84% to 1.95% at June 30, 2002 and 1.87% to 1.98% at December 31, 2001). At June 30, 2002 and December 31, 2001 the unused portion of the revolving line of credit was $115,000,000. The line includes a credit facility fee of 17.5 basis points 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 $3,850,000 and $4,350,000 of the line of credit was committed for the issuance of letters of credit at June 30, 2002 and December 31, 2001, respectively. The remaining $11,150,000 at June 30, 2002 is available to the company.

The Company has notes payable with banks bearing interest at 6.75% to support the Company's Korean operations. As of June 30, 2002 and December 31, 2001, the outstanding balance was approximately $14,144,000 and $12,194,000, respectively. The notes mature in July 2002.

DEBT GUARANTEES

The Company is the guarantor of two uncollateralized lines of credit that permit borrowing of up to $25,000,000 for its franchisee operating Outback Steakhouses in Japan. At June 30, 2002 and December 31, 2001 the borrowings totaled approximately $14,584,000 and $8,215,000, respectively. (See further discussion in "Liquidity and Capital Resources" in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations".)

6. Long-term Debt (continued)

The Company is the guarantor of an uncollateralized line of credit which permits borrowing of up to $35,000,000, maturing in December 2004, for its franchisee operating Outback Steakhouses in California. At June 30, 2002 and December 31, 2001, the outstanding balance was approximately $28,408,000 and $26,354,000, respectively.

The Company is the guarantor of an uncollateralized line of credit which 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 June 30, 2002 and December 31, 2001, the outstanding balance was approximately $19,562,000 and $19,427,000, respectively.

The Company is the guarantor of bank loans made to certain franchisees operating Outback Steakhouse restaurants. At June 30, 2002 and December 31, 2001, the outstanding balance on the loans was approximately $304,000 and $437,000, respectively.

The Company is the guarantor of up to approximately $9,445,000 of a $68,000,000 note for Kentucky Speedway in which the Company has a 22.22% equity interest and in which the Company operates catering and concession facilities. At June 30, 2002 and December 31, 2001, the outstanding balance on the note was approximately $68,000,000.

DEBT AND DEBT GUARANTEE SUMMARY

The Company's contractual debt obligations and debt guarantees as of June 30, 2002 are summarized in the table below (in thousands):

	Total	Current Portion	Long-term Portion
Debt	$29,915	$15,254	$14,661
Debt guarantees	$94,249	$25,304	$68,945
Amount outstanding under debt guarantees	$72,303	$14,888	$57,415

See "Liquidity and Capital Resources" in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

7. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	June 30, 2002 (unaudited)	December 31, 2001
Accrued payroll and other compensation	$ 21,897	$ 19,207
Accrued insurance	16,593	13,206
Accrued property taxes	8,825	6,970
Other accrued expenses	16,693	17,204
	$ 64,008	$ 56,587

8. Other Long Term Liabilities

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

	June 30, 2002 (unaudited)	December 31, 2001
Accrued insurance	$ 4,000	$ 4,000
Other deferred liability	19,675	20,500
	$23,675	$ 24,500

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. License fees payable over the term of the agreement total approximately $22,000,000 of which $20,500,000 is outstanding. The Company has deferred the gain associated with the transaction until such time as the amounts due under the licensing agreement are realized. The corresponding long-term asset is included in the line item entitled "Other Assets". See Note 5 of Notes to Unaudited Consolidated Financial Statements.

9. Business Combinations

In June 2002, the Company issued approximately 34,000 shares of Common Stock to one area operating partner for its interest in nine

Outback Steakhouses in Ohio and Pennsylvania. The acquisition was accounted for by the purchase method and the related goodwill is included in the line item entitled "Goodwill and Other Intangible Assets" in the Company's Unaudited Consolidated Balance Sheets.

In April 2002, the Company exercised its option to convert its $5,300,000 preferred stock investment in its Hong Kong franchisee into ownership of three Outback Steakhouse restaurants formerly operated as franchises. The acquisition was accounted for by the purchase method.

As part of the Company's realignment of its international operations, the Company issued approximately 194,000 shares of Common Stock in May 2002 to purchase the 20% interest in Outback Steakhouse International LP ("International") that it did not previously own. The acquisition was accounted for by the purchase method and the related goodwill is included in the line item entitled "Goodwill and Other Intangible Assets" in the Company's Unaudited Consolidated Balance Sheets. See discussion in "Liquidity and Capital Resources" in Item 2, "Managements Discussion and Analysis of Financial Condition and Results of Operations". Approximately 50% of International's restaurants in which the Company has a direct investment are owned through a Cayman Island corporation.

10. Recently Issued Financial Accounting Standards

"Business Combinations" and "Goodwill and Other Intangible Assets"

On June 30, 2001, the Financial Accounting Standards Board ("FASB") finalized Statement of Financial Accounting Standards ("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.

Adoption of SFAS No. 142 effective January 1, 2002 is estimated to result in the elimination of approximately $3,000,000 to $5,000,000 of annual amortization, subject to the identification of separately recognized intangible assets which would continue to be amortized under the new rules.

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 has been made effective as of the beginning of the Company's current fiscal year. The transitional impairment testing resulted in an initial goodwill impairment charge of approximately $4,422,000, net of taxes of approximately $2,199,000, during the six month period ended June 30, 2002. 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.

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

10. Recently Issued Financial Accounting Standards (continued)

"Business Combinations" and "Goodwill and Other Intangible Assets"

The following table represents net income and earnings per share for prior periods had SFAS No. 142 been in effect for those periods (in thousands except per share data, unaudited):

	Three months ended June 30, 2002	Three months ended June 30, 2001	Six months ended June 30, 2002	Six months ended June 30, 2001
Reported income before cumulative effect of a change in accounting principle........	$ 42,466	$ 36,546	$ 83,851	$ 74,433
Add back: Goodwill amortization, net of taxes.....	-	1,001	-	1,954
Adjusted income before cumulative effect of a change in accounting principle........	42,466	37,547	83,851	76,387
Cumulative effect of a change in accounting principle (net of taxes).....................	-	-	(4,422)	-
Adjusted net income............	$ 42,466	$ 37,547	$ 79,429	$ 76,387
BASIC EARNINGS PER SHARE				
Reported income before cumulative effect of a change in accounting principle........	$ 0.55	$ 0.48	$ 1.09	$ 0.97
Add back: Goodwill amortization, net of taxes..................	-	0.01	-	0.03
Adjusted income before cumulative effect of a change in accounting principle........	0.55	0.49	1.09	1.00
Cumulative effect of a change in accounting principle (net of taxes).....................	-	-	(0.06)	-
Adjusted net income............	$ 0.55	$ 0.49	$ 1.03	$ 1.00
DILUTED EARNINGS PER SHARE				
Reported income before cumulative effect of a change in accounting principle........	$ 0.53	$ 0.47	$ 1.05	$ 0.95
Add back: Goodwill amortization, net of taxes.....	-	0.01	-	0.03
Adjusted income before				

cumulative effect of a change in accounting principle........	0.53	0.48	1.05	0.98
Cumulative effect of a change in accounting principle (net of taxes)......................	-	-	(0.06)	-
Adjusted net income.............	$ 0.53	$ 0.48	$ 0.99	$ 0.98

10. Recently Issued Financial Accounting Standards (continued)

"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 six months ended June 30, 2002.

"Accounting for Exit or Disposal Activities"

In June 2002, the FASB voted in favor of issuing 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. SFAS No. 146 is effective January 1, 2003.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (unaudited)

The following table sets forth, for the periods indicated, (i) the percentages which 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 June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
REVENUES				
Restaurant sales...............	99.2%	99.2%	99.2%	99.1%
Other revenues.................	0.8	0.8	0.8	0.9
TOTAL REVENUES.................	100.0	100.0	100.0	100.0
COSTS AND EXPENSES:				
Cost of sales (1)............	36.7	38.4	37.1	38.1
Labor & other related (1)....	24.5	23.9	24.3	23.9
Other restaurant operating (1)	20.0	19.7	19.9	19.6
Depreciation & amortization..	3.1	3.1	3.1	3.1
General & administrative.....	3.7	3.8	3.7	3.7
Income from operations of unconsolidated affiliates..	(0.3)	(0.2)	(0.3)	(0.2)
Total costs and expenses..	87.2	88.1	87.2	87.6
INCOME FROM OPERATIONS.........	12.8	11.9	12.8	12.4
OTHER INCOME (EXPENSE), NET....	(0.1)	(*)	(0.1)	(0.1)
INTEREST INCOME................	0.1	0.1	(*)	0.2
INCOME BEFORE ELIMINATION OF MINORITY PARTNERS' INTEREST AND INCOME TAXES............	12.8	12.0	12.8	12.5
ELIMINATION OF MINORITY PARTNERS' INTEREST...........	1.8	1.6	1.8	1.7
INCOME BEFORE PROVISION FOR INCOME TAXES.................	11.0	10.4	11.0	10.8
PROVISION FOR INCOME TAXES.....	3.9	3.6	3.9	3.8
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE.........	7.1	6.8	7.1	7.0
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (NET OF TAXES)....................			(0.4)	
NET INCOME.....................	7.1%	6.8%	6.7%	7.0%

(*)Percentages are less than 1/10 of one percent of total revenues.
(1) As a percentage of restaurant sales.

OUTBACK STEAKHOUSE, INC.(R)
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
System-wide sales (millions of dollars):				

Outback Steakhouse restaurants				
Company owned	$503	$473	$989	$929
Domestic franchised and development joint venture	97	94	190	181
International franchised and development joint venture	22	19	45	40
Total	622	586	1,224	1,150
Carrabba's Italian Grills				
Company owned	62	50	124	98
Development joint venture	23	18	45	34
Total	85	68	169	132
Other restaurants				
Company owned	26	11	53	24
Franchised and development joint venture	2	-	5	-
Total	28	11	58	24
System-wide total	$735	$665	$1,451	$1,306

OUTBACK STEAKHOUSE, INC.(R)
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

	June 30, 2002	June 30, 2001
Number of restaurants (at end of the period):		
Outback Steakhouses		
Company owned	589	543
Domestic franchised and development joint venture	118	111
International franchised and development joint venture	52	49
Total	759	703
Carrabba's Italian Grills		
Company owned	79	63
Development joint venture	29	25
Total	108	88
Fleming's Prime Steakhouse and Wine Bars		
Company owned	13	7
Roy's		
Company owned	13	6
Franchised and development joint venture	2	1
Total	15	7
Zazarac		
Company owned	-	2
Lee Roy Selmon's		
Company owned	1	1
Bonefish Grills		
Company owned	6	-
Development joint venture	1	-

Total	7	-
System-wide total	903	808

OUTBACK STEAKHOUSE, INC.(R)
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three months ended June 30, 2002 and 2001 (unaudited)

Revenues. Restaurant sales increased by 10.7% to $591,422,000 during the second quarter of 2002 as compared with $534,309,000 in the same period in 2001. The increase was attributable to the opening of new restaurants after June 30, 2001, menu price increases of approximately 1.8% at Outback Steakhouse in May 2002 and approximately 0.4% at Carrabba's Italian Grill in August 2001, and same store sales increases during the quarter of 1.2% at Company owned Carrabba's Italian Grills, partially offset by same store sales declines of approximately 0.3% at Company owned Outback Steakhouses. The following table depicts additional activities that influenced the period to period changes in restaurant sales at domestic Company owned restaurants for the three months ended June 30, 2002 and 2001.

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Average unit volumes (weekly):		
Outback Steakhouses	$ 67,234	$ 68,206
Carrabba's Italian Grills	61,853	61,232
Estimated per person check averages:		
Outback Steakhouses	$18.79	$18.19
Carrabba's Italian Grills	19.43	19.36
Year to year percentage change:		
Same-store sales:		
Outback Steakhouses	(0.3%)	0.7%
Carrabba's Italian Grills	1.2%	7.0%
Estimated same-store customer counts:		
Outback Steakhouses	(3.6%)	(2.1%)
Carrabba's Italian Grills	0.8%	6.8%

Note: Customer counts are based upon the number of customers served in the restaurants plus the number for which food is provided through "to go" service as reported by the customer. Customer count and per person check average data may be affected by the accuracy of the information provided by the "to go" customers.

Other revenues, consisting primarily of initial franchise fees and royalties, increased by $336,000 to $4,871,000 during the second quarter of 2002 as compared with $4,535,000 in the same period in 2001. The increase was attributable to higher royalties from additional stores operated as franchises during the second quarter of 2002 compared with the same period in 2001.

Costs and expenses. Costs of sales, consisting of food and beverage costs, as a percentage of restaurant sales, decreased in the second quarter of 2002 to 36.7% of restaurant sales as compared with 38.4% in the same period in 2001. The decrease was attributable to commodity cost decreases in beef, ribs, dairy and shrimp, partially offset by higher potato and produce costs. The decrease was also attributable to higher menu prices at both Outback Steakhouse and Carrabba's Italian Grills and a shift in the proportion of sales and cost of sales associated with non Outback Steakhouse restaurants which operate at lower cost of goods sold levels than Outback Steakhouse.

Three months ended June 30, 2002 and 2001 (continued)

Labor and other related expenses include all direct and indirect labor costs incurred in restaurant operations. Labor expenses increased as a percentage of restaurant sales by 0.6% to 24.5% in the second quarter of 2002 as compared with 23.9% in the same period in 2001. The increase resulted from higher employee health insurance costs, higher hourly employee bonus program costs, lower average unit volumes at Outback Steakhouse and an increase in the proportion of new restaurant formats and international Outback Steakhouses which have higher average labor costs than domestic Outback Steakhouses and Carrabba's Italian Grills.

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 0.3% of restaurant sales to 20.0% in the second quarter of 2002, as compared with 19.7% in the same period in 2001. The increase was attributable to lower average unit volumes at Outback Steakhouse and 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. The increase was partially offset by lower natural gas costs and higher average unit volumes for Carrabba's Italian Grills which reduced the fixed and indirectly variable costs as a percentage of restaurant sales.

Depreciation and amortization costs were 3.1% of total revenues in both the second quarter of 2002 and 2001. The impact of reduced amortization expense due to the adoption of FAS No. 142 "Goodwill and Other Intangible Assets" was offset by higher depreciation costs. The increase in depreciation costs resulted primarily from additional depreciation related to new unit development, new restaurant formats which have higher average construction costs than Outback Steakhouse and Carrabba's Italian Grills and lower average unit volumes at Outback Steakhouse.

General and administrative costs increased by $1,729,000 to $22,207,000 in the second quarter of 2002 compared with $20,478,000 during the same period in 2001. 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 $1,549,000 during the second quarter of 2002 as compared with income of $977,000 during the same period in 2001. This increase was attributable to additional stores operating as development joint ventures in the second quarter of 2002 and to an improvement in the operating results of these restaurants similar to that seen in the operating results of Company owned restaurants during the second quarter of 2002.

OUTBACK STEAKHOUSE, INC.(R)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three months ended June 30, 2002 and 2001 (continued)

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 $12,669,000 to $76,524,000 in the second quarter of 2002 as compared with $63,855,000 in the same period in 2001.

Other income (expense), net. Other income (expense) includes the net of revenues and expenses from non-restaurant operations. Net other expense was $663,000 during the second quarter of 2002 as compared with net other income of $275,000 in the same period in 2001. The increase in net other expense was the result of a decrease of approximately $800,000 in the cash surrender value of certain life insurance policies and to the Company's portion of the losses associated with the operation of Kentucky Speedway in which the Company has a 22.22% equity interest and in which the Company operates catering and concession facilities.

Interest income (expense), net. Interest income, net, was $320,000 during the second quarter of 2002 as compared with interest income, net, of $637,000 in the same period in 2001. The period to period change in interest income resulted from lower interest rates on short term investments during the second quarter of 2002 compared with the same period in 2001 and increased interest expense due to higher average debt balances on borrowings used to support Outback Steakhouse's international operations during the second quarter of 2002 compared with the second quarter of 2001.

Elimination of minority partners' interests. The allocation of minority partners' income included in this line item represents the portion of income from operations included in consolidated operating results attributable to the ownership interests of restaurant managers and area operating partners in Company owned restaurants and the ownership interests in certain other restaurants in which the Company has a controlling interest. As a percentage of revenues, these allocations were 1.8% and 1.6% during the quarters ended June 30, 2002 and 2001, 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 second quarter of both 2002 and 2001 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 35.2% during the second quarter of 2002 and the effective income tax rate was 35.0% during the second quarter of 2001. Approximately 50% of the Company's international restaurants in which the Company has a direct investment are owned through a Cayman Island corporation.

Net income and earnings per share. Net income for the second quarter of 2002 was $42,466,000 as compared with $36,546,000 in the same period in 2001. Basic earnings per share increased to $0.55 during the second quarter of 2002 as compared with $0.48 for the same period in 2001. Diluted earnings per share increased to $0.53 during the second quarter of 2002 as compared with $0.47 for the same period in 2001.

Six months ended June 30, 2002 and 2001 (unaudited)

Revenues. Total restaurant sales increased by 10.9% to $1,165,977,000 during the first half of 2002 as compared with $1,050,963,000 in the same period in 2001. The increase was primarily attributable to the opening of new restaurants after June 30, 2001, menu price increases of approximately 1.8% in May 2002 at Outback Steakhouse and menu price increases of approximately 0.5% in April 2001 and 0.4% in August 2001 at Carrabba's Italian Grills. The increase was also attributable to same store sales increases during the first half of 2002 of 2.1% for Company owned Carrabba's Italian Grills, partially offset by same store sales declines of approximately 0.7% at Company owned Outback Steakhouses. The following table depicts additional activities that influenced the period to period changes in restaurant sales at domestic Company owned restaurants for the six months ended June 30, 2002 and 2001.

	Six Months Ended June 30, 2002	2001
Average unit volumes(weekly):		
Outback Steakhouses..............	$66,830	$67,943
Carrabba's Italian Grills........	63,077	61,593
Estimated per person check averages:		
Outback Steakhouses..............	$18.84	$18.36
Carrabba's Italian Grills........	19.74	19.61
Year to year percentage change:		
Same-store sales:		
Outback Steakhouses...........	(0.7%)	1.5%
Carrabba's Italian Grills.....	2.1%	6.9%
Estimated same-store customer counts:		
Outback Steakhouses...........	(3.4%)	(1.4%)
Carrabba's Italian Grills.....	1.5%	5.5%

Note: Customer counts are based upon the number of customers served in the restaurants plus the number for which food is provided through "to go" service as reported by the customer. Customer count and per person check average data may be affected by the accuracy of the information provided by the "to go" customers.

Other revenues, consisting of initial franchise fees and royalties, increased by $171,000 to $9,305,000 during the first half of 2002 as compared with $9,134,000 in the same period in 2001. The increase was attributable to higher royalties from additional stores operated as franchises during the first half of 2002 compared with the same period in 2001.

Costs and expenses. Cost of sales as a percentage of restaurant sales, decreased by 1.0% to 37.1% in the first half of 2002 as compared with 38.1% in the same period in 2001. The decrease was attributable to commodity cost decreases in beef, ribs, butter and seafood partially offset by higher potato costs. The decrease was also attributable to higher menu prices at both Outback Steakhouse and Carrabba's Italian Grills and a shift in the proportion of 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.

Six months ended June 30, 2002 and 2001 (continued)

Labor and other related expenses increased as a percentage of restaurant sales by 0.4% to 24.3% in the first half of 2002 as compared with 23.9% in the same period in 2001. The increase resulted from higher employee health insurance costs, higher hourly employee bonus program costs, lower average unit volumes at Outback Steakhouse and an increase in the proportion of new restaurant formats and international Outback Steakhouses which have higher average labor costs than domestic Outback Steakhouses and Carrabba's Italian Grills.

Other restaurant operating expenses increased by 0.3% of restaurant sales to 19.9% in the first half of 2002 as compared with 19.6% in the same period in 2001. The increase was attributable to higher insurance costs, lower average unit volumes for Outback Steakhouse and 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. The increase was partially offset by lower restaurant preopening costs, lower natural gas costs and higher average unit volumes for Carrabba's Italian Grills, which reduced the fixed and indirectly variable costs as a percentage of restaurant sales.

Depreciation and amortization costs were unchanged at 3.1% of total revenues for the second half of 2002 as compared with the same period in 2001. The impact of reduced amortization expense due to the adoption of FAS No. 142 "Goodwill and Other Intangible Assets" was offset by higher depreciation costs. The increase in depreciation costs resulted primarily from additional depreciation related to new unit development, new restaurant formats which have higher average construction costs than Outback Steakhouse and Carrabba's Italian Grills and lower average unit volumes at Outback Steakhouse.

General and administrative costs increased by $3,596,000 to $43,336,000 during the first half of 2002 as compared to with $39,740,000 during the same period in 2001. 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 was $ 3,101,000 in the first six months of 2002 as compared with income of $1,978,000 in the same period in 2001. This increase was attributable to additional stores operating as development joint ventures in the first half of 2002 and to an improvement in the operating results of these restaurants similar to that seen in the operating results of Company owned restaurants during the first half of 2002.

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 $19,119,000, to $150,839,000 in the first half of 2002 as compared with $131,720,000 in the same period in 2001.

Six months ended June 30, 2002 and 2001 (continued)

Other income (expense), net. Other income (expense) includes the net of revenues and expenses from non-restaurant operations. Net other expense was $980,000 during the first six months of 2002 as compared with net other expense of $960,000 in the same period in 2001. The increase in the net expense resulted from the Company's portion of increased losses associated with the operation of Kentucky Speedway and a decrease of approximately $500,000 in the cash surrender values of certain life insurance policies, partially offset by a gain of approximately $500,000 on the sale of an airplane during the first six months of 2002 compared with the first six months of 2001.

Interest income (expense), net. Interest income was $556,000 during the first six months of 2002 as compared with interest income of $1,761,000 in the same period in 2001. The decrease in interest income resulted from lower interest rates on short term investments during the first six months of 2002 compared with the same period in 2001 and increased interest expense due to higher average debt balances on borrowings used to support Outback Steakhouses international operations during the first six months of 2002 compared with the same period in 2001.

Elimination of minority interests. As a percentage of revenues, these allocations were 1.8% and 1.7% during the six months ended June 30, 2002 and 2001, respectively. The increase in the ratio is the result of an increase in overall restaurant operations margins and improvement in the performance of new format restaurants.

Provision for income taxes. The provision for income taxes in the first half of both 2002 and 2001 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 35.2% during the first six months of 2002 and 2001. 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 provision of SFAS No. 142, "Goodwill and Other Intangible Assets". The adoption has been made effective as of the beginning of the Company's current fiscal year. The cumulative effect of the change in accounting principle was approximately $4,422,000, net of taxes of approximately $2,199,000, during the six month period ended June 30, 2002. Basic and diluted earnings per share were both reduced by $0.06 due to the impact of the change in accounting principle.

Net income and earnings per common share. Net income for the first half of 2002 was $79,429,000 as compared with pro forma net income of $74,433,000 in the same period in 2001. Basic earnings per share increased to $1.03 during the first half of 2002, as compared with $0.97 in the same period in 2001. Diluted earnings per share increased to $0.99 during the first half of 2002, as compared with $0.95 in the same period in 2001.

Liquidity and Capital Resources

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, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Net cash provided by operating activities.....	$ 228,821	$149,806	$ 56,820
Net cash used in investing activities...............	(233,662)	(89,380)	(102,980)
Net cash used in financing activities...............	(10,835)	(25,509)	(17,111)
Net (decrease) increase in cash and cash equivalents	$ (15,676)	$ 34,917	$(63,271)

The Company requires capital principally for the development of new restaurants. Capital expenditures totaled approximately $201,039,000 for year ended December 31, 2001 and $88,420,000 and $86,675,000 during the first six months of 2002 and 2001, respectively. The Company either leases its restaurants under operating leases for periods ranging from five to thirty years (including renewal periods) or purchases free standing restaurants where it is cost effective.

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 development costs of which approximately $3,218,000 has been expended as of June 30, 2002.

The Company entered into an agreement to develop and operate Fleming's Prime Steakhouse and Wine Bars ("Fleming's"). Under the terms of the Fleming's agreement, the Company purchased three existing Fleming's for $12,000,000 and committed to the first $13,000,000 of future development costs, all of which had been invested as of December 31, 2001.

During 1999, the Company entered into an agreement to develop and operate Roy's Restaurants. Under the terms of the Roy's agreement, the Company paid a consulting fee of approximately $1,800,000 to Roy Yamuguchi, founder of Roy's.

The Company formed joint ventures to develop Outback Steakhouses in Brazil and the Philippines. During the second quarter of 2001, the Company purchased three Outback Steakhouses in Puerto Rico which had been previously operated as franchises and will also develop future Company owned Outback Steakhouses in Puerto Rico. The Company is also developing Company owned restaurants internationally in Korea and Hong Kong.

Liquidity and Capital Resources (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 guarantees, which totaled $14,584,000, with a potential maximum of $25,000,000, as of June 30, 2002, referred to above and in Note 5 of Notes to Unaudited Consolidated Financial Statements. As part of this transaction, the Company also expects to invest approximately $2,000,000 in equity in addition to the assumption of the bank debt.

LONG TERM DEBT

At June 30, 2002, the Company had two uncollateralized lines of credit totaling $140,000,000. Approximately $3,850,000 is committed for the issuance of letters of credit. As of June 30, 2002, 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 2002 will be met by cash flows from operations and, to the extent needed, advances on its line of credit. See Note 5 of Notes to Unaudited Consolidated Financial Statements.

The Company has notes payable with banks bearing interest at 6.75% to support the Company's Korean operations. As of June 30, 2002, the outstanding balance was approximately $14,144,000.

DEBT GUARANTEES

The Company is the guarantor of two uncollateralized lines of credit that permit borrowing of up to $25,000,000 for its franchisee operating Outback Steakhouses in Japan. At June 30, 2002 the borrowings totalled approximately $14,584,000.

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 June 30, 2002 the balance on the line of credit was approximately $28,408,000.

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

June 30, 2002, the outstanding balance was approximately $19,562,000.

The Company is the guarantor of bank loans made to its franchisee operating Outback Steakhouses in Mississippi. At June 30, 2002, the outstanding balance on the loans was approximately $304,000.

Liquidity and Capital Resources (continued)

The Company is the guarantor of up to approximately $9,445,000 of a $68,000,000 note for Kentucky Speedway ("Speedway") in which the Company has a 22.2% equity interest and in which the Company operates catering and concession facilities. At June 30, 2002 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". Speedway 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 as of June 30, 2002 are summarized in the table below (in thousands):

	Total	Current Portion	Long-term Portion
Debt......................	$29,915	$15,254	$14,661
Debt guarantees...........	$94,249	$25,304	$68,945
Amount outstanding under debt guarantees.........	$72,303	$14,888	$57,415
Commitments...............	$ 4,282	$ 4,282	

SHARE REPURCHASE

On July 26, 2000, the Company's Board of Directors authorized a program to repurchase up to 4,000,000 shares of the Company's Common Stock. The timing, price, quantity and manner of the purchases will be made at the discretion of management and will depend upon market conditions. In addition, the Board of Directors also authorized a program to repurchase shares on a regular basis to offset shares issued as a result of stock option exercises. During the period from the program authorization date through June 30, 2002, approximately 2,775,000 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 June 30, 2002, under these authorizations the Company has repurchased approximately 4,055,000 shares of its Common Stock for approximately $110,000,000. Subsequent to June 30, 2002, the Company has repurchased approximately 784,000 shares of its Common Stock for approximately $22,833,000.

OTHER

See Notes 5 and 8 of Notes to Unaudited Consolidated Financial Statements for discussion of the Company's $22,000,000 licensing agreement for use of the assets of some of its non-restaurant 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 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. 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)

Impairment of Long-Lived Assets

The Company assesses the 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. If the total future cash flows were 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..........	$ 250,000
General Liability............	$ 500,000
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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)

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. 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.

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 interest. All material balances and transactions have been eliminated. The unconsolidated affiliates are accounted for using the equity method.

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, 2001, the Company provided information regarding the outlook for its businesses in 2002 and factors that may affect the Company's financial results for that year.

OUTLOOK (continued)

In the Outlook portion of Management's Discussion and Analysis of Financial Condition and Results of Operations in its Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the quarter ended March 31, 2002, the Company reported that average unit volumes for its Outback Steakhouse restaurants ("Outback") had decreased by approximately 2.1% during the quarter as compared with the same quarter a year ago and that to the extent to which average unit volume trends remained weaker than expected, the Company's revenues and operating results for the remainder of 2002 may be affected.

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

During the three month period ended June 30, 2002, as compared with the same period a year ago, average unit volumes for Outback declined by approximately 1.6% and average unit volumes for Carrabba's Italian Grills ("Carrabba's") increased by approximately 2.4%. Results for both chains were below those anticipated in the Company's comments in Form 10-K referenced above. In an attempt to reverse the negative trend at Outback, in mid May a price increase of approximately 1.8% was implemented, and the Company has increased its planned 2002 television advertising expenditures by $5.4 million. The additional advertising will begin in September. Although the effect of these plans cannot be accurately forecast, the Company set a goal of achieving positive average unit volume gains at Outback for the second half of 2002 of one to two percent. As a result of the slowing of average unit volume increases for Carrabba's the Company is now anticipating gains of only one to three percent for the second half of 2002. To the extent to which these goals are not met and 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 June 30, 2002, the Company benefited from lower than expected commodity costs for baby back ribs, shrimp and fresh fish. As a result of lower commodity costs and the effect of the price increase discussed above, the Company now expects cost of goods sold as a percentage of restaurant sales for the full year to be 40 to 50 basis points better than originally expected.

Because of lower than planned average unit volumes, through the first two quarters of the year labor costs as a percentage of restaurant sales were 10 to 20 basis points higher than expected. If the steps taken to grow average unit volumes in Outback are successful, labor cost ratios for the second half of 2002 should be more in line with the guidance given in Form 10-K referenced above. If the Company's steps do not achieve their targeted objectives, labor cost ratios for the full year will be higher than originally planned.

OUTLOOK(continued)

The Company has not received the benefit it originally expected from a decline in natural gas costs. Accordingly, the Company is now planning for restaurant operating expenses as a percentage of restaurant sales for the second half of the year to be 10 to 20 basis points higher than originally expected.

The Company is now planning for the second half of 2002 for all other expense ratio variances to be comparable to those experienced in and reported for the first two quarters of 2002.

Expansion Strategy.

The Company's goal is to add new restaurants during the remainder of 2002. The following table presents a summary of the expected restaurant openings for the full year 2002:

Outback Steakhouses - Domestic	
Company owned	28 to 30
Franchised	4 to 5
Outback Steakhouses - International	
Company owned	8 to 10
Franchised	8 to 10
Carrabba's Italian Grills	
Company owned	10 to 15
Development joint venture	5 to 10
Fleming's Prime Steakhouse and Wine Bars	
Company owned	3
Roy's	
Company owned	1
Franchised	1
Selmon's	
Company owned	1
Cheeseburger in Paradise	
Company owned	1
Bonefish Grill	
Company owned	6 to 7
Franchised	2 to 3

OUTBACK STEAKHOUSE, INC.(R)
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement

The foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations contains various "forward-looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent the Company's expectations or beliefs concerning future events, including the following: any statements regarding future sales and gross profit percentages, any statements regarding the continuation of historical trends, and any statements regarding the sufficiency of the Company's cash balances and cash generated from operating and financing activities for the Company's future liquidity and capital resource needs. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "should," and similar expressions are intended to identify forward-looking statements.

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; 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, dairy, potatoes and onions and energy commodities 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.

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 $140,000,000 revolving lines of credit with its banks. Borrowings under the agreements bear interest at rates ranging from 57.5 to 95 basis points over the 30, 60, 90 or 180 London Interbank Offered Rate. At June 30, 2002 and December 31, 2001, the Company had a $10,000,000 outstanding balance on the lines of credit.

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 of the 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 floors and caps. The Company does not use financial instruments to hedge commodity prices because the Company's 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.

OUTBACK STEAKHOUSE, INC.(R)

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The Company filed a report on Form 8-K with the Securities and Exchange Commission dated February 14, 2002 regarding threatened litigation.

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

The Company held its Annual Meeting of Stockholders on Wednesday, April 24, 2002. The matters submitted for vote and the related election results are as follows:

1. To elect four directors each to serve for a three year term and until his or her successor is duly elected and qualified. The results of proxies voted for the election of the directors are as follows:

Name of Nominee /Director	Votes For	% of Eligible	Votes Withheld	% of Eligible	Exceptions	% of Eligible
Robert D. Basham	66,574,926	86.12%	1,382,949	1.79%	0	0.00%
W.R. Carey, Jr.	66,865,761	86.50%	1,092,114	1.41%	0	0.00%
Nancy Schneid	66,847,612	86.48%	1,110,263	1.44%	0	0.00%
Toby S. Wilt	54,069,108	69.95%	13,888,676	17.97%	0	0.00%

Eligible 77,302,211

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

(a) Exhibits
None

(b) Reports on Form 8-K
None

SIGNATURES

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

OUTBACK STEAKHOUSE, INC. (R)

Date: August 14, 2002. (Registrant)

By: /s/ Robert S. Merritt
Robert S. Merritt
Senior Vice President,
Finance (Principal Financial
and Accounting Officer)