OUTBACK STEAKHOUSE INC
Form 10-Q
August 14, 2001

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, 2001
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 WESTSHORE 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, 2001, there were approximately 76,769,522 shares of Common Stock, $.01 par value outstanding.

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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)

	June 30, 2001 (unaudited)	December 31, 2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents...........	$68,333	$131,604
Inventories.........................	35,075	27,871
Other current assets................	32,435	22,572
Total current assets................	135,843	182,047
PROPERTY, FIXTURES AND EQUIPMENT, NET.	736,415	693,975

INVESTMENTS IN AND ADVANCES TO		
UNCONSOLIDATED AFFILIATES, NET......	47,938	29,655
OTHER ASSETS.........................	147,347	116,858
	$1,067,543	$1,022,535
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable...................	$32,772	$37,162
Sales taxes payable................	12,327	11,580
Accrued expenses...................	45,535	46,266
Unearned revenue...................	17,481	54,458
Income taxes payable...............		13,621
Current portion of long-term debt...	8,595	4,958
Total current liabilities..........	116,710	168,045
DEFERRED INCOME TAXES................	13,223	14,382
LONG-TERM DEBT.......................	12,516	11,678
OTHER LONG-TERM LIABILITIES..........	26,000	4,000
Total liabilities..................	168,449	198,105
INTEREST OF MINORITY PARTNERS IN		
CONSOLIDATED PARTNERSHIPS..........	16,074	16,840
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value, 200,000 shares authorized; 78,514 and 78,514 shares issued; and 76,778 and 76,632 outstanding as of June 30, 2001 and December 31, 2000, respectively.....	785	785
Additional paid-in capital.........	217,668	214,541
Retained earnings..................	707,113	638,383
	925,566	853,709
Less treasury stock, 1,736 shares and 1,882 shares at June 30, 2001 and December 31, 2000, respectively, at cost...........................	(42,546)	(46,119)
Total stockholders' equity.........	883,020	807,590
	$1,067,543	1,022,535

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,		Six Months Ended June 30,	
	2001	2000	2001	2000
REVENUES				
Restaurant sales...............	$534,309	$477,417	$1,050,963	$938,391
Other revenues.................	4,535	4,203	9,134	8,026
TOTAL REVENUES...............	538,844	481,620	1,060,097	946,417
COSTS AND EXPENSES:				

Cost of sales................	205,344	178,772	400,468	350,471
Labor & other related........	127,910	112,694	250,900	220,383
Other restaurant operating...	105,548	88,651	206,691	177,001
Depreciation & amortization..	16,821	14,300	32,789	28,027
General & administrative.....	20,478	19,704	40,111	38,133
Income from operations of unconsolidated affiliates..	(977)	(702)	(1,978)	(1,069)
Total costs and expenses...	475,124	413,419	928,981	812,946
INCOME FROM OPERATIONS..........	63,720	68,201	131,116	133,471
OTHER INCOME (EXPENSE), NET.....	275	(34)	(589)	(627)
INTEREST INCOME (EXPENSE), NET..	772	1,477	1,994	2,300
INCOME BEFORE ELIMINATION OF MINORITY PARTNERS' INTEREST AND INCOME TAXES.............	64,767	69,644	132,521	135,144
ELIMINATION OF MINORITY PARTNERS' INTEREST.....................	8,550	9,540	17,656	19,417
INCOME BEFORE PROVISION FOR INCOME TAXES.................	56,217	60,104	114,865	115,727
PROVISION FOR INCOME TAXES......	19,671	21,806	40,432	41,663
NET INCOME......................	$36,546	$ 38,298	$ 74,433	$74,064
BASIC EARNINGS PER COMMON SHARE.	$0.48	$0.49	$0.97	$0.95
BASIC WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING....	76,538	77,977	76,539	77,800
DILUTED EARNINGS PER COMMON SHARE	$0.47	$0.48	$0.95	$0.93
DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING.	78,265	80,397	78,010	79,872

See notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2001	2000
Cash flows from operating activities:		
Net income............................	$74,433	$ 74,064
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation.........................	29,667	25,705
Amortization.........................	3,122	2,322
Minority partners' interest in consolidated partnerships' income..	17,656	19,417
Income from unconsolidated affiliates.	(1,978)	(1,069)
Change in assets and liabilities:		
(Increase) decrease in inventories.	(7,204)	1,432
(Increase) decrease in other current assets..................	(8,363)	2,084
Decrease (increase) in other assets	5,618	(14,965)
(Decrease) increase in accounts		

payable, sales taxes payable and accrued expenses	(4,374)	10,811
(Decrease) increase in income taxes payable	(13,621)	3,035
Decrease in unearned revenue	(36,977)	(28,178)
Decrease in deferred income taxes	(1,159)	(2,366)
Decrease in other long-term liabilities		(500)
Net cash provided by operating activities	56,820	91,792
Cash flows used in investing activites:		
Capital expenditures	(86,675)	(59,394)
Change in investments in and advances to unconsolidated affiliates	(16,305)	(3,145)
Net cash used in investing activities	(102,980)	(62,539)
Cash flows from financing activities:		
Proceeds from issuance of common stock		12,390
Proceeds from issuance of long-term debt	14,533	
Proceeds from minority partners' contributions	3,223	800
Distributions to minority partners	(21,645)	(21,159)
Repayments of long-term debt	(10,058)	(1,495)
Payments for purchase of treasury stock	(16,276)	
Proceeds from reissuance of treasury stock	13,112	219
Net cash used in financing activities	(17,111)	(9,245)
Net increase (decrease) in cash and cash equivalents	(63,271)	20,008
Cash and cash equivalents at beginning of period	131,604	92,623
Cash and cash equivalents at end of period	$ 68,333	$112,631
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 356	
Cash paid for income taxes	$ 40,363	$ 35,233
Supplemental disclosures of non-cash items:		
Assets/liabilities of businesses transferred under contractual arrangements	$ 22,000	
Purchase of minority partners' interest	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 2000 consolidated financial statements have been reclassified to conform to the 2001 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, 2000 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 2000 Annual Report.

2. Other Current Assets

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

	June 30, 2001 (unaudited)	December 31, 2000
Deposits (including income tax deposits)..	$ 6,704	$ 1,543
Accounts receivable......................	6,420	5,549
Accounts receivable franchisees..........	5,047	5,100
Prepaid expenses.........................	12,388	8,315
Other current assets.....................	1,876	2,065
	$32,435	$22,572

3. Property, Fixtures and Equipment, Net.

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

	June 30, 2001 (unaudited)	December 31, 2000

Land	$145,798	$135,710
Buildings & building improvements	340,425	322,078
Furniture & fixtures	90,489	82,347
Equipment	215,308	212,713
Leasehold improvements	165,548	139,426
Construction in progress	36,454	32,360
Accumulated depreciation	(257,607)	(230,659)
	$736,415	$693,975

4. Other Assets

Other assets consisted of the following (in thousands):

	June 30, 2001 (unaudited)	December 31, 2000
Intangible assets, net (including liquor licenses)	$ 80,598	$ 77,329
Other assets	30,749	39,529
Assets of business transferred under contractual arrangement	15,500	
Deferred license fee	20,500	
	$147,347	$116,858

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 included in "Other Assets" and the current portion of $1,500,000 is included in "Other Current Assets". The net book value of these assets was approximately $15,500,000 and was reclassified from the line item entitled "Property, Fixtures and Equipment" to "Other Assets". The corresponding long-term liability is included in the line item entitled "Other Long Term Liabilities". 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 7 of Notes to Unaudited Consolidated Financial Statements.

5. Long-term Debt

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

	June 30, 2001 (unaudited)	December 31, 2000
Revolving line of credit, interest at 4.47% and 7.16% at June 30, 2001 and December 31, 2000, respectively	$10,000	$10,000
Other notes payable, uncollateralized, interest rates ranging from 5.63% to 7.99%	11,111	6,623
Notes payable to corporation,		

collateralized by real estate, interest at 9.0%.....................		13
	21,111	16,636
Less current portion....................	8,595	4,958
Long-term debt.........................	$12,516	$11,678

The Company has an uncollateralized revolving line of credit that permits borrowing up to a maximum of $125,000,000 at rates ranging from 57.5 to 95.0 basis points over the 30, 60, 90 or 180 day London Interbank Offered Rate ("LIBOR") (3.84% to 3.91% at June 30, 2001 and 6.20% to 6.56% at December 31, 2000). At June 30, 2001 and December 31, 2000 the unused portion of the revolving line of credit was $115,000,000. The line 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 $4,350,000 of the line of credit was committed for the issuance of letters of credit at June 30, 2001.

The Company has a $10,000,000 uncollateralized line of credit to support the Company's international operations. As of June 30, 2001 and December 31, 2000, the outstanding balance was approximately $7,415,000 and $4,323,000, respectively.

The Company is the guarantor of an uncollateralized line of credit, maturing in December 2004, that permits borrowing of up to a maximum of $35,000,000 for one of its franchisees. At June 30, 2001 and December 31, 2000, the balance on the line of credit was approximately $24,754,000 and $22,470,000, respectively.

The Company is the guarantor of an uncollateralized line of credit, maturing December 2003, that permits borrowing of up to a maximum of $12,000,000 for one of its joint venture partners. At June 30, 2001 and December 31, 2000, the outstanding balance was approximately $9,450,000 and $6,552,000, respectively.

The Company is the guarantor of bank loans made to certain franchisees. At June 30, 2001 and December 31, 2000, the outstanding balance on the loans was approximately $554,000 and $670,000, respectively.

5. Long-term Debt (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. At June 30, 2001 and December 31, 2000, the outstanding balance was approximately $65,000,000.

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

6. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	June 30, 2001	December 31, 2000

	(unaudited)	
Accrued payroll and other compensation...............	$17,029	$ 15,722
Accrued insurance............	12,254	11,012
Accrued property taxes.......	7,406	6,129
Other accrued expenses.......	8,846	13,403
	$45,535	$ 46,266

7. Other Long Term Liabilities
Other long term liabilities consisted of the following (in thousands):

	June 30, 2001 (unaudited)	December 31, 2000
Accrued insurance............	$ 4,000	$ 4,000
Other deferred liability.....	22,000	
	$26,000	$ 4,000

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. 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 4 of Notes to Unaudited Consolidated Financial Statements.

8. Recently Issued Financial Accounting Standards
"Business Combinations" and "Goodwill and Other Intangible Assets"

On June 30, 2001, the Financial Accounting Standards Board finalized FAS 141, "Business Combinations", and FAS 142, "Goodwill and Other Intangible Assets". FAS 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. With the adoption of FAS 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.

As of June 30, 2001, the Company had approximately $73,500,000 of goodwill, net of accumulated amortization of $12,800,000. Adoption of FAS 142 effective January 1, 2002 will result in the elimination of approximately $5,400,000 of annual amortization, subject to the identification of separately recognized intangibles which would continue to be amortized under the new rules. The Company is beginning the process of performing the initial impairment testing of all goodwill and has not yet quantified any initial impairment charge that might result upon adoption of FAS 142.

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

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
REVENUES				
Restaurant sales................	99.2%	99.1%	99.1%	99.2%
Other revenues..................	0.8	0.9	0.9	0.8
TOTAL REVENUES..................	100.0	100.0	100.0	100.0
COSTS AND EXPENSES:				
Cost of sales (1)...............	38.4	37.4	38.1	37.3
Labor & other related (1).....	23.9	23.6	23.9	23.5
Other restaurant operating(1).	19.8	18.6	19.7	18.9
Depreciation & amortization...	3.1	3.0	3.1	3.0
General & administrative......	3.8	4.1	3.8	4.0
Income from operations of unconsolidated affiliates....	(0.2)	(0.1)	(0.2)	(0.1)
Total costs and expenses....	88.2	85.8	87.6	85.9
INCOME FROM OPERATIONS..........	11.8	14.2	12.4	14.1
OTHER INCOME (EXPENSE), NET.....	0.1	(*)	(0.1)	(0.1)
INTEREST INCOME.................	0.1	0.3	0.2	0.2
INCOME BEFORE ELIMINATION OF MINORITY PARTNERS' INTEREST AND INCOME TAXES..............	12.0	14.5	12.5	14.3
ELIMINATION OF MINORITY PARTNERS' INTEREST............	1.6	2.0	1.7	2.1
INCOME BEFORE PROVISION FOR INCOME TAXES..................	10.4	12.5	10.8	12.2
PROVISION FOR INCOME TAXES......	3.6	4.5	3.8	4.4
NET INCOME......................	6.8%	8.0%	7.0%	7.8%

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

Results of Operations (continued)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
System-wide sales (millions of dollars):				
Outback Steakhouse restaurants				
Company owned - domestic and international	$473	$430	$929	$846
Domestic franchised and joint venture	94	81	181	158
International franchised and joint venture	19	19	40	35
Total	586	530	1,150	1,039
Carrabba's Italian Grills				
Company owned	50	43	98	85
Joint venture	18	11	34	22
Total	68	54	132	107
Other restaurants				
Company owned and joint venture	11	4	24	7
System-wide total	$665	$588	$1,306	$1,153

Results of Operations (continued)

June 30,

	2001	2000
Number of restaurants (at end of the period):		
Outback Steakhouses		
Company owned - domestic and international..	543	495
Domestic franchised and joint venture.......	111	99
International franchised and joint venture..	49	34
Total......................................	703	628
Carrabba's Italian Grills		
Company owned..............................	63	58
Joint venture..............................	25	16
Total......................................	88	74
Fleming's Prime Steakhouse and Wine Bars		
Company owned..............................	3	3
Joint venture..............................	4	
Total......................................	7	3
Roy's		
Company owned..............................	1	1
Joint venture..............................	6	
Total......................................	7	1
Zazarac		
Company owned..............................	2	1
Lee Roy Selmon's		
Company owned..............................	1	
System-wide total..........................	808	707

Three months ended June 30, 2001 and 2000

Revenues. Total revenues increased by 11.9% to $538,844,000 during the second quarter of 2001 as compared with $481,620,000 in the same period in 2000. The increase was attributable to the opening of new restaurants after June 30, 2000, menu price increases of approximately 3.4% at Outback Steakhouse and approximately 4.6% at Carrabba's Italian Grills after June 2000, and per store revenue increases during the quarter of 0.7% and 7.0% at Outback Steakhouse and Carrabba's Italian Grills, respectively. The following table depicts additional activities that influenced the period to period changes in revenues:

	Three Months Ended June 30, 2001	2000
Average unit volumes (weekly):		
Outback Steakhouses..............	$67,558	$66,888
Carrabba's Italian Grills........	61,341	57,085
Per person check averages:		
Outback Steakhouses..............	$18.28	$17.76
Carrabba's Italian Grills........	19.36	19.32
Year to year percentage change:		
Same-store sales:		
Outback Steakhouses............	0.7%	5.6%
Carrabba's Italian Grills......	7.0%	12.6%
Same-store customer counts:		
Outback Steakhouses............	(2.1)%	3.5%
Carrabba's Italian Grills......	6.8%	6.4%

Costs and expenses. Costs of sales, consisting of food and beverage costs, as a percentage of restaurant sales, increased in the second quarter of 2001 to 38.4% of restaurant sales as compared with 37.4% in the same period in 2000. The increase was attributable to commodity cost increases in beef and butter, partially offset by higher menu price and favorable produce and alcoholic beverage costs.

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 0.3% to 23.9% in the second quarter of 2001 as compared with 23.6% in the same period in 2000. The increase resulted from higher hourly wage rates, a new hourly employee bonus program and enhanced employee health insurance benefits. The increase was partially offset by higher average unit volumes at Outback Steakhouse 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 1.2% of restaurant sales to 19.8% in the second quarter of 2001, as compared with 18.6% in the same period in 2000. The increase was attributable to higher natural gas prices and expenses associated with opening new restaurant formats. The increase was also attributable to an increase in the proportion of new format restaurants (Fleming's, Roy's, Selmon's and Zazarac) and international Outback Steakhouses in operation which have higher average restaurant operating expenses than domestic Outback Steakhouses and Carrabba's Italian Grills. The increase was partially offset by lower advertising expense and higher average unit volumes for both Outback Steakhouse and Carrabba's Italian Grills which reduced the fixed and indirectly variable costs as a percentage of restaurant sales.

Depreciation and amortization costs increased by 0.1% of total revenues to 3.1% in the second quarter of 2001, as compared with 3.0% in the same period in 2000. The increase resulted primarily from additional depreciation related to new unit development, "Take-away" room additions, new restaurant formats which have higher average construction costs than Outback Steakhouse and Carrabba's Italian Grills and additional amortization of goodwill associated with the purchase of ownership interests from area operating partners.

General and administrative costs increased by $774,000 to $20,478,000 in the second quarter of 2001 compared with $19,704,000 during the same period in 2000. 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 and Roy's as well as costs associated with the development of new restaurant formats and other affiliated businesses.

Income from operations of unconsolidated affiliates represents the Company's portion of the income from Outback Steakhouses and Carrabba's Italian Grills operated as development joint ventures. Income from the development joint ventures was $977,000 during the second quarter of 2001 as compared with income of $702,000 during the same period in 2000. This increase was attributable to additional stores operating as development joint ventures in the second quarter of 2001 and to an increase in average unit volumes.

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 decreased by $4,481,000, to $63,720,000, in the second quarter of 2001 as compared with $68,201,000 in the same period in 2000.

Other income (expense), net. Other income (expense) includes the net of revenues and expenses from non-restaurant operations. Net other income was $275,000 during the second quarter of 2001 as compared with net expense of $34,000 in the same period in 2000. The improvement in other income resulted from the elimination of the Company's interest in Outback Sports and increased event revenues associated with other non-restaurant operations during the second quarter of 2001.

Interest income (expense), net. Interest income was $772,000 during the second quarter of 2001 as compared with interest income of $1,477,000 in the same period in 2000. The period to period change in interest income resulted from lower average cash balances and lower interest rates on short term investments during the second quarter of 2001 compared with the same period in 2000.

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. As a percentage of revenues, these allocations were 1.6% and 2.0% during the quarters ended June 30, 2001 and 2000 respectively. The decrease in the ratio is the result of the purchase of minority interests in 52 restaurants from area operating partners after June 30, 2000 and the decrease in overall restaurant operating margins.

Provision for income taxes. The provision for income taxes in the second quarter of both 2001 and 2000 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 35.0% during the second quarter of 2001 and the effective income tax rate was 36.3% during the second quarter of 2000. The decrease in the effective tax rate resulted from tax savings associated with changes in the corporate state tax structure and an increase in FICA tip credits the Company was able to utilize in the second quarter of 2001.

Net income and earnings per share. Net income for the second quarter of 2001 was $36,546,000 as compared with $38,298,000 in the same period in 2000. Basic earnings per share decreased to $0.48 during the second quarter of 2001 as compared with $0.49 for the same period in 2000. Diluted earnings per share decreased to $0.47 during the second quarter of 2001 as compared with $0.48 for the same period in 2000.

Six months ended June 30, 2001 and 2000

Revenues. Total revenues increased by 12.0% to $1,060,097,000 during the first half of 2001 as compared with $946,417,000 in the same period in 2000. The increase was primarily attributable to the opening of new restaurants after June 30, 2000, menu price increases of approximately 3.4% at Outback Steakhouse and approximately 4.6% at Carrabba's Italian Grills and same store revenue increases during the first half of 2001 of 1.5% and 6.9% for Outback Steakhouse and Carrabba's Italian Grills, respectively. The following table depicts additional activities that influenced the period to period changes in revenues:

	Six Months Ended June 30,	
	2001	2000
Average unit volumes(weekly):		
Outback Steakhouses...........	$67,645	$66,193
Carrabba's Italian Grills.....	61,642	56,829
Per person check averages:		
Outback Steakhouses...........	$18.46	$17.89
Carrabba's Italian Grills.....	19.61	19.35
Year to year percentage change:		
Same-store sales:		
Outback Steakhouses........	1.5%	5.8%
Carrabba's Italian Grills..	6.9%	11.5%
Same-store customer counts:		
Outback Steakhouses........	(1.4)%	3.9%
Carrabba's Italian Grills..	5.5%	6.4%

Costs and expenses. Cost of sales as a percentage of restaurant sales, increased by 0.8% to 38.1% in the first half of 2001 as compared with 37.3% in the same period in 2000. The increase was attributable to increases in beef and butter costs partially offset by higher menu prices.

Labor and other related expenses increased as a percentage of restaurant sales by 0.4% to 23.9% in the first half of 2001 as compared with 23.5% in the same period in 2000. The increase resulted from higher hourly wage rates resulting from a competitive labor market, a new hourly employee bonus program and enhanced employee health insurance benefits. The increase was partially offset by higher unit volumes at Outback Steakhouse and Carrabba's Italian Grills.

Other restaurant operating expenses increased by 0.8% of restaurant sales to 19.7% in the first half of 2001 as compared with 18.9% in the same period in 2000. The increase was attributable to higher natural gas prices and expense associated with opening new restaurant formats. The increase was also attributable to an increase in the proportion of new format restaurants (Fleming's, Roy's, Selmon's and Zazarac) and international Outback Steakhouses in operation, which have higher average restaurant operating expenses than domestic Outback Steakhouses and Carrabba's Italian Grills. The increase was partially offset by lower advertising expense and higher average unit volumes for both Outback Steakhouse and Carrabba's Italian Grills, which reduced the fixed and indirectly variable costs as a percentage of restaurant sales.

Depreciation and amortization costs increased by 0.1% of total revenues to 3.1% in the second half of 2001, as compared with 3.0% in the same period in 2000. The increase resulted primarily from additional depreciation related to new unit development, "Take-away" room additions, new restaurant formats, which have higher average construction costs than Outback Steakhouse and Carrabba's Italian Grills and additional amortization of goodwill associated with the purchase of ownership interests from area operating partners.

General and administrative costs increased by $1,978,000 to $40,111,000 during the first half of 2001 as compared to with $38,133,000 during the same period in 2000. 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 and Roy's as well as costs associated with the development of new restaurants and other affiliated businesses.

Income from operations of unconsolidated affiliates was $1,978,000 in the first six months of 2001 as compared with income of $1,069,000 in the same period in 2000. This increase was attributable to additional stores operating as development joint ventures in the first half of 2000 and to an increase in average unit volumes.

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 decreased by $2,355,000, to $131,116,000 in the first half of 2001 as compared with $133,471,000 in the same period in 2000.

Other income (expense), net. Other income (expense) includes the net of revenues and expenses from non-restaurant operations. Net other expense was $589,000 during the first six months of 2001 as compared with net other expense of $627,000 in the same period in 2000. The decrease in the net expense resulted from the elimination of the Company's interest in Outback Sports and increased revenues in the first six months associated with other non-restaurant operations.

Interest income (expense), net. Interest income was $1,994,000 during the first six months of 2001 as compared with interest income of $2,300,000 in the same period in 2000. The decrease in interest income resulted from lower average cash balances and lower interest rates on short term investments during the first six months of 2001 compared with the same period in 2000.

Elimination of minority interests. As a percentage of revenues, these allocations were 1.7% and 2.1% during the six months ended June 30, 2001 and 2000, respectively. The decrease in this ratio is the result of the purchase of minority interests in 52 restaurants from area operating partners after June 30, 2000 and the decrease in overall restaurant operating margins.

Provision for income taxes. The provision for income taxes in the first half of both 2001 and 2000 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 2001 and the effective income tax rate was 36.0% during the first six months of 2000. The decrease in the effective tax rate resulted from tax savings associated with changes in the corporate state tax structure and an increase in FICA tip credits the Company was able to utilize in the first six months of 2001.

Net income and earnings per common share. Net income for the first half of 2001 was $74,433,000 as compared with pro forma net income of $74,064,000 in the same period in 2000. Basic earnings per share increased to $0.97 during the first half of 2001, as compared with $0.95 in the same period in 2000. Diluted earnings per share increased to $0.95 during the first half of 2001, as compared with $0.93 in the same period in 2000.

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	Six Months Ended	
	December 31, 2000	June 30, 2001	June 30, 2000

Net cash provided by operating activities........	$239,546	$ 56,820	$91,792		
Net cash used in investing activities..................	(145,819)	(102,980)	(62,539)		
Net cash used in financing activities..................	(54,746)	(17,111)	(9,245)		
Net increase (decrease) in cash and cash equivalents...	$38,981	$(63,271)	$20,008	$	$

The Company requires capital principally for the development of new Company owned and joint venture restaurants. Capital expenditures totaled approximately $139,893,000 for year ended December 31, 2000 and $86,675,000 and $59,394,000 during the first six months of 2001 and 2000, respectively. The Company either leases its restaurants under operating leases for periods ranging from five to twenty years or purchases land and buildings where it is cost effective. The Company anticipates that 80% to 90% of the Company owned restaurants to be open in 2001 will be free-standing units.

The Company has 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 and will also develop future Company owned Outback Steakhouses in Puerto Rico. The Company is also developing Company owned restaurants internationally in the Philippines and Korea. In 1999, the Company entered into agreements to develop and operate Roy's Restaurants and Fleming's Prime Steakhouse and Wine Bars. Under the Fleming's agreement, the Company has committed to the first $13,000,000 of future development costs, of which approximately $10,368,000 has been incurred spent as of June 30, 2001.

At June 30, 2001, the Company had two uncollateralized lines of credit totaling $140,000,000. Approximately $4,350,000 is committed for the issuance of letters of credit. The Company also guarantees $554,000 in loans made by banks to certain franchisees. As of June 30, 2001, the Company had drawn $10,000,000 on the revolving line of credit to finance the development of new restaurants. The Company expects that its capital requirements through the end of 2001 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 a $10,000,000 uncollateralized line of credit to support the Company's international operations. As of June 30, 2001, the outstanding balance was approximately $7,415,000.

The Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of $35,000,000, maturing in December 2004, for one of its franchisees. At June 30, 2001 and December 31, 2000, the balance on the line of credit was approximately $24,754,000 and $22,470,000, respectively. See Note 5 of Notes to Unaudited Consolidated Financial Statements.

The Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of $12,000,000, maturing December 2003, for one of its joint venture partners. At June 30, 2001, the outstanding balance was approximately $9,450,000.

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 22.2% equity interest. At June 30, 2001 the outstanding balance on the note was approximately $65,000,000.

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. The Company will fund the repurchase program with available cash and bank credit facilities. As of June 30, 2001, the Company has repurchased approximately 2,641,000 shares of its Common Stock for approximately $64,891,000 under the repurchase program.

OTHER

See Notes 4 and 7 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.

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 that represent the Company's expectations or belief concerning future events and may be identified by words such as "believes," "anticipates," "expects," "plans," "should" 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.

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, 2000, the Company provided guidance on the outlook for its businesses in 2001 and factors that may affect the Company's financial results. During the three months and six months ended June 30, 2001, the Company noted factors affecting revenue trends. The Company's previous price increase guidance remains unchanged; however, due to a weaker than expected economy, customer count trends have weakened relative to trends noted in the Form 10-K. To the extent to which customer count trends remain weak, the Company's revenues and operating results may be affected for the remainder of 2001. During the quarter ended and six months ended June 30, 2001, the Company incurred higher Restaurant Operating Expenses and Cost of Sales as a result of higher natural gas and dairy prices, respectively, than paid during the comparable period in 2000 and than anticipated in the Company's comments discussed above. To the extent to which the prices of these commodities remain at current levels, the Company's operating results may be affected for the remainder of 2001.

Expansion Strategy.

The Company's goal is to add new restaurants to the Outback system during the remainder of 2001. The following table presents a summary of the expected restaurant openings for the full year 2001:

Outback Steakhouses - Domestic	
Company owned	35 to 40
Franchised or joint venture	10 to 12

Outback Steakhouses - International	
Company owned	10 to 12
Franchised or joint venture	16 to 18
Carrabba's Italian Grills	
Company owned	8 to 10
Joint venture	10 to 12
Fleming's Prime Steakhouse and Wine Bars	
Company owned	0
Joint venture	5 to 6
Roy's	
Company owned	0
Joint venture	6 to 8
Zazarac	
Company owned	1
Selmon's	
Company owned	0
Cheeseburger in Paradise	
Joint venture	0

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 belief 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," 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 as acceptable prices; ability to obtain all 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 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 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 agreement bear interest at rates ranging from 50 to 95 basis points over the 30, 60, 90 or 180 London Interbank Offered Rate. At June 30, 2001 and December 31, 2000, the Company had a $10,000,000 outstanding balance on the lines of credit.

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

The Company held an Annual Meeting of Stockholders on Wednesday, April 25, 2001. 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
Paul Avery	69,257,562	90.28%	1,193,222	1.56%	0	0.00%
John Brabson	69,256,078	90.28%	1,194,706	1.56%	0	0.00%
Charles Bridges	69,218,174	90.23%	1,232,610	1.61%	0	0.00%
Tim Gannon	69,259,060	90.28%	1,191,724	1.55%	0	0.00%
LeeRoy Selmon	68,989,152	89.93%	1,461,632	1.91%	0	0.00%

Eligible 76,712,574

2. To transact such other business as may properly come before the meeting. The results of proxies voted are as follows:

		% of Eligible
For	41,814,042	54.51%
Against	20,042,144	26.13%
Abstain	8,594,598	11.20%
Total	70,450,784	91.84%

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

(a) Exhibits

None

(b) Reports on Form 8-K

The Company filed a report on Form 8-K with the Securities and Exchange Commission dated June 25, 2001.

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)
(Registrant)

Date: August 14, 2001.

By: /s/ Robert S. Merritt

Robert S. Merritt
Senior Vice President,
Finance (Principal Financial
and Accounting Officer