

Edgar Filing: OUTBACK STEAKHOUSE INC - Form 10-Q

OUTBACK STEAKHOUSE INC  
Form 10-Q  
May 15, 2002

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 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  
(State or other  
jurisdiction of  
incorporation or  
organization)

59-3061413  
(IRS Employer  
Identification No.)

2202 NORTH WEST SHORE BOULEVARD, 5TH  
FLOOR, TAMPA, FLORIDA  
(Address of principal executive offices)

33607  
(Zip Code)

(813) 282-1225

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 9, 2002, there were approximately 77,216,000 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

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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.

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OUTBACK STEAKHOUSE, INC. (R)		
CONSOLIDATED BALANCE SHEETS		
(in thousands)		
	March 31,	December 31,
	2002	2001
ASSETS	(unaudited)	
CURRENT ASSETS	-----	-----
Cash and cash equivalents.....	\$105,355	\$115,928
Short term investments.....	20,403	20,310
Inventories.....	36,101	38,775
Other current assets.....	20,342	31,347
	-----	-----
Total current assets.....	182,201	206,360
PROPERTY, FIXTURES AND EQUIPMENT, NET.	841,620	813,065
INVESTMENTS IN AND ADVANCES TO		
UNCONSOLIDATED AFFILIATES, NET.....	53,800	46,485
OTHER ASSETS.....	168,743	171,838
	-----	-----
	\$1,246,364	\$1,237,748
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable.....	\$34,741	\$47,179
Sales taxes payable.....	14,058	13,096
Accrued expenses.....	62,847	56,587

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Unearned revenue.....	23,797	60,135
Income taxes payable.....	11,393	
Current portion of long-term debt...	12,572	12,763
	-----	-----
Total current liabilities.....	159,408	189,760
DEFERRED INCOME TAXES.....	23,577	22,878
LONG-TERM DEBT.....	14,253	13,830
OTHER LONG-TERM LIABILITIES.....	24,500	24,500
	-----	-----
Total liabilities.....	221,738	250,968
INTEREST OF MINORITY PARTNERS IN CONSOLIDATED PARTNERSHIPS.....	45,827	44,936
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, \$0.01 par value, 200,000 shares authorized; 78,554 and 78,554 shares issued; and 76,964 and 76,913 outstanding as of March 31, 2002 and December 31, 2001, respectively.....	786	786
Additional paid-in capital.....	224,757	220,648
Retained earnings.....	799,882	762,414
	-----	-----
	1,025,425	983,848
Less treasury stock, 1,590 shares and 1,641 shares at March 31, 2002 and December 31, 2001, respectively, at cost.....	(46,626)	(42,004)
	-----	-----
Total stockholders' equity.....	978,799	941,844
	-----	-----
	\$1,246,364	\$1,237,748
	=====	=====

See notes to unaudited consolidated financial statements.

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## OUTBACK STEAKHOUSE, INC. (R)

### CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share data, unaudited)

Three Months Ended

March 31,

2002                      2001

REVENUES	-----	-----
Restaurant sales.....	\$574,555	\$516,654
Other revenues.....	4,434	4,599
	-----	-----
TOTAL REVENUES.....	578,989	521,253
COSTS AND EXPENSES:	-----	-----
Cost of sales.....	214,808	195,124
Labor & other related.....	138,302	122,990
Other restaurant operating...	114,049	101,045
Depreciation & amortization..	17,938	15,968
General & administrative.....	21,129	19,262
Income from operations of unconsolidated affiliates..	(1,552)	(1,001)
	-----	-----
Total costs and expenses..	504,674	453,388
	-----	-----
INCOME FROM OPERATIONS.....	74,315	67,865
OTHER INCOME (EXPENSE), NET.....	(317)	(1,235)
INTEREST INCOME (EXPENSE), NET..	236	1,124
INCOME BEFORE ELIMINATION OF MINORITY PARTNERS' INTEREST AND INCOME TAXES.....	74,234	67,754

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ELIMINATION OF MINORITY PARTNERS'		
INTEREST.....	10,368	9,106
	-----	-----
INCOME BEFORE PROVISION FOR		
INCOME TAXES.....	63,866	58,648
PROVISION FOR INCOME TAXES.....	22,481	20,761
	-----	-----
NET INCOME.....	\$41,385	\$ 37,887
	=====	=====
BASIC EARNINGS PER COMMON SHARE.	\$ 0.54	\$ 0.50
BASIC WEIGHTED AVERAGE NUMBER OF	=====	=====
COMMON SHARES OUTSTANDING....	77,078	76,539
	=====	=====
DILUTED EARNINGS PER COMMON SHARE	\$ 0.52	\$ 0.49
DILUTED WEIGHTED AVERAGE NUMBER	=====	=====
OF COMMON SHARES OUTSTANDING..	80,039	77,755
	=====	=====

See notes to unaudited consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2002	2001
Cash flows from operating activities:	-----	-----
Net income.....	\$ 41,385	\$ 37,887
Adjustments to reconcile net income to		
cash provided by operating activities:		
Depreciation.....	17,336	14,439
Amortization.....	602	1,529
Minority partners' interest in		
consolidated partnerships' income...	10,368	9,106
Income from unconsolidated affiliates..	(1,552)	(1,001)
Change in assets and liabilities:		
Decrease (increase) in inventories..	2,674	(5,684)
Decrease (increase) in other		
current assets.....	11,005	(5,947)
Decrease (increase) in other assets.	2,493	(2,154)
Increase in accounts payable,		
sales taxes payable, and accrued		
expenses.....	(5,216)	(3,397)
Decrease in unearned revenue.....	(36,338)	(32,577)
Increase in income taxes payable....	15,502	7,692
Increase in deferred income taxes...	699	117
Net cash provided by operating	-----	-----
activities.....	58,958	20,010
Cash flows used in investing activities:	-----	-----
Purchase of investment securities.....	(93)	
Capital expenditures.....	(45,891)	(42,189)
Change in investments in and advances		
to unconsolidated affiliates.....	(5,763)	(9,440)
Net cash used in investing	-----	-----
activities.....	(51,747)	(51,629)
Cash flows from financing activities:	-----	-----
Proceeds from issuance of long-term debt	232	1,218
Proceeds from minority partners'		
contributions.....	2,732	325
Distributions to minority partners.....	(12,209)	(9,660)
Payments for purchase of treasury		
stock.....	(21,253)	(15,054)
Proceeds from reissuance of treasury		

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stock.....	12,714	2,120
Net cash used in financing activities.....	(17,784)	(21,051)
Net decrease in cash and cash equivalents.....	(10,573)	(52,670)
Cash and cash equivalents at beginning of period.....	115,928	131,604
Cash and cash equivalents at end of period.....	\$105,355	\$ 78,934
Supplemental disclosures of cash flow information:		
Cash paid for interest.....	\$ 93	\$ 179
Cash paid for income taxes.....	\$ 280	\$ 12,796
Supplemental disclosures of non-cash items:		
Assets/liabilities of businesses transferred under contractual arrangements..		\$ 22,000
See notes to unaudited consolidated financial statements.		

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## 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):

	March 31, 2002 (unaudited)	December 31, 2001
Deposits (including income tax deposits).	\$ 1,911	\$ 9,275
Accounts receivable.....	3,677	7,710
Accounts receivable franchisees.....	2,887	3,560
Prepaid expenses.....	10,356	8,212
Other current assets.....	1,511	2,590
	\$ 20,342	\$31,347

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## 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):

	March 31, 2002 (unaudited)	December 31, 2001
	-----	-----
Land.....	\$161,366	\$ 158,314
Buildings & building improvements...	406,055	382,793
Furniture & fixtures.....	105,033	99,767
Equipment.....	254,987	238,285
Leasehold improvements.....	196,626	185,623
Construction in progress.....	19,091	35,464
Accumulated depreciation.....	(301,538)	(287,181)
	-----	-----
	\$841,620	\$ 813,065
	=====	=====

4. Other Assets  
Other assets consisted of the following (in thousands):

	March 31, 2002 (unaudited)	December 31, 2001
	-----	-----
Intangible assets, net (including liquor licenses).....	\$ 95,600	\$ 94,453
Other assets.....	38,643	42,885
Assets of business transferred under contractual arrangement.....	15,500	15,500
Deferred license fee.....	19,000	19,000
	-----	-----
	\$168,743	\$171,838
	=====	=====

As of March 31, 2002, "Other Assets" included the following intangible assets subject to amortization (in thousands):

	March 31, 2002 (unaudited)	December 31, 2001
	-----	-----
Non-compete/non-disclosure and related contractual agreements.	\$12,115	\$10,141
Accumulated amortization	(5,084)	(4,482)
	-----	-----
	\$ 7,031	\$ 5,659
	=====	=====

Aggregate amortization expense on the intangible assets subject to amortization was approximately \$602,000 for the three months ended March 31, 2002 and is estimated to be approximately \$2,500,000 for each of the years ended December 31, 2002 through 2006. The net carrying amount

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of goodwill as of December 31, 2001 and March 31, 2002 was approximately \$79,661,000.

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

#### 4. Other Assets (continued)

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 consists of \$19,000,000 included in "Other Assets" and the current portion of \$1,500,000 included in "Other Current Assets" in the Consolidated Balance Sheet. 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" 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 7 of Notes to Unaudited Consolidated Financial Statements.

#### 5. Long-term Debt

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

	March 31, 2002 (unaudited)	December 31, 2001
	-----	-----
Revolving line of credit, interest at 2.79% and 3.67% at March 31, 2002 and December 31, 2001, respectively.....	\$10,000	\$10,000
Other notes payable, uncollateralized, interest rates ranging from 4.40% to 7.50% at both March 31, 2002 and December 31, 2001.....	16,825	16,593
	-----	-----
	26,825	26,593
Less current portion.....	12,572	12,763
	-----	-----
Long-term debt.....	\$14,253	\$13,830
	=====	=====

The Company has an uncollateralized revolving line of credit which 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) (1.87% to 2.33% at March 31, 2002 and 1.87% to 1.98% at December 31, 2001). At March 31, 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 March 31, 2002 and December 31,

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2001, respectively. The remaining \$11,150,000 at March 31, 2002 is available to the Company.

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

#### 5. Long-term Debt (continued)

The Company has notes payable with banks bearing interest at 7.5% to support the Company's international operations. As of March 31, 2002 and December 31, 2001, the outstanding balance was approximately \$11,920,000 and \$12,194,000, respectively. The notes mature in July 2002.

The Company is the guarantor of two uncollateralized lines of credit that permit borrowing of up to \$25,000,000 to support the Company's international operations. At March 31, 2002 and December 31, 2001, the borrowings totalled approximately \$16,766,000 and \$8,215,000, respectively.

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 one of its franchisees. At March 31, 2002 and December 31, 2001, the outstanding balance was approximately \$27,963,000 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 one of its joint venture partners. At both March 31, 2002 and December 31, 2001, the outstanding balance was approximately \$19,427,000.

The Company is the guarantor of bank loans made to certain franchisees. At March 31, 2002 and December 31, 2001, the outstanding balance on the loans was approximately \$366,000 and \$437,000, respectively.

The Company is the guarantor of up to approximately \$9,445,000 of a \$68,000,000 note for an unconsolidated affiliate in which the Company has a 22.22% equity interest. At both March 31, 2002 and December 31, 2001, the outstanding balance on the note was approximately \$68,000,000.

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

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

#### 6. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	March 31, 2002 (unaudited)	December 31, 2001 -----
Accrued payroll and other compensation..	\$19,233	\$19,207
Accrued insurance.....	12,916	13,206
Accrued property taxes.....	6,862	6,970
Other accrued expenses.....	23,836	17,204
	-----	-----
	\$62,847	\$56,587

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## 7. Other Long Term Liabilities

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

	March 31, 2002 (unaudited)	December 31, 2001
Accrued insurance.....	\$ 4,000	\$ 4,000
Other deferred liability.....	20,500	20,500
	-----	-----
	\$ 24,500	\$ 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 4 of Notes to Unaudited Consolidated Financial Statements.

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

## 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 No. 141, "Business Combinations", and FAS No. 142, "Goodwill and Other Intangible Assets". FAS 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 FAS 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 FAS No.142 effective January 1, 2002 is estimated to result in the elimination of approximately \$3,000,000 to \$5,500,000 of annual amortization, subject to the identification of separately recognized intangibles which would continue to be amortized under the new rules. The Company is in 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 No. 142. Such impairment charges, if any, will be recognized in accordance with the provisions of FAS No. 142 in the quarter ended June 30, 2002.

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

Three Months Ended March 31,

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	2002	2001
Reported net income.....	\$41,385	\$ 37,887
Add back: Goodwill amortization...		791
Adjusted net income.....	\$41,385	\$ 38,678
	=====	=====
BASIC EARNINGS PER SHARE		
Reported net income.....	\$ 0.54	\$ 0.50
Goodwill amortization.....		0.01
Adjusted net income.....	\$ 0.54	\$ 0.51
	=====	=====
DILUTED EARNINGS PER SHARE		
Reported net income.....	\$ 0.52	\$ 0.49
Goodwill amortization.....		0.01
Adjusted net income.....	\$ 0.52	\$ 0.50
	=====	=====

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OUTBACK STEAKHOUSE, INC.(R)

## 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 March 31,	
	2002	2001
REVENUES		
Restaurant sales.....	99.2%	99.1%
Other revenues.....	0.8	0.9
TOTAL REVENUES.....	100.0	100.0
COSTS AND EXPENSES:		
Cost of sales(1).....	37.4	37.8
Labor & other related(1)....	24.1	23.8
Other restaurant operating(1)	19.8	19.6
Depreciation & amortization.	3.1	3.1
General & administrative....	3.6	3.7
Income from operations of unconsolidated affiliates..	(0.3)	(0.2)
Total costs and expenses.	87.2	87.0
INCOME FROM OPERATIONS.....	12.8	13.0
OTHER INCOME (EXPENSE), NET...	(0.1)	(0.2)
INTEREST INCOME.....	( *)	0.2
INCOME BEFORE ELIMINATION OF MINORITY PARTNERS' INTEREST AND INCOME TAXES.....	12.8	13.0
ELIMINATION OF MINORITY PARTNERS' INTEREST.....	1.8	1.7
INCOME BEFORE PROVISION FOR		

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INCOME TAXES.....	11.0	11.3
PROVISION FOR INCOME TAXES....	3.9	4.0
	-----	-----
NET INCOME.....	7.1%	7.3%
	=====	=====

(\*)Percentages are less than 1/10 of one percent of total revenues.

(1) As a percentage of restaurant sales.

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	Three Months Ended March 31,	
	2002	2001
	-----	-----
System-wide sales (millions of dollars):		
Outback Steakhouse restaurants		
Company owned.....	\$486	\$456
Domestic franchised and development joint venture....	93	87
International franchised and development joint venture....	23	21
Total.....	602	564
	-----	-----
Carrabba's Italian Grills		
Company owned.....	62	48
Development joint venture.....	22	16
Total.....	84	64
	-----	-----
Other restaurants		
Company owned.....	27	13
Franchised and development joint venture.....	3	-
Total.....	30	13
	-----	-----
System-wide total.....	\$716	\$641
	=====	=====

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Results of Operations (continued)

	March 31,	
	2002	2001
Number of restaurants (at end of the period):		
Outback Steakhouses		
Company owned.....	581	531
Domestic franchised and development		
joint venture.....	116	109
International franchised and development		
joint venture.....	49	42
Total.....	746	682
Carrabba's Italian Grills		
Company owned.....	77	60
Development joint venture.....	28	21
Total.....	105	81
Fleming's Prime Steakhouse and Wine Bars		
Company owned.....	13	5
Roy's		
Company owned.....	12	6
Franchised and development joint venture..	2	-
Total.....	14	6
Zazarac		
Company owned.....	-	1
Lee Roy Selmon's		
Company owned.....	1	1
Bonefish Grills		
Company owned.....	4	-
Development joint venture.....	1	-
Total.....	5	-
System-wide total.....	884	776

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Three months ended March 31, 2002 and 2001

Revenues. Total revenues increased by 11.1% to \$578,989,000 during the first quarter of 2002 as compared with \$521,253,000 in the same period in 2001. The increase was attributable to the opening of new restaurants after March 31, 2001, menu price increases at Outback Steakhouse and Carrabba's Italian Grills after March 2001, and per store revenue increase during the quarter of 3.1% at Carrabba's Italian Grills, partially offset by per store revenue decrease of 1.2% at Outback Steakhouse. The following table depicts additional activities that influenced the period to period changes in revenues:

	Three Months Ended March 31,	
	2002	2001
Average unit volumes (weekly):		
Outback Steakhouses.....	\$66,238	\$67,735
Carrabba's Italian Grills.....	64,253	61,980
Per person check averages:		
Outback Steakhouses.....	\$19.01	\$18.62
Carrabba's Italian Grills.....	19.71	19.64
Year to year percentage change:		
Same-store sales:		
Outback Steakhouses.....	(1.2%)	2.3%
Carrabba's Italian Grills.....	3.1%	8.6%
Same-store customer counts:		
Outback Steakhouses.....	(3.2%)	(0.9%)
Carrabba's Italian Grills.....	2.7%	7.6%

Costs and expenses. Costs of sales, consisting of food and beverage costs, as a percentage of restaurant sales, decreased in the first quarter of 2002 to 37.4% of restaurant sales as compared with 37.8% in the same period in 2001. The decrease was attributable to commodity cost decreases in beef and seafood, particularly shrimp, partially offset by higher produce costs. The decrease was also attributable to higher menu prices at Carrabba's Italian Grills and an increase in the proportion of new restaurant formats (Fleming's, Roy's and Bonefish Grills) which have lower average food costs than Outback Steakhouses and Carrabba's Italian Grills.

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 24.1% in the first quarter of 2002 as compared with 23.8% in the same period in 2001. The increase resulted from higher hourly wage rates, enhanced employee health insurance benefits, lower average unit volumes at Outback Steakhouse and an increase in the proportion of new restaurant formats (Fleming's, Roy's and Selmon's) which have higher average labor costs than Outback Steakhouse and Carrabba's Italian Grills.

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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 0.2% of

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restaurant sales to 19.8% in the first quarter of 2002, as compared with 19.6% in the same period in 2001. The increase was attributable to lower average unit volumes at Outback Steakhouse and expenses associated with opening new restaurant formats. The increase was also attributable to an increase in the proportion of new restaurant formats (Fleming's, Roy's and Selmon's) 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 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 first quarter of 2002 and 2001. The impact of reduced amortization expense due to the adoption of SFAS 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, Roy's and Fleming's Prime Steakhouse.

General and administrative costs increased by \$1,867,000 to \$21,129,000 in the first quarter of 2002 compared with \$19,262,000 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 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 \$1,552,000 during the first quarter of 2002 as compared with income of \$1,001,000 during the same period in 2001. This increase was attributable to additional stores operating as development joint ventures in the first quarter of 2002 compared with the first quarter of 2001 and to an increase in average unit volumes at Carrabba's Italian Grills.

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Income from operations. As a result of the increase in revenues, the changes in the relationship between revenues and expenses discussed above and the opening of new restaurants, income from operations increased by \$6,450,000, to \$74,315,000, in the first quarter of 2002 as compared with \$67,865,000 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 \$317,000 during the first quarter of 2002 as compared with net other expense of \$1,235,000 in the same period in 2001. The decrease in other expense resulted from decreased costs associated with other non-restaurant operations, gain of approximately \$500,000 on the sale of an airplane and approximately \$300,000 of lower costs related to life insurance cash surrender values during the first quarter of 2002 compared with the first quarter of 2001.

Interest income (expense), net. Interest income was \$236,000 during the first quarter of 2002 as compared with interest income of \$1,124,000 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

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first quarter of 2002 compared with the same period in 2001 and increased interest expense due to higher average debt balances during the first quarter of 2002 compared with the first 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 is the majority owner. As a percentage of revenues, these allocations were 1.8% and 1.7% during the quarters ended March 31, 2002 and 2001, respectively. The increase in the ratio is the result of improved performance of the new restaurant formats.

Provision for income taxes. The provision for income taxes in the first 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 first quarter of 2002 and was 35.4% during the first quarter of 2001. The decrease resulted from tax savings associated with changes in the Company's corporate state tax structure.

Net income and earnings per share. Net income for the first quarter of 2002 was \$41,385,000 as compared with \$37,887,000 in the same period in 2001. Basic earnings per share increased to \$0.54 during the first quarter of 2002 as compared with \$0.50 for the same period in 2001. Diluted earnings per share increased to \$0.52 during the first quarter of 2002 as compared with \$0.49 for the same period in 2001.

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### 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 -----	Three Months Ended March 31, 2002 -----	March 31, 2001 -----
Net cash provided by			
operating activities.....	\$ 228,821	\$ 58,958	\$ 20,010
Net cash used in investing			
activities.....	(233,662)	(51,747)	(51,629)
Net cash used in financing			
activities.....	(10,835)	(17,784)	(21,051)
	-----	-----	-----
Net decrease in cash and			
cash equivalents.....	\$ (15,676)	\$ (10,573)	\$ (52,670)
	=====	=====	=====

The Company requires capital principally for the development of restaurants. Capital expenditures totalled approximately \$201,039,000 for

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the year ended December 31, 2001 and \$45,891,000 and \$42,189,000 during the first three 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 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 \$1,353,000 had been expended as of March 31, 2002.

During 1999, the Company formed joint ventures to develop Outback Steakhouses in Brazil and the Philippines. The Company purchased four Outback Steakhouses in Korea in the first quarter of 2000 and will develop future Company owned Outback Steakhouses in Korea. During 1999, the Company also entered into agreements to develop and operate Roy's Restaurants and 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.

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At March 31, 2002, the Company has two uncollateralized lines of credit totalling \$140,000,000. Approximately \$3,850,000 is committed for the issuance of letters of credit. As of March 31, 2002, the Company had drawn \$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 7.5% to support the Company's international operations. As of March 31, 2002, the outstanding balance was approximately \$11,920,000.

The Company is the guarantor of two uncollateralized lines of credit that permit borrowing of up to \$25,000,000 to support the Company's international operations. At March 31, 2002 the borrowings totalled approximately \$16,766,000.

The Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to \$35,000,000 for one of its franchisees. At March 31, 2002, the balance on the line of credit was approximately \$27,963,000.

The Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to \$24,500,000 for one of its joint venture partners. At March 31, 2002, the outstanding balance was approximately \$19,427,000.

The Company is the guarantor of bank loans made to certain

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franchisees. At March 31, 2002, the outstanding balance on the loans was approximately \$366,000.

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 March 31, 2002 the outstanding balance on the note was approximately \$68,000,000.

In connection with the Company's debt guarantees, as noted above, the Company is not aware of any non-compliance with the terms of the borrowing agreements that would result in the Company having to perform in accordance with the terms of the debt guarantees.

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 March 31, 2002, under these authorizations the Company has repurchased approximately 3,813,000 shares of its Common Stock for approximately \$101,118,000.

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### 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 within the meaning of the Private Securities Litigation Reform Act of 1995. Forward looking statements 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. 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 guidance on the outlook for its businesses in 2002 and factors that may affect the Company's financial results. During the quarter ended March 31, 2002, average unit volumes at the Company's Outback Steakhouse units decreased by approximately 2.1%. The Company's

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2002 financial and operating plan discussed in Form 10-K planned for average unit volumes at Outback Steakhouse to be flat for the full year. To the extent to which average unit volume trends remain weak, the Company's revenues and operating results may be affected for the remainder of 2002. The Company will reevaluate Outback menu pricing periodically and may change as economic and commodity conditions dictate.

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### Expansion Strategy.

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

	2002 -----
Outback Steakhouses - Domestic	
Company owned	38 to 40
Franchised	5 to 6
Outback Steakhouses - International	
Company owned	5 to 6
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	5
Roy's	
Company owned	2 to 3
Franchised	1
Lee Roy Selmon's	
Company owned	1
Cheeseburger in Paradise	
Company owned	1
Bonefish Grill	
Company owned	6 to 8
Franchised	1 to 2

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### 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:

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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 are subject to fluctuation and could increase or decrease more than the Company expects; and/or
- (v) Weather and acts of God could result in construction delays and also adversely affect the results of one or more stores for an indeterminate amount of time.

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### 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 57.5 to 95 basis points over the 30, 60, 90 or 180 London Interbank Offered Rate. At March 31, 2002 and December 31, 2001, the Company had \$10,000,000 outstanding on its lines of credit.

Many food products purchased by the Company and its franchisees are affected by commodity pricing and are, therefore, subject to unpredictable price volatility. These commodities are generally purchased based upon

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

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

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OUTBACK STEAKHOUSE, INC. (R)  
PART II: OTHER INFORMATION

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 February 14, 2002.

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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.

Date: May 15, 2002.

OUTBACK STEAKHOUSE, INC. (R)  
(Registrant)

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

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