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

Overview (continued)

Our consolidated operating results are affected by the growth of our newer brands. As we continue to develop and expand new restaurant concepts at different rates, our cost of sales, labor costs, restaurant operating expenses, and income from operations change from the mix of brands in our portfolio with slightly different operating characteristics. Labor and related expenses are higher at our new format stores than have typically been experienced at Outback Steakhouses. However, cost of sales at those stores is lower than those at Outback. These trends are expected to continue with our planned development of stores in 2004.

Our industry's challenges and risks include, but are not limited to, the potential for government regulation, the availability of employees, consumer perceptions regarding food safety and/or the health benefits of certain types of food, including attitudes about alcohol consumption, economic conditions and commodity pricing. We have provided information in our Outlook section that outlines our current beliefs regarding the anticipated changes to our operations resulting from increased beef prices and other commodity costs, continued preopening expenses from the development of new restaurants and our expansion strategy, among other factors that may affect our results in 2004.

Results of Operations (unaudited)

The following tables set forth, for the periods indicated, (i) the percentages that the items in our Unaudited 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,	
	2004	2003	2004	2003
Revenues				
Restaurant sales	99.4%	99.3%	99.4%	99.2%
Other revenues	0.6	0.7	0.6	0.8
Total revenues	100.0	100.0	100.0	100.0
Costs and expenses				
Cost of sales (1)	36.7	36.3	36.4	36.2
Labor & other related (1)	24.7	24.6	24.6	24.6
Other restaurant operating (1)	21.3	20.9	21.1	20.9
Distribution expense to employee partners, excluding stock expense (1)	2.3	2.3	2.3	2.3
Employee partner stock buyout expense (1)	0.3	0.2	0.3	0.2
Depreciation	3.0	3.0	3.0	3.0
General & administrative	3.7	3.6	3.7	3.5
Income from operations of unconsolidated affiliates	(*)	(0.2)	(*)	(0.2)
Total costs and expenses	91.5	90.0	90.8	89.8
Income from operations	8.5	10.0	9.2	10.2
Other income (expense), net	(*)	*	(0.1)	(0.1)
Interest income	*	0.1	*	0.1
Interest expense	(*)	(0.1)	(0.1)	(0.1)
Income before elimination of minority partners' interest and income taxes	8.5	10.0	9.0	10.1
Elimination of minority partners' interest	0.4	0.1	0.4	0.2
Income before provision for income taxes	8.1	9.9	8.6	10.0
Provision for income taxes	2.8	3.4	3.0	3.5
Net income	5.3%	6.5%	5.6%	6.5%

) As a percentage of restaurant sales.
Less than 1/10 of one percent of total revenues

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

:esults of Operations (unaudited) (continued)

ystem-wide sales grew by 12.5% for the quarter ended June 30, 2004 and 14.4% for the six months ended June 30, 2004. System-wide sales : a non-GAAP financial measure that includes sales of all restaurants operating under our brand names, whether we own them or not. The two omponents of system-wide sales, including those of Outback Steakhouse, Inc. and those of franchisees and unconsolidated development joint entures, is provided below:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
UTBACK STEAKHOUSE, INC. RESTAURANT ALES (in millions):				
utback Steakhouses				
Domestic	$ 577	$ 530	$ 1,152	$ 1,035
International	40	25	75	46
Total	617	555	1,227	1,081
urrabba's Italian Grills	125	81	247	157
her restaurants	80	48	160	93
ital Company-owned restaurant sales	$ 822	$ 684	$ 1,634	$ 1,331

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
ANCHISE AND DEVELOPMENT JOINT ENTURE SALES (in millions) (1):				
tback Steakhouses				

Domestic	$ 90	$ 102	$ 178	$ 20
International	22	20	45	4
Total	112	122	223	24
arrabba's Italian Grills	-	23	-	4
ther restaurants	3	4	6	1
otal franchise and development joint venture sales (1)	$ 115	$ 149	$ 229	$ 29
come from franchise and development joint ventures (2)	$ 5	$ 6	$ 10	$ 1

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

) Represents the franchise royalty and portion of total income included in our Consolidated Statements of Income in the line items Other revenues or Income from operations of nconsolidated affiliates.

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

esults of Operations (unaudited) (continued)

	JUNE 30,	
	2004	2003
mber of restaurants (at end of the period):		
tback Steakhouses		
ompany-owned- domestic	637 (1)	594
ompany-owned - international	63	45
anchised and development joint venture- domestic	100 (1)	119
anchised and development joint venture- international	52	49
tal	852	807
rabba's Italian Grills		
mpany-owned	159 (1)	103
evelopment joint venture	- (1)	29
tal	159	132
efish Grills		
ompany-owned	39 (1)	20
ranchised and development joint venture	4 (1)	4
otal	43	24
ning's Prime Steakhouse and Wine Bars		

Company-owned	24		18
Roy's			
Company-owned	18	(1)	16
Franchised and development joint venture	-	(1)	2
Total	18		18
ee Roy Selmon's			
Company-owned	2		2
heeseburger in Paradise			
Company-owned	5		1
ystem-wide total	1,103		1,002

.) Two Outback Steakhouses, 29 Carrabba's Italian Grills, one Bonefish Grill and one Roy's are now included in Company-owned stores as a result of adoption of FIN 46 in January 2004. Additionally, the 36% minority ownership interests of the Company's partners in nine of the newly consolidated Carrabba's were acquired in March 2004.

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

'hree months ended June 30, 2004 and 2003 (unaudited)

EVENUES

estaurant sales. Restaurant sales increased by 20.3% to $822,865,000 during the second quarter of 2004 compared with $684,125,000 in the ıme period in 2003. The increase in restaurant sales was partially attributable to the following: additional revenues of approximately 65,298,000 from the opening of new restaurants after June 30, 2003; an increase of approximately $20,520,000 resulting from the onsolidation of 33 joint venture stores due to implementation of a new accounting pronouncement effective January 1, 2004; and revenues of pproximately $25,972,000 from the acquisitions of franchisee interests in certain restaurants from July through September 2003. The llowing table includes additional activities that influenced the changes in restaurant sales at domestic Company-owned restaurants for the ree months ended June 30, 2004 and 2003:

	THREE MONTHS ENDED JUNE 30,	
	2004	2003
verage unit volumes (weekly) for restaurants opened for one year or more:		
Outback Steakhouses	$ 70,639	$ 68,801
Carrabba's Italian Grills	62,154	62,460
Fleming's Prime Steakhouse and Wine Bars	90,733	77,359
Roy's	70,454	63,810
Bonefish Grills	64,150	62,369

verage unit volumes (weekly) for restaurants opened for less than one year:		
Outback Steakhouses	$ 66,278	$ 68,190
Carrabba's Italian Grills	60,937	61,814
Fleming's Prime Steakhouse and Wine Bars	69,173	77,099
Roy's	67,457	64,529
Bonefish Grills	61,040	62,020
perating weeks		
Outback Steakhouses	8,217	7,612
Carrabba's Italian Grills	2,021	1,304
Fleming's Prime Steakhouse and Wine Bars	303	234
Roy's	234	197
Bonefish Grills	502	229
ear to year percentage change:		
Menu price increases (1)		
Outback Steakhouses	2.0%	1.7%
Carrabba's Italian Grills	1.5%	1.3%
Bonefish Grills	2.9%	0.0%
Same-store sales (stores open 18 months or more):		
Outback Steakhouses	2.2%	2.3%
Carrabba's Italian Grills	1.5%	1.6%
Fleming's Prime Steakhouse and Wine Bars	15.5%	12.2%
Roy's	12.3%	7.5%
Bonefish Grills	6.6%	0.6%

1 Reflects nominal amounts of menu price changes, prior to any change in product mix because of price increases, and may not reflect amounts effectively paid by the customer. Menu price increases are not provided for Fleming's and Roy's as a significant portion of their sales come from specials, which fluctuate daily.

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

ree months ended June 30, 2004 and 2003 (unaudited) (continued)

her revenues. Other revenues, consisting primarily of initial franchise fees and royalties, remained consistent for the second quarter of 2004, mpared with 2003. Although we purchased 19 domestic Outback Steakhouse franchised restaurants in the second half of 2003, which sulted in a decline in franchise fee revenue (we now record 100% of the restaurants' revenues as Company-owned restaurants), increased yalties from international franchisees offset the decline.

OSTS AND EXPENSES

st of sales. Cost of sales, consisting of food and beverage costs, increased 0.4% as a percentage of restaurant sales in the second quarter of 04 compared with the same period in 2003. Increases in cost of sales resulted from commodity cost increases for dairy and beef, which were rtially offset by favorable product mix shifts away from higher cost steaks at domestic Outback Steakhouses as well as an increase in the portion of consolidated sales associated with our non-Outback Steakhouse restaurants, which have lower cost of goods sold ratios than itback Steakhouses.

bor and other related expenses. Labor and other related expenses include all direct and indirect labor costs incurred in operations, except for tribution expense to employee partners and employee partner stock buyout expense, described below. Labor and other related expenses as a

ercentage of restaurant sales increased 0.1% to 24.7% in the second quarter of 2004 compared with 24.6% in the same period in 2003. Higher verage unit volumes in most of our brands were partially offset by higher state unemployment taxes and workers' compensation expense.

Other restaurant operating expenses. Other restaurant operating expenses include certain unit-level operating costs such as operating supplies, ent, repair and maintenance, advertising expenses, utilities, pre-opening costs and other occupancy costs. A substantial portion of these xpenses is fixed or indirectly variable. These costs increased 0.4% of restaurant sales in the second quarter of 2004, compared with the same eriod in 2003. Increased other restaurant operating expenses resulted from increased advertising expense for Carrabba's, higher property taxes nd rent and an increase in the proportion of new format restaurants and international Outback Steakhouses in operation, which have higher verage restaurant operating expenses as a percentage of restaurant sales than domestic Outback Steakhouses and Carrabba's Italian Grills.

Distribution expense to employee partners, excluding stock expense. Distribution expense to employee partners, excluding stock expense, ncludes distributions to managing partners and area operating partners of their percentage of restaurant cash flows pursuant to their interest greements, and cash buyouts of managing partners' rights in the cash flows of their restaurants. These costs remained consistent as a ercentage of restaurant sales at 2.3% in the second quarter of 2004, compared with the same period in 2003.

Employee partner stock buyout expense. Employee partner stock buyout expense includes non-cash expenses recorded for the accrual of future uyouts of area operating partners' rights to the cash flows of their restaurants. Upon buyout, area operating partners generally receive ommon stock in exchange for their rights in the cash flows of a restaurant. Employee partner stock buyout expense increased 0.1% as a ercentage of restaurant sales to 0.3% of restaurant sales for the second quarter of 2004, compared with 0.2% for the same period in 2003. The ncrease was primarily due to higher average unit volumes and operating margins in the Roy's, Bonefish Grill and Fleming's Prime Steakhouse nd Wine Bar brands, which translates into higher anticipated buyout costs for the improved performance in these younger brands.

Depreciation. Depreciation costs were flat as a percentage of total revenues in the second quarter of 2004 compared to the same period in 003. Higher average unit volumes across the consolidated brands offset higher depreciation costs for certain of our new restaurant formats, hich have higher average construction costs than an Outback Steakhouse.

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

hree months ended June 30, 2004 and 2003 (unaudited) (continued)

eneral and administrative. General and administrative costs increased by $5,970,000 to $30,952,000 in the second quarter of 2004 compared ith $24,982,000 during the same period in 2003. This increase resulted from an increase in overall administrative costs associated with erating additional domestic and international Outback Steakhouses, Carrabba's Italian Grills, Fleming's Prime Steakhouses, Roy's and nefish Grills. Additionally, the increase resulted from approximately $1,100,000 in consulting fees paid for supply chain management ojects and costs associated with the development of new restaurant formats, including approximately $500,000 associated with the start-up of ul Lee's Chinese Kitchen.

come from operations of unconsolidated affiliates. Income from operations of unconsolidated affiliates represents our portion of net income m restaurants operated as development joint ventures. Income from development joint ventures was $407,000 during the second quarter of 04 compared with $1,650,000 during the same period in 2003. This decrease was attributable to the consolidation of 33 previously consolidated joint venture restaurants effective January 1, 2004 upon adoption of FIN 46. Approximately $1,335,000 of income recorded in s line item in the second quarter of 2003 did not recur in the same period in 2004 since, upon consolidation, the results of those 33 stores re included in all other lines of the Consolidated Statement of Income.

come from operations. As a result of the increase in revenues, the opening of new restaurants subsequent to June 30, 2003, and the changes in relationships between revenues and expenses discussed above, including the approximately $1,978,000 impact of consolidation of 33 joint ntures, income from operations increased by $1,897,000 to $70,784,000 in the second quarter of 2004 compared with $68,887,000 in the ne period in 2003.

)ther income (expense), net. Other income (expense) represents the net of revenues and expenses from non-restaurant operations. Net other xpense was $216,000 during the second quarter of 2004 compared with net other income of $353,000 in the same period in 2003. The change ı net other income (expense) in 2004 is primarily the result of changes in the cash surrender value of certain life insurance policies from a gain f approximately $500,000 in the second quarter of 2003 to a loss of approximately $60,000 in the same period in 2004.

ıterest income. Interest income was $278,000 during the second quarter of 2004 compared with $431,000 in the same period in 2003. Interest ıcome decreased due to lower short-term investment balances as a result of cash used for treasury stock purchases during the second quarter of 004 compared with the same period in 2003. The decrease in interest income was partially offset by the consolidation of a limited liability ɔmpany owned by our California franchisee effective January 1, 2004 upon adoption of FIN 46. Interest income included in our Consolidated tatement of Income for the quarter ended June 30, 2004, included approximately $122,000 of income from notes receivable held by this ıtity.

ıterest expense. Interest expense was $694,000 during the second quarter of 2004 compared with $424,000 in the same period in 2003. The ıcrease in interest expense is due to higher average debt balances on borrowings for Outback Steakhouse's international operations during the :cond quarter of 2004 compared with the second quarter of 2003. Additionally, the increase in interest expense was partially attributable to .e consolidation of a limited liability company owned by our California franchisee effective January 1, 2004 upon adoption of FIN 46. ıterest expense included in our Consolidated Statement of Income for the quarter ended June 30, 2004, included approximately $122,000 of ;pense from outstanding borrowings on the line of credit held by this entity.

!imination of minority partners' interest. The allocation of minority partners' income included in this line item represents the portion of come or loss from operations included in consolidated operating results attributable to our partners' ownership interests. As a percentage of venues, the income allocations as a percentage of total sales were 0.4% and 0.1% during the quarters ended June 30, 2004 and 2003, spectively. The increase in the ratio is the result of consolidation of 33 joint venture stores as of January 1, 2004, which increased minority ırtner income by approximately $940,000, or about 0.1% as a percentage of revenues, and the remainder by an increase in overall restaurant ıerating margins and improvement in the performance of new format restaurants, which have a higher percentage of minority interest than our der formats.

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

ıree months ended June 30, 2004 and 2003 (unaudited) (continued)

ovision for income taxes. The provision for income taxes in the second quarter of both 2004 and 2003 reflects expected income taxes due at leral statutory rates and state income tax rates, net of the federal benefit. The effective income tax rate was 34.4% during the second quarter 2004 and 34.7% during the second quarter of 2003. The decrease in the rate resulted from an increase in the percentage of FICA tax credits employee-reported tips during 2004. Approximately 25% of our international restaurants in which we have a direct investment are owned ough a Cayman Island corporation.

(income and earnings per share. Net income for the second quarter of 2004 was $44,099,000 compared with $44,702,000 in the same iod in 2003. Basic earnings per share remained flat as a result of the decrease in net income as well as a decrease in basic weighted average .res outstanding of approximately 1,110,000 shares. The decrease in basic weighted average shares outstanding for the quarter ended June 2004 compared with June 30, 2003 was primarily due to common stock repurchases, partially offset by the issuance of shares under stock ion plans. Diluted earnings per share remained flat during the second quarter of 2004 compared with the same period in 2003. Diluted ighted average shares outstanding decreased by approximately 454,000 shares, primarily as a result of common stock repurchases, partially set by an increase in the dilutive effect of stock options outstanding resulting from an increase in the average trading prices of our common :k during the quarter.

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

ix months ended June 30, 2004 and 2003 (unaudited)

EVENUES

estaurant sales. Restaurant sales increased by 22.8% to $1,634,457,000 during the first half of 2004 compared with $1,330,797,000 in the ame period in 2003. The increase in restaurant sales was partially attributable to the following: additional revenues of approximately 112,447,000 from the opening of new restaurants after June 30, 2003; an increase of approximately $44,363,000 resulting from the onsolidation of 33 joint venture stores due to implementation of a new accounting pronouncement effective January 1, 2004; and revenues of pproximately $47,094,000 from the acquisitions of franchisee interests in certain restaurants from July through September 2003. The ollowing table includes additional activities that influenced the changes in restaurant sales at domestic Company-owned restaurants for the six nonths ended June 30, 2004 and 2003:

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
verage unit volumes (weekly) for restaurants opened for one year or more:		
Outback Steakhouses	$ 70,555	$ 67,940
Carrabba's Italian Grills	62,660	63,103
Fleming's Prime Steakhouse and Wine Bars	95,005	78,469
Roy's	72,970	67,211
Bonefish Grills	68,507	64,659
verage unit volumes (weekly) for restaurants opened for less than one year:		
Outback Steakhouses	$ 64,660	$ 67,551
Carrabba's Italian Grills	61,003	59,452
Fleming's Prime Steakhouse and Wine Bars	67,910	83,620
Roy's	70,257	55,260
Bonefish Grills	61,970	63,926
erating weeks		
Outback Steakhouses	16,387	15,037
Carrabba's Italian Grills	3,960	2,527
Fleming's Prime Steakhouse and Wine Bars	589	465
Roy's	468	388
Bonefish Grills	962	367
ar to year percentage change:		
Menu price increases (1)		
Outback Steakhouses	2.3%	2.0%
Carrabba's Italian Grills	1.4%	1.3%
Bonefish Grills	2.3%	0.0%
ame-store sales (stores open 18 months or more):		
Outback Steakhouses	4.4%	1.7%
Carrabba's Italian Grills	3.3%	0.8%
Fleming's Prime Steakhouse and Wine Bars	17.5%	11.1%
Roy's	15.1%	5.9%
Bonefish Grills	11.2%	1.0%

Reflects nominal amounts of menu price changes, prior to any change in product mix because of price increases, and ay not reflect amounts effectively paid by the customer. Menu price increases are not provided for Fleming's id Roy's as a significant portion of their sales come from specials, which fluctuate daily.

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

ix months ended June 30, 2004 and 2003 (unaudited) (continued)

ther revenues. Other revenues, consisting primarily of initial franchise fees and royalties, remained consistent for the first half of 2004, ompared with 2003. Although we purchased 19 domestic Outback Steakhouse franchised restaurants in the second half of 2003, which sulted in a decline in franchise fee revenue (we now record 100% of the restaurants' revenues as Company-owned restaurants), increased yalties from international franchisees offset the decline.

OSTS AND EXPENSES

ost of sales. Cost of sales, consisting of food and beverage costs, increased 0.2% as a percentage of restaurant sales in the first half of 2004 ompared with the same period in 2003. Increases in cost of sales resulted primarily from commodity cost increases for beef and dairy, rtially offset by favorable product mix shifts away from higher cost steaks at domestic Outback Steakhouses as well as an increase in the oportion of consolidated sales associated with our non-Outback Steakhouse restaurants, which have lower cost of goods sold ratios than utback Steakhouses.

ibor and other related expenses. Labor and other related expenses include all direct and indirect labor costs incurred in operations, except for stribution expense to employee partners and employee partner stock buyout expense, described below. Labor and other related expenses as a rcentage of restaurant sales remained flat in the first half of 2004 compared with the same period in 2003. Higher average unit volumes and creased productivity in most of our brands was offset by higher state unemployment taxes, employee bonuses and workers' compensation pense.

her restaurant operating expenses. Other restaurant operating expenses include certain unit-level operating costs such as operating supplies, nt, repair and maintenance, advertising expenses, utilities, pre-opening costs and other occupancy costs. A substantial portion of these penses is fixed or indirectly variable. These costs increased 0.2% to 21.1% of restaurant sales in the first half of 2004, compared with 20.9% the same period in 2003. Increased other restaurant operating expenses resulted from increased advertising expense for Carrabba's, higher operty taxes and rent and an increase in the proportion of new format restaurants and international Outback Steakhouses in operation, which ve higher average restaurant operating expenses as a percentage of restaurant sales than domestic Outback Steakhouses and Carrabba's lian Grills. However, higher average unit volumes across the consolidated brands in the first half of 2004 offset these increases.

stribution expense to employee partners, excluding stock expense. Distribution expense to employee partners, excluding stock expense, cludes distributions to managing partners and area operating partners of their percentage of restaurant cash flows pursuant to their interest reements and cash buyouts of managing partners' rights in the cash flows of their restaurants. These costs remained consistent as a rcentage of restaurant sales at 2.3% in the first half of 2004, compared with the same period in 2003.

iployee partner stock buyout expense. Employee partner stock buyout expense includes non-cash expenses recorded for the accrual of future youts of area operating partners' rights to the cash flows of their restaurants. Upon buyout, area operating partners generally receive nmon stock in exchange for their rights in the cash flows of a restaurant. Employee partner stock buyout expense increased 0.1% as a centage of restaurant sales to 0.3% for the first half of 2004, compared with 0.2% for the same period in 2003. The increase was primarily to higher average unit volumes and operating margins in the Roy's, Bonefish Grill and Fleming's Prime Steakhouse and Wine Bar brands, ich translates into higher anticipated buyout costs for the improved performance in these younger brands.

preciation. Depreciation costs were flat as a percentage of total revenues in the first half of 2004 compared to the same period in 2003. gher average unit volumes across the consolidated brands offset higher depreciation costs for certain of our new restaurant formats, which e higher average construction costs than an Outback Steakhouse.

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OUTBACK STEAKHOUSE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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x months ended June 30, 2004 and 2003 (unaudited) (continued)

eneral and administrative. General and administrative costs increased by $14,177,000 to $61,655,000 in the first half of 2004 compared with 47,478,000 during the same period in 2003. This increase resulted from an increase in overall administrative costs associated with operating lditional domestic and international Outback Steakhouses, Carrabba's Italian Grills, Fleming's Prime Steakhouses, Roy's and Bonefish rills. Additionally, the increase resulted from approximately $2,400,000 in consulting fees paid for supply chain management projects, proximately $600,000 in payroll taxes associated with additional stock option exercises resulting from an increase in the trading price of our mmon stock in the first quarter of 2004, and costs associated with the development of new restaurant formats, including approximately 00,000 associated with the start-up of Paul Lee's Chinese Kitchen.

come from operations of unconsolidated affiliates. Income from operations of unconsolidated affiliates represents our portion of net income om restaurants operated as development joint ventures. Income from development joint ventures was $660,000 during the first half of 2004 mpared with $2,939,000 during the same period in 2003. This decrease was attributable to the consolidation of 33 previously unconsolidated int venture restaurants effective January 1, 2004 upon adoption of FIN 46. Approximately $2,335,000 of income recorded in this line item in e first half of 2003 did not recur in the same period in 2004 since, upon consolidation, the results of those 33 stores were included in all other ies of the Consolidated Statement of Income.

come from operations. As a result of the increase in revenues, the opening of new restaurants subsequent to June 30, 2003, and the changes in e relationships between revenues and expenses discussed above, including the approximately $4,107,000 impact of consolidation of 33 joint ntures, income from operations increased by $14,558,000 to $150,740,000 in the first half of 2004 compared with $136,182,000 in the same riod in 2003.

her income (expense), net. Other income (expense) represents the net of revenues and expenses from non-restaurant operations. Net other pense was $1,089,000 during the first half of 2004 compared with $590,000 in the same period in 2003. The change in net other expense in 04 is primarily the result of changes in the cash surrender value of certain life insurance policies from a gain of approximately $330,000 in first half of 2003 to a loss of approximately $70,000 in the same period in 2004.

erest income. Interest income was $610,000 during the first half of 2004 compared with $973,000 in the same period in 2003. Interest come decreased due to lower short-term investment balances as a result of cash used for treasury stock purchases and acquisitions of minority rtners during the first half of 2004 compared with the same period in 2003. The decrease in interest income was partially offset by the nsolidation of a limited liability company owned by our California franchisee effective January 1, 2004 upon adoption of FIN 46. Interest come included in our Consolidated Statement of Income for the six months ended June 30, 2004, included approximately $240,000 of income m notes receivable held by this entity.

erest expense. Interest expense was $1,399,000 during the first half of 2004 compared with $777,000 in the same period in 2003. The rease in interest expense is due to higher average debt balances on borrowings for Outback Steakhouse's international operations during the st half of 2004 compared with the first half of 2003. Additionally, the increase in interest expense was partially attributable to the nsolidation of a limited liability company owned by our California franchisee effective January 1, 2004 upon adoption of FIN 46. Interest pense included in our Consolidated Statement of Income for the six months ended June 30, 2004, included approximately $240,000 of pense from outstanding borrowings on the line of credit held by this entity.

mination of minority partners' interest. The allocation of minority partners' income included in this line item represents the portion of ome or loss from operations included in consolidated operating results attributable to our partners' ownership interests. As a percentage of enues, the income allocations as a percentage of total sales were 0.4% and 0.2% during the six months ended June 30, 2004 and 2003, pectively. The increase in the ratio is the result of consolidation of 33 joint venture stores as of January 1, 2004, which increased minority tner income by approximately $1,990,000, or about 0.1% as a percentage of sales, and the remainder by an increase in overall restaurant rating margins and improvement in the performance of new format restaurants, which have a higher percentage of minority interest than our er formats.

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

ix months ended June 30, 2004 and 2003 (unaudited) (continued)

rovision for income taxes. The provision for income taxes in the first half of both 2004 and 2003 reflects expected income taxes due at federal tatutory rates and state income tax rates, net of the federal benefit. The effective income tax rate was 34.7% during the first half of 2004 and 003. Approximately 25% of our international restaurants in which we have a direct investment are owned through a Cayman Island orporation.

let income and earnings per share. Net income for the first half of 2004 was $92,430,000 compared with $87,277,000 in the same period in 003. Basic earnings per share increased $.09 as a result of the increase in net income as well as a decrease in basic weighted average shares utstanding of approximately 1,188,000 shares. The decrease in basic weighted average shares outstanding for the six months ended June 30, 004 compared with June 30, 2003 was primarily due to common stock repurchases, partially offset by the issuance of shares under stock ption plans. Diluted earnings per share increased $.07 during the first half of 2004 compared with the same period in 2003. Diluted weighted verage shares outstanding decreased by approximately 83,000 shares, primarily as a result of common stock repurchases, partially offset by an ncrease in the dilutive effect of stock options outstanding resulting from an increase in the average trading prices of our common stock during ne first half of 2004.

iquidity and Capital Resources (unaudited)

he following table presents a summary of our cash flows from operating, investing and financing activities for the periods indicated (in ousands):

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
et cash provided by operating activities	$ 119,690	$ 56,506
et cash used in investing activities	(108,106)	(65,853)
et cash used in financing activities	(54,254)	(49,055)
et decrease in cash and cash equivalents	$ (42,670)	$ (58,402)

e require capital principally for the development of new restaurants, remodeling older restaurants and investments in technology. We also quire capital to pay dividends to common stockholders (refer to additional discussion in the Dividend section of Management's Discussion nd Analysis of Financial Condition and Results of Operation). We also utilize capital to repurchase our common stock as part of an ongoing are repurchase program. Capital expenditures totaled approximately $194,754,000 for the year ended December 31, 2003 and approximately 14,476,000 and $78,954,000 during the first six months of 2004 and 2003, respectively. We either lease our restaurants under operating ases for periods ranging from five to 30 years (including renewal periods) or build free standing restaurants where it is cost effective.

demand for our products and services were to decrease as a result of increased competition, changing consumer tastes, changes in local, gional and national economic conditions or changes in the level of consumer acceptance of our restaurant brands, our restaurant sales could cline significantly. The following table sets forth approximate amounts by which cash provided by operating activities may decline in the ent of a decrease in revenues of 5%, 10% and 15% compared with total revenues for the period ended December 31, 2003 (in thousands):

	5%	10%	15%

ecrease in restaurant sales	$ (136,000)	$ (272,000)	$ (409,000)
ecrease in cash provided by operating activities	$ (24,000)	$ (48,000)	$ (72,000)

he estimates above are based on the assumption that income before minority partners' interest and provision for income taxes decreases pproximately $0.29 for every $1.00 decrease in restaurant sales. These numbers are estimates only and do not consider other measures we ould implement were such decreases in revenue to occur.

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OUTBACK STEAKHOUSE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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iquidity and Capital Resources (unaudited) (continued)

'e have formed joint ventures to develop Outback Steakhouses in Brazil and the Philippines. We are also developing Company-owned staurants internationally in Puerto Rico, Korea, Hong Kong and Japan.

'e have an agreement to develop and operate Fleming's Prime Steakhouse and Wine Bars ("Fleming's") with our partners in the utback/Fleming's, LLC (the "LLC", which is a consolidated entity). We have loaned approximately $17,384,000 to our operating partners r their share of capital to build new restaurants beyond the initial agreed upon development under the LLC. We expect to continue to make vances to our operating partners for the construction of new restaurants, and the assets of the LLC will continue to collateralize these vances. Additionally, we are subject to a purchase or sale option after the twentieth restaurant is opened, which may require us to purchase additional 40% in the LLC at a market value as determined by the terms of the LLC agreement. The twentieth restaurant opened in 2004, hich initiated the one-year exercise period on the purchase or sale option.

ring September 2003, we formed a limited liability company to develop Paul Lee's Chinese Kitchen ("Paul Lee's") restaurants, which is cluded in our Consolidated Financial Statements. Under the terms of the agreement, we committed to the first $10,000,000 of future velopment costs to open the first five restaurants, $2,225,000 of which had been expended as of June 30, 2004. Additionally, we are subject a purchase or sale option if for eighteen consecutive months there is no restaurant development, whereby our partner may purchase our erest in the LLC for five times the restaurant cash flows for the immediately preceding twelve months.

August 3, 2004, we were approved by the United States Bankruptcy Court for the District of Delaware as the successful bidder at an ction of designation rights for 76 properties of Chi-Chi's, Inc. and its affiliates. The properties include 23 locations with owned land and ilding, 15 sale-leaseback properties with reversion rights and purchase options, 23 ground leases and 15 leases. The properties include any l property, furniture, fixtures and equipment and liquor licenses. The designation rights allow us to transfer properties to ourselves, to nsfer properties to others or to require Chi-Chi's to retain properties. The purchase price for the designation rights is $42,500,000, payable closing. We are responsible for paying the carrying costs on each of the properties from the closing date until the date the property is signated for transfer. The right to designate properties will expire one year from the date of closing, which is anticipated to occur prior to gust 31, 2004.

of the date of this filing, the definitive agreement has not been finalized. The effect on our operating results, if any, will depend on the final reement. Upon finalization of the agreement, we will file a Form 8-K with the document as an exhibit.

r objective in acquiring these rights is to have access to restaurant sites for conversion to one of our own concepts under our current pansion plans.

EDIT FACILITIES

ective April 27, 2004, we replaced a $125,000,000 revolving credit facility that was scheduled to mature in December 2004, with a new collateralized three-year $150,000,000 revolving bank credit facility that matures in June 2007. The revolving line of credit permits rowing at interest rates ranging from 50 to 90 basis points over the 30, 60, 90 or 180 day LIBOR rate (ranging from 1.36% to 1.90% at June

30, 2004). At June 30, 2004 the unused portion of the line of credit was $140,000,000.

The credit agreement contains certain restrictions and conditions as defined in the agreement that require us to maintain consolidated net worth equal to or greater than consolidated total debt and a maximum total consolidated debt to EBITDAR (earnings before interest, taxes, depreciation, amortization and rent) ratio of 3.0 to 1.0. At June 30, 2004, we were in compliance with all of the above debt covenants.

We also replaced a $15,000,000 line of credit that was scheduled to mature in December 2004, with a new $20,000,000 uncollateralized line of credit. The new line of credit matures in June 2007 and permits borrowing at interest rates ranging from 50 to 90 basis points over LIBOR for loan draws and 65 to 112.5 basis points over LIBOR for letters of credit. The credit agreement contains certain restrictions and conditions as defined in the agreement. Approximately $11,882,000 and $8,942,000 of the line of credit was committed for the issuance of letters of credit at June 30, 2004 and December 31, 2003, respectively, as required by insurance companies that underwrite our workers' compensation insurance and also where required for construction of new restaurants. The remaining $8,118,000 on this line of credit at June 30, 2004 is available.

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OUTBACK STEAKHOUSE, INC.
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Liquidity and Capital Resources (unaudited) (continued)

CREDIT FACILITIES (continued)

As of June 30, 2004, we had approximately $6,566,000 of notes payable at interest rates ranging from 2.07% to 7.00%. These notes have been primarily issued for buyouts of general manager interests in the cash flows of their restaurants and generally are payable over five years.

We have notes payable with banks bearing interest at rates ranging from 5.90% to 7.00% to finance development of our restaurants in Korea. The notes are denominated and payable in Korean won and mature at dates ranging from August 2004 to April 2005. As of June 30, 2004 and December 31, 2003, the outstanding balance was approximately $26,652,000 and $21,130,000, respectively. Certain of the notes payable are collateralized by lease and other deposits. At June 30, 2004 and December 31, 2003, collateralized notes totaled approximately $19,974,000 and $16,490,000, respectively.

In April 2003, we obtained a controlling interest in our franchised restaurants in Japan ("Outback Japan"). As a result, upon closing of the transaction we became directly liable for notes outstanding that we had previously guaranteed. The notes are payable to banks, collateralized by lease deposits of approximately $3,400,000 and letters of credit and bear interest at rates ranging from 1.30% to 1.88%. The notes are denominated and payable in Japanese yen, with outstanding balances maturing in September 2004. As of June 30, 2004 and December 31, 2003, outstanding balances totaled approximately $5,995,000 and $16,249,000, respectively.

In October 2003, Outback Japan established a revolving line of credit to finance the development of new restaurants in Japan and refinance certain notes payable. The line permits borrowing up to a maximum of $10,000,000 with interest rates ranging from 70.0 to 107.5 basis points over LIBOR. The line originally matured in December 2004, but was amended in April 2004 with a new maturity date in June 2007. As of June 30, 2004 and December 31, 2003, Outback Japan had borrowed approximately $9,745,000 and $5,648,000, respectively, on the line of credit at an average interest rate of 0.72%, with draws maturing in August and December 2004. The revolving line of credit contains certain restrictions and conditions as defined in the agreement. As of June 30, 2004, Outback Japan was in compliance with all of the debt covenants.

In February 2004, Outback Japan established an additional revolving line of credit to finance the development of new restaurants in Japan and finance certain notes payable. The line permits borrowing up to a maximum of $10,000,000 with interest of LIBOR divided by a percentage equal to 1.00 minus the Eurocurrency Reserve Percentage. The line matures in December 2006. As of June 30, 2004, Outback Japan had borrowed approximately $6,238,000 on the line of credit at an interest rate of 0.77%, with draws maturing in September and November 2004. The revolving line of credit contains certain restrictions and conditions as defined in the agreement. As of June 30, 2004, Outback Japan was in compliance with all of the debt covenants.

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OUTBACK STEAKHOUSE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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iquidity and Capital Resources (unaudited) (continued)

REDIT FACILITIES (continued)

/e are the guarantor of an uncollateralized line of credit that permits borrowing of up to $35,000,000, maturing in December 2004, for a mited liability company, T-Bird, owned by our California franchisee. The line of credit bears interest at rates ranging from 57.5 to 95.0 basis oints over LIBOR based on T-Bird's ratio of consolidated debt to EBITDA, as defined by the line of credit agreement. We were required to onsolidate T-Bird effective January 1, 2004 upon adoption of FIN 46. At June 30, 2004, the outstanding balance on the line of credit was pproximately $28,743,000 and is included in our Consolidated Balance Sheet. We also guarantee additional term loans associated with the wner of T-Bird, which are not consolidated, and which had outstanding balances of approximately $294,000 as of June 30, 2004. We are not e primary obligor on the line of credit and we are not aware of any non-compliance with the underlying terms of the borrowing agreement at would result in us having to perform in accordance with the terms of the guarantee. If a default under the line of credit were to occur and iuse us to perform under the guarantee obligation, we have the right to call into default all of our franchisees in California and exercise any ghts and remedies under those agreements as well as the rights to the notes and assets which underlie the loans T-Bird has made to individual orporations in California which own the land and/or building for those franchise locations.

'e expect that our capital requirements through the end of 2004 will be met by cash flows from operations and, to the extent needed, advances ı our lines of credit.

ur primary source of credit is our uncollateralized revolving line of credit that permits borrowing up to $150,000,000. Based upon provisions the line of credit agreement as of April 27, 2004 and operating data and outstanding borrowings as of and through June 30, 2004, the margin 'er LIBOR rates charged to us on future amounts drawn under the line would not be affected unless: (i) outstanding debt balances increased more than $245,000,000; or (ii) earnings before interest, taxes, depreciation, amortization and rent decreased more than 25%. In addition, sed upon provisions of the line of credit agreement as of April 27, 2004, availability of funds under the uncollateralized revolving line of edit would not be affected unless: (i) outstanding debt balances increased by more than $470,000,000; (ii) earnings before interest, taxes, preciation, amortization and rent decreased more than 50%; or (iii) our net worth decreased approximately 44%.

EBT GUARANTEES

e are the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of $24,500,000 for our joint venture rtner in the development of Roy's restaurants. At June 30, 2004, the outstanding balance was approximately $21,647,000.

e are the guarantor of up to $9,445,000 of a $68,000,000 note for an unconsolidated affiliate, Kentucky Speedway, in which we have a .22% equity interest and for which we operate catering and concession facilities. At June 30, 2004, the outstanding balance on the note was proximately $66,550,000. Our investment is included in the line item entitled "Investments In and Advances to Unconsolidated Affiliates, t." This affiliate has not yet reached its operating break-even point. Accordingly, we have made four additional working capital ntributions, $667,000 in December 2001, $444,000 in July 2002, $333,000 in August 2003 and $133,000 in January 2004, in addition to our iginal investment. We anticipate that we may need to make additional contributions for our pro rata portion of future losses, if any.

e are not aware of any non-compliance with the underlying terms of the borrowing agreements for which we provide a guarantee that would ult in us having to perform in accordance with the terms of the guarantee.

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

ıiquidity and Capital Resources (unaudited) (continued)

HARE REPURCHASE

ın July 26, 2000, our Board of Directors authorized the repurchase of up to 4,000,000 shares of our common stock, with the timing, price, uantity and manner of the purchases to be made at the discretion of management, depending upon market conditions. In addition, the Board of 'irectors also authorized the repurchase of shares on a regular basis to offset shares issued as a result of stock option exercises. On July 23, 003, our Board of Directors extended both the repurchase authorization for an additional 2,500,000 shares of our common stock, and the ıthorization to offset shares issued as a result of stock option exercises. We will fund the repurchase program with available cash and bank :edit facilities. During the period from the authorization date through June 30, 2004, approximately 6,173,000 shares of our common stock ave been issued as the result of stock option exercises. As of June 30, 2004, under these authorizations we have repurchased approximately 1,024,000 shares of our common stock for approximately $367,877,000.

IVIDENDS

ur Board of Directors authorized the following dividends during 2003 and 2004:

Declaration Date	Record Date	Payable Date	Amount per Share of Common Stock
January 22, 2003	February 21, 2003	March 7, 2003	$0.12
April 23, 2003	May 23, 2003	June 6, 2003	$0.12
July 23, 2003	August 22, 2003	September 5, 2003	$0.12
October 22, 2003	November 21, 2003	December 5, 2003	$0.13
January 28, 2004	February 20, 2004	March 5, 2004	$0.13
April 21, 2004	May 21, 2004	June 4, 2004	$0.13
July 21, 2004	August 20, 2004	September 3, 2004	$0.13

t the current dividend rate, the annual dividend payment is expected to be between $36,000,000 and $40,000,000 depending on the shares ıtstanding during the respective quarters. We intend to pay dividends with cash flow from operations.

RITICAL ACCOUNTING POLICIES AND ESTIMATES

ır discussion and analysis of our financial condition and results of operations are based upon our Unaudited Consolidated Financial atements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The eparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, venues and expenses, and related disclosure of contingent assets and liabilities during the reporting period. We base our estimates on storical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the sis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may ffer from these estimates under different assumptions or conditions. Our significant accounting policies are described in Note 1 of Notes to ɔnsolidated Financial Statements included in our Annual Report on Form 10-K. We consider the following policies to be the most critical in ıderstanding the judgments that are involved in preparing our financial statements.

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

RITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)

roperty, Fixtures and Equipment

roperty, fixtures and equipment are recorded at cost. We expense repair and maintenance costs incurred to maintain the appearance and inctionality of the restaurant that do not extend the useful life of any restaurant asset or are less than $1,000. Depreciation is computed on the raight-line basis over the following estimated useful lives:

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

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

npairment of Long-Lived Assets

'e assess the potential impairment of identifiable intangibles, long-lived assets and goodwill whenever events or changes in circumstances dicate that the carrying value may not be recoverable. Recoverability of assets is measured by comparing the carrying value of the asset to e future cash flows expected to be generated by the asset. In evaluating long-lived restaurant assets for impairment, we consider a number of ctors such as:

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

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

dgments and estimates made by us related to the expected useful lives of long-lived assets are affected by factors such as changes in onomic conditions and changes in operating performance. As we assess the ongoing expected cash flows and carrying amounts of our long-'ed assets, these factors could cause us to realize a material impairment charge.

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OUTBACK STEAKHOUSE, INC.
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RITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)

surance Reserves

e self-insure a significant portion of expected losses under our workers' compensation, general liability, health and property insurance ograms. We purchase insurance for individual claims that exceed the amounts listed in the following table:

	2004
Workers' Compensation	$ 1,000,000
General Liability (1)	$ 1,500,000
Health (2)	$ 300,000
Property Loss and Damage	$ 5,000,000

1) Beginning in 2004, for claims arising from liquor liability, there is an additional $1,000,000 deductible until a $2,000,000 aggregate has been met. At that time, any claims arising iom liquor liability revert to the general liability deductible.

2) Beginning in 2004, we are self-insured for annual aggregate health insurance claims that exceed 113% of estimates provided by our third party administrator and insurance company.

Ve record a liability for all unresolved claims and for an estimate of incurred but not reported claims at the anticipated cost to us based on stimates provided by a third party administrator and insurance company. Our accounting policies regarding insurance reserves include certain ctuarial assumptions and management judgments regarding economic conditions, the frequency and severity of claims and claim development istory and settlement practices. Unanticipated changes in these factors may produce materially different amounts of expense that would be eported under these programs.

:evenue Recognition

Ve record revenues for normal recurring sales upon the performance of services. Revenues from the sales of franchises are recognized as icome when we have substantially performed all of our material obligations under the franchise agreement. Continuing royalties, which are a ercentage of net sales of franchised restaurants, are accrued as income when earned. These revenues are included in the line "Other revenues" ı the Unaudited Consolidated Statements of Income.

'nearned revenues primarily represent our liability for gift certificates that have been sold but not yet redeemed and are recorded at the ıticipated redemption value. When the gift certificates are redeemed, we recognize restaurant sales and reduce the related deferred liability.

mployee Partner Stock Buyout Expense

rea operating partners are required to purchase a 4-9% limited partner ownership interest in the restaurants they develop for an initial vestment of $50,000. Under the terms of these partners' employment agreements, we have the option to purchase their interest after a five-:ar period under the conditions of the agreement. We estimate future purchases of our area operating partners' interests using current formation on restaurant performance to calculate and record an accrued buyout liability in the line item "Partner deposit and accrued buyout ibility" in the Consolidated Balance Sheets. When partner buyouts occur, they are primarily completed through issuance of our common ock to the partner equivalent to the fair value of their interest. In the period we complete the buyout, an adjustment is recorded to recognize ıy remaining expense associated with the purchase and reduce the related accrued buyout liability.

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OUTBACK STEAKHOUSE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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ITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)

nciples of Consolidation

e Consolidated Financial Statements include the accounts and operations of Outback Steakhouse, Inc. and our affiliated partnerships in ich we are a general partner and own a controlling financial interest. We consolidate variable interest entities in which we absorb a majority the entity's expected losses, receive a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other ancial interests in the entity. The consolidated financial statements also include the accounts and operations of consolidated ventures in

/hich we have a less than majority ownership. We consolidate these ventures because we control the executive committee (which functions as board of directors) or have control through representation on the board by related parties and we are able to direct or cause the direction of nanagement and operations on a day-to-day basis. Additionally, the majority of capital contributions made by partners in the consolidated entures have been funded by loans to the partners either directly from us, or from a third party where we are required to be a guarantor of the ebt, which provides us control through our collateral interest in the joint venture partners' membership interests. The portion of income or oss attributable to the minority interests, not to exceed the minority interest's equity in the subsidiary, is eliminated in the line item in our 'onsolidated Statements of Income entitled "Elimination of minority partners' interest." All material intercompany balances and transactions ave been eliminated.

)UTLOOK

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

ı the Outlook portion of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report to the ecurities and Exchange Commission on Form 10-K for the year ended December 31, 2003, we provided information on the outlook for our usinesses in 2004 and factors that may affect our financial results for that year. The remaining paragraphs in this Outlook section update the ıformation provided in the Form referenced above and we recommend that this section be read in conjunction with our Form 10-K.

uture Operating Results

·ur revenues and financial results in the remainder of 2004 could vary significantly depending upon consumer and business spending trends.

)04 Revenue. During the three-month period ended June 30, 2004, compared with the same period a year ago, average unit volumes for omestic Company-owned Outback Steakhouses increased by approximately 1.9% and decreased approximately 0.7% for domestic Company-wned Carrabba's Italian Grills. Average unit volumes for Carrabba's includes the effect of the consolidation of 29 joint venture stores upon loption of FIN 46. Therefore, on a comparative basis, it is more appropriate to use the system-wide Carrabba's average of a decrease of 0.3%, hich includes revenues from both periods for all stores, which are now included as Company-owned. For the remainder of 2004, average unit olumes for Carrabba's Italian Grills are expected to increase 1% to 2% for the year, which is a decrease from our original estimate as provided . Form 10-K referenced above, and average unit volumes for Outback Steakhouses are anticipated to increase 2% to 3% for the year, which is . line with our original estimate provided in Form 10-K.

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OUTBACK STEAKHOUSE, INC.
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UTLOOK (continued)

uring the quarter ended June 30, 2004, compared with the same period in 2003, average unit volumes for Fleming's Prime Steakhouse and 'ine Bar increased 9.8%, Roy's increased 9.7% and Bonefish Grills' average unit volumes were relatively flat. As there were significant creases in average unit volumes at Fleming's through the first half of the year, we are increasing our original estimate of 4% to 5% increases average unit volumes to 6% to 7% increases. We are also revising our original estimates for increases in Roy's average unit volumes to 9% 10% based on results achieved in the first half of the year. We are not adjusting our previous estimates on average unit volumes for onefish Grill based on the opening schedule for the remainder of the year and results in the second quarter of 2004.

)04 Cost of Revenue. As a result of marked increases in dairy prices, particularly butter, and changes in certain meat contracts and produce

osts, such as potatoes and onions, we now expect cost of goods sold as a percentage of restaurant sales for the full year to be 20 basis points igher than originally expected, for a total of approximately 30 to 40 basis points increase for the full year from 2003 amounts.

004 Labor Costs. As more of the new format restaurants (Roy's, Fleming's and Bonefish Grills) are opened, labor costs as a percentage of estaurant sales are expected to increase because the labor costs as a percentage of sales at the new restaurant formats run at a higher rate than Outback and Carrabba's. However, we anticipate that increases in average unit volumes for our more mature formats will leverage costs as a ercentage of restaurant sales. Because of lower than expected average unit volumes at Outback and Carrabba's in the second quarter of 2004, e expect labor costs as a percentage of restaurant sales for the full year to be flat to 10 basis points higher for the full year from 2003 amounts.

004 Restaurant Operating Expenses. Because we will continue to incur preopening costs to open approximately 20 more new restaurants in 004 compared with 2003, we are not adjusting our original expectation for restaurant operating expenses as a percentage of restaurant sales, r a total of 40 to 50 basis points increase for the full year from 2003 amounts.

004 Distribution Expense to Employee Partners. Distribution expense to employee partners is affected by the number of cash buyouts of anaging partners' interests in their restaurants, average unit volumes, ownership percentage levels of our employee partners and operating argins across the consolidated brands. We are currently planning for distribution expense as a percentage of total sales to be flat in 2004.

/e are now planning for the remainder of 2004 for all other expense ratio variances to be comparable to those estimated in the 2003 Form 10-. Outlook section.

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OUTBACK STEAKHOUSE, INC.
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UTLOOK (continued)

xpansion Strategy

ur goal is to add new restaurants to the system during the remainder of 2004. The following table presents a summary of the expected staurant openings during:

	Second Half 2004	Full Year 2004
tback Steakhouses – Domestic		
Company-owned	16 to 18	30 to 32
Franchised	2 to 3	3 to 4
tback Steakhouses – International		
Company-owned	3 to 4	15 to 16
Franchised	2	4 to 5
rabba's Italian Grills		
Company-owned	12 to 14	23 to 25
ming's Prime Steakhouse and Wine Bars		
Company-owned	8 to 10	10 to 12
nefish Grills		
Company-owned	25 to 30	31 to 36
y's		
Company-owned	1	1
eseburger in Paradise		
Company-owned	3 to 4	6 to 7
d Lee's Chinese Kitchen		

Company-owned	2	2
:e Roy Selmon's		
Company-owned	-	-

'e anticipate that approximately one-third of the expected openings during the second half of 2004 will occur in the third quarter and that)proximately two-thirds will occur in the fourth quarter.

n August 3, 2004, we were approved by the United States Bankruptcy Court for the District of Delaware as the successful bidder at an ıction of designation rights for 76 properties of Chi-Chi's, Inc. and its affiliates. The properties include 23 locations with owned land and ıilding, 15 sale-leaseback properties with reversion rights and purchase options, 23 ground leases and 15 leases. The properties include any al property, furniture, fixtures and equipment and liquor licenses. The designation rights allow us to transfer properties to ourselves, to ınsfer properties to others or to require Chi-Chi's to retain properties. The purchase price for the designation rights is $42,500,000, payable closing. We are responsible for paying the carrying costs on each of the properties from the closing date until the date the property is :signated for transfer. The right to designate properties will expire one year from the date of closing, which is anticipated to occur prior to ugust 31, 2004.

s of the date of this filing, the definitive agreement has not been finalized. The effect on our operating results, if any, will depend on the final ;reement. Upon finalization of the agreement, we will file a Form 8-K with the document as an exhibit.

ır objective in acquiring these rights is to have access to restaurant sites for conversion to one of our own concepts under our current .pansion plans.

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OUTBACK STEAKHOUSE, INC.
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ıutionary Statement

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

The restaurant industry is a highly competitive industry with many well-established competitors;

) Our results can be impacted by changes in consumer tastes and the level of consumer acceptance of our restaurant concepts; local, regional, national and international economic conditions; the seasonality of our business; demographic trends; traffic patterns; change in consumer dietary habits; employee availability; the cost of advertising and media; government actions and policies; inflation; and increases in various costs;

) Consumer perception of food safety;

) Our 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;

Price and availability of commodities, including but not limited to, such items as beef, chicken, shrimp, pork, seafood, dairy, potatoes, onions and energy supplies are subject to fluctuation and could increase or decrease more than we expect; and/or

) Weather and acts of God could result in construction delays and also adversely affect the results of one or more restaurants for an

indeterminate amount of time.

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

:em 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

/e are exposed to market risk from changes in interest rates on debt, changes in foreign currency exchange rates and changes in commodity :ices.

ur exposure to interest rate fluctuations is limited to our outstanding bank debt. At June 30, 2004, outstanding borrowings under our :volving lines of credit bear interest at 50 basis points over the 30, 60, 90 or 180 London Interbank Offered Rate. The weighted average ffective interest rate on the $10,000,000 outstanding balance at June 30, 2004 was 1.84%. At June 30, 2004, outstanding borrowings under ır Japanese lines of credit bear interest at either 70.0 to 107.5 basis points over LIBOR or LIBOR divided by a percentage equal to 1.00 minus .e Eurocurrency Reserve Percentage. The weighted average effective interest rate on the approximately $15,983,000 outstanding balance at ıne 30, 2004 was 0.74%. Notes payable of approximately $5,995,000 to Japanese banks bear interest at rates ranging from 1.30% to 1.88% at ıne 30, 2004. Notes payable of approximately $26,652,000 to Korean banks bear interest at rates ranging from 5.90% to 7.00% at June 30,)04.

ur debt balance did not exceed $35,000,000 for the years ended December 31, 2002 and 2001. At June 30, 2004 and December 31, 2003, our tal debt was approximately $94,000,000 and $58,000,000, respectively. Should interest rates based on our average borrowings of ıproximately $91,000,000 through June 30, 2004 increase by one percentage point, our estimated annual interest expense would increase by ıproximately $910,000 over amounts reported for the year ended December 31, 2003.

ur exposure to foreign currency exchange fluctuations relates primarily to our direct investment in restaurants in Korea, Hong Kong, Japan, e Philippines and Brazil, our outstanding debt to Japanese and Korean banks of approximately $21,978,000 and $26,652,000, respectively, at ne 30, 2004 and to our royalties from international franchisees in 21 countries. We do not use financial instruments to hedge foreign currency :change rate changes. Our investments in these countries totaled approximately $21,492,000 and $21,457,000 as of June 30, 2004 and ecember 31, 2003, respectively.

any of the ingredients used in the products sold in our restaurants are commodities that are subject to unpredictable price volatility. Although ɜ attempt to minimize the effect of price volatility by negotiating fixed price contracts for the supply of key ingredients, there are no tablished fixed price markets for certain commodities such as produce and wild fish and we are subject to prevailing market conditions when ırchasing those types of commodities. Other commodities are purchased based upon negotiated price ranges established with vendors with ference to the fluctuating market prices. The related agreements may contain contractual features that limit the price paid by establishing rtain price floors and caps. We do not use financial instruments to hedge commodity prices because these purchase arrangements help control ɜ ultimate cost paid. Extreme changes in commodity prices and/or long-term changes could affect our financial results adversely, although .y changes in commodity prices would affect our competitors at about the same time as us. We expect that in most cases increased mmodity prices could be passed through to our consumers via increases in menu prices. However, if there is a time lag between the creasing commodity prices and our ability to increase menu prices or, if we believe the commodity price increase to be short in duration and ɜ choose not to pass on the cost increases, our short-term financial results could be negatively affected. Additionally, from time to time, mpetitive circumstances could limit menu price flexibility, and in those cases margins would be negatively impacted by increased mmodity prices.

addition to the market risks identified above and to the risks discussed in "Management's Discussion and Analysis of Financial Condition d Results of Operations," we are subject to business risk as our beef supply is highly dependent upon four vendors. We currently purchase proximately 75% of our beef from the two largest beef suppliers in the country. If these vendors were unable to fulfill their obligations under :ir contracts, we would encounter supply shortages and incur higher costs to secure adequate supplies.

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

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OUTBACK STEAKHOUSE, INC.
CONTROLS AND PROCEDURES

em 4. CONTROLS AND PROCEDURES

'e have established and maintain disclosure controls and procedures that are designed to ensure that material information relating to the ompany and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is corded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is cumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow nely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our anagement, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our sclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and ief Financial Officer concluded that our disclosure controls and procedures were effective as of the date of such evaluation. There has been change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably ely to affect, our internal controls over financial reporting.

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OUTBACK STEAKHOUSE, INC.
PART II: OTHER INFORMATION

m 1. Legal Proceedings

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

June 2003, in a civil case against us in Indiana state court alleging liability under the "dram shop" liquor liability statute, a jury returned a dict in favor of the two plaintiffs who were injured by a drunk driver. The portion of the verdict against us was $39,000,000. We are ealing the decision and believe we have valid grounds for appeal. We have insurance coverage related to this case provided by our primary rier for $21,000,000 and by an excess insurance carrier for the balance of the verdict of approximately $19,000,000. As of the date of this ng, the excess insurance carrier has filed a declaratory judgment suit claiming it was not notified of the case and is therefore not liable for its tion of the verdict. We do not believe the excess carrier's case has any merit and we intend to vigorously defend the case. If the excess rier's suit were to succeed, we believe we would have rights against the primary carrier and its third party administrator to recover any ounts we may have to pay.

m 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

(e) Issuer Purchases of Equity Securities

following table includes information with respect to purchases of our common stock made by us during the second quarter ended June 30, 4:

(a)	(b)	(c)	(d)

Period	Total number of shares Purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced programs (1)	Maximum number of shares that may yet be purchased under the programs (2)
Month #1 (April 1 to April 30)	300,000	$ 46.38	300,000	2,103,000
Month #2 (May 1 to May 31)	250,000	$ 42.07	250,000	1,891,000
Month #3 (June 1 to June 30)	49,500	$ 43.10	49,500	1,897,000
Total	599,500	$ 44.31	599,500	1,897,000

(1) No shares were repurchased other than through our publicly announced repurchase programs and authorizations during the second quarter ended June 30, 2004.

(2) On July 26, 2000, our Board of Directors authorized the repurchase of up to 4,000,000 shares of our common stock, with the timing, price, quantity and manner of the purchases to be made at the discretion of management, depending upon market conditions. In addition, the Board of Directors also authorized the repurchase of shares on a regular basis to offset shares issued as a result of stock option exercises. On July 23, 2003, our Board of Directors extended both the repurchase authorization for an additional 2,500,000 shares of our common stock, and the authorization to offset shares issued as a result of stock option exercises. During the period from the authorization date through June 30, 2004, approximately 6,173,000 shares of our common stock have been issued as the result of stock option exercises. As of June 30, 2004, under these authorizations we have repurchased approximately 11,024,000 shares of our common stock for approximately $367,877,000.

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OUTBACK STEAKHOUSE, INC.
PART II: OTHER INFORMATION

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

The Company held its Annual Meeting of Stockholders on April 21, 2004. Two items were submitted for vote at the annual meeting. The results of the election are as follows:

To elect two directors each to serve for a three-year term or until his or her successor is duly elected and qualified. There were no broker non-votes on this matter. The following continued to serve as directors as of the Annual Meeting: Robert D. Basham, W.R. Carey, Jr., Debbi Fields, Thomas A. James, Robert S. Merritt, Chris T. Sullivan and Toby S. Wilt. The results for the election of the directors are as follows:

Name of Nominee/Director	Votes For	Votes Withheld
John A. Brabson, Jr.	66,805,005	2,616,796
Lee Roy Selmon	65,226,236	4,195,565

A Company proposal to approve an amendment and restatement of the Company's Amended and Restated Stock Option Plan (the "Plan"). The amendment primarily allows for the grant of shares of restricted common stock under the Plan and an increase in shares of common stock for which options and shares of restricted common stock may be granted from 22,500,000 to 23,500,000. The results for the approval of the amendment are as follows:

Votes For	Votes Against	Votes Abstained	Broker Non-votes

34,959,205	27,509,627	42,832	6,910,137

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act
32.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[1]
32.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[1]

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

The registrant hereby undertakes to furnish supplementally a copy of any omitted schedule or other attachment to the Securities and Exchange Commission upon request.

(b) Reports on Form 8-K

We furnished the following current reports on Form 8-K on the following dates during the second quarter of 2004:

April 20, 2004 reporting our financial results for the first quarter of 2004.

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SIGNATURE

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

Date: August 9, 2004

OUTBACK STEAKHOUSE, INC.

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

http://www.sec.gov/Archives/edgar/data/874601/000087460104000088/...

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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, 2004

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

1-15935
(Commission File Number)

OUTBACK STEAKHOUSE, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**59-3061413** (I.R.S. Employer Identification No.)
2202 N. West Shore Boulevard, Suite 500 **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 registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities change Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s)), and has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

licate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES ☒ NO ☐

As of May 5, 2004, the registrant had outstanding 74,330,134 shares of Common Stock, $.01 par value.

OUTBACK STEAKHOUSE, INC.

QUARTERLY REPORT ON FORM 10-Q
For the Quarterly Period Ended March 31, 2004

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PART I: FINANCIAL INFORMATION

em 1. CONSOLIDATED FINANCIAL STATEMENTS

OUTBACK STEAKHOUSE, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands)

	MARCH 31, 2004 (UNAUDITED)	DECEMBER 31, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 92,304	$ 102,892
Short-term investments	19,901	20,824
Inventories	55,457	59,608
Deferred income tax asset	12,330	11,757
Other current assets	42,219	37,529
Total current assets	222,211	232,610
Property, fixtures and equipment, net	1,104,836	1,049,546
Investments in and advances to unconsolidated affiliates, net	15,985	31,878
Goodwill	91,467	86,745
Other assets	76,741	74,008
Notes receivable collateral for franchisee guarantee	28,639	-
	$ 1,539,879	$ 1,474,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 67,260	$ 58,533
Sales taxes payable	23,104	21,402
Accrued expenses	94,209	82,365
Unearned revenue	33,482	82,670
Income taxes payable	14,861	2,358
Current portion of long-term debt	48,040	48,901
Guaranteed debt of franchisee	28,743	-
Total current liabilities	309,699	296,229
Partner deposit and accrued buyout liability	67,195	63,045
Deferred income tax liability	17,403	14,482
Long-term debt	14,300	9,550
Other long-term liabilities	5,189	5,189
Total liabilities	413,786	388,495
Commitments and contingencies		
Interest of minority partners in consolidated partnerships	64,053	60,022
Stockholders' Equity		
Common stock, $0.01 par value, 200,000 shares authorized; 78,750 and 78,750 shares issued; 74,552 and 74,279 shares outstanding as of March 31, 2004 and December 31, 2003, respectively	788	788

Additional paid-in capital	265,605	254,852
Retained earnings	966,539	934,516
Accumulated other comprehensive loss	(2,140)	(2,078)
	1,230,792	1,188,078
Less treasury stock, 4,198 and 4,471 shares at March 31, 2004 and December 31, 2003, respectively, at cost	(168,752)	(161,808)
Total stockholders' equity	1,062,040	1,026,270
	$ 1,539,879	$ 1,474,787

See notes to unaudited consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Revenues		
Restaurant sales	$ 811,592	$ 646,672
Other revenues	4,969	5,006
Total revenues	816,561	651,678
Costs and expenses		
Cost of sales	292,437	232,831
Labor & other related	199,025	158,950
Other restaurant operating	169,614	135,004
Distribution expense to employee partners, excluding stock expense	18,523	15,183
Employee partner stock buyout expense	2,079	1,255
Depreciation	24,477	19,953
General & administrative	30,703	22,496
Income from operations of unconsolidated affiliates	(253)	(1,289)
Total costs and expenses	736,605	584,383
Income from operations	79,956	67,295
Other income (expense), net	(873)	(943)
Interest income	332	542
Interest expense	(705)	(353)
Income before elimination of minority partners' interest and income taxes	78,710	66,541
Elimination of minority partners' interest	4,397	1,323

Income before provision for income taxes	74,313	65,218
Provision for income taxes	25,982	22,643
Net income	$ 48,331	$ 42,575
Basic earnings per common share	$ 0.65	$ 0.56
Basic weighted average number of shares outstanding	74,487	75,755
Diluted earnings per common share	$ 0.62	$ 0.54
Diluted weighted average number of shares outstanding	78,499	78,215
Cash dividends per common share	$ 0.13	$ 0.12

See notes to unaudited consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Cash flows from operating activities:		
Net income	$ 48,331	$ 42,575
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	24,477	19,953
Employee partner stock buyout expense	2,079	1,255
Minority partners' interest in consolidated partnerships' income	4,397	1,323
Income from operations of unconsolidated affiliates	(253)	(1,289)
Increase (decrease) in deferred income taxes	2,348	(4,333)
Loss on disposal of property, fixtures and equipment	900	759
Change in assets and liabilities, net of effects of acquisitions and FIN 46 consolidations:		
Decrease (increase) in inventories	5,218	(13,878)
Increase in other current assets	(3,992)	(1,693)
Increase in other assets	(2,578)	(1,104)
Increase in accounts payable, sales taxes payable and accrued expenses	14,266	3,952
Increase in partner deposit and accrued buyout liability	2,071	2,750
Decrease in unearned revenue	(50,776)	(41,873)
Increase in income taxes payable	23,256	14,183
Net cash provided by operating activities	69,744	22,580
Cash flows used in investing activities:		

Purchase of investment securities	(45,190)	(233)
Maturities and sales of investment securities	46,113	-
Capital expenditures	(57,838)	(38,488)
Proceeds from the sale of property, fixtures and equipment	2,377	-
Increase in cash from adoption of FIN 46	1,080	-
Payments from unconsolidated affiliates	70	7,034
Distributions to unconsolidated affiliates	-	(1,940)
Investments in and advances to unconsolidated affiliates	(186)	(652)
Net cash used in investing activities	(53,574)	(34,279)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	4,107	871
Proceeds from minority partners' contributions	393	4,357
Distributions to minority partners	(7,788)	(611)
Repayments of long-term debt	(218)	(191)
Dividends paid	(9,684)	(9,109)
Payments for purchase of treasury stock	(36,608)	(20,283)
Proceeds from reissuance of treasury stock	23,040	4,836
Net cash used in financing activities	(26,758)	(20,130)
Net (decrease) increase in cash and cash equivalents	(10,588)	(31,829)
Cash and cash equivalents at the beginning of the period	102,892	187,578
Cash and cash equivalents at the end of the period	$ 92,304	$ 155,749
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 593	$ 403
Cash paid for income taxes	$ 3,166	$ 8,748
Supplemental disclosures of non-cash items:		
Assets received for note	$ -	$ 5,569

See notes to unaudited consolidated financial statements.

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

Basis of Presentation

: accompanying unaudited consolidated financial statements have been prepared by Outback Steakhouse, Inc. (the "Company") pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes ıired by generally accepted accounting principles for complete financial statements. In the opinion of the Company, all adjustments ısisting only of normal recurring entries) necessary for the fair presentation of the Company's results of operations, financial position and ı flows for the periods presented have been included. These financial statements should be read in conjunction with the financial statements financial notes thereto included in the Company's 2003 Annual Report on Form 10-K.

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

Stock-Based Compensation

he Company accounts for its stock-based employee compensation under the intrinsic value method. No stock-based employee compensation ›st is reflected in net income to the extent options granted had an exercise price equal to or exceeding the fair market value of the underlying ›mmon stock on the date of grant. The following table provides pro forma net income and earnings per share amounts using the fair value ısed method of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation":

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
:t income	$ 48,331	$ 42,575
›ck-based employee compensation expense included in net income, :t of related taxes	1,272	803
·tal stock-based employee compensation expense determined under fair value based method, net of related taxes	(4,421)	(3,932)
› forma net income	$ 45,182	$ 39,446
rnings per common share:		
Basic	$ 0.65	$ 0.56
Basic - pro forma	$ 0.61	$ 0.52
Diluted	$ 0.62	$ 0.54
Diluted - pro forma	$ 0.58	$ 0.50

ıe preceding pro forma results were calculated with the use of the Black Scholes option-pricing model. The following assumptions were used r the quarters ended March 31, 2004 and 2003, respectively: (1) risk-free interest rates of 2.80% and 2.78%; (2) dividend yield of 1.27% and 50%; (3) expected lives of 5.0 years; and (4) volatility of 30.4% and 32.0%. Results may vary depending on the assumptions applied within : model. Compensation expense recognized in providing pro forma disclosures may not be representative of the effects on net income for ture periods.

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

Other Current Assets

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

	MARCH 31, 2004 (UNAUDITED)	DECEMBER 31, 2003
osits	$ 2,242	$ 2,218

ccounts receivable	11,642	12,855
ccounts receivable - franchisees	2,269	2,633
epaid expenses	24,162	18,485
ther current assets	1,904	1,338
	$ 42,219	$ 37,529

Property, Fixtures and Equipment, Net

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

	MARCH 31, 2004 (UNAUDITED)	DECEMBER 31, 2003
nd	$ 172,162	$ 170,815
ildings & building improvements	553,784	516,081
miture & fixtures	159,354	145,151
uipment	378,372	347,560
asehold improvements	270,924	259,914
nstruction in progress	35,478	38,548
cumulated depreciation	(465,238)	(428,523)
	$ 1,104,836	$ 1,049,546

Goodwill

ie change in the carrying amount of goodwill for the three months ended March 31, 2004 is as follows (in thousands):

cember 31, 2003	$ 86,745
quisitions (see Note 11 of Notes to Unaudited Consolidated Financial Statements)	4,722
rch 31, 2004	$ 91,467

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

Other Assets

her assets consisted of the following (in thousands):

	MARCH 31, 2004 (UNAUDITED)	DECEMBER 31, 2003

her assets	$ 54,143	$ 51,389
quor licenses, net of accumulated amortization of $3,781 and $3,617, respectively	9,848	9,619
:ferred license fee, net of valuation provision of approximately $2,250 and $2,000 t March 31, 2004 and December 31, 2003	12,750	13,000
	$ 76,741	$ 74,008

: January 2001, the Company entered into a ten-year licensing agreement with an entity owned by minority interest owners of certain non-staurant operations. The licensing agreement transferred the right and license to use certain assets of these non-restaurant operations. The ompany has deferred recognition of a gain of $1,189,000 associated with the transaction until such time as the fees due under the licensing greement are realized. (See Note 9 of Notes to Unaudited Consolidated Financial Statements.)

ther assets includes approximately $16,245,000 as of March 31, 2004 and December 31, 2003, in loans to the Company's operating partners the Outback/Fleming's, LLC (the "LLC", which is a consolidated entity) for its partners' share of capital to build new restaurants required yond the initial capital contributed by the Company pursuant to the LLC agreement. The Company expects to continue to make advances to : operating partners for the construction of new restaurants, and the assets of the LLC will continue to collateralize these advances. The ompany periodically assesses the loan balance for impairment, which is generally measured by expected future cash flows of the restaurant stem as compared to the partners' interest in the LLC. The Company has a 51% ownership interest in the LLC, and is subject to a purchase or le option after the twentieth restaurant is opened, which may require the Company to purchase an additional 40% in the LLC at a market ilue as determined by the terms of the LLC agreement. The twentieth restaurant is scheduled to open in the second half of 2004.

February 2004, the Company acquired the future royalty payments of one of the cofounders of Bonefish Grill in accordance with the terms the Bonefish agreements, as the founder was killed in a boating accident in January 2004. The Company paid approximately $978,000 for e royalty interest, which is now included in other assets in the Unaudited Consolidated Balance Sheet.

Accrued Expenses

ccrued expenses consisted of the following (in thousands):

	MARCH 31, 2004 (UNAUDITED)	DECEMBER 31, 2003
crued payroll and other compensation	$ 32,344	$ 30,103
crued insurance	20,570	18,669
crued property taxes	8,873	8,985
ıer accrued expenses	32,422	24,608
	$ 94,209	$ 82,365

ıring 2003, the Company recorded a provision for impaired assets and restaurant closings of approximately $5,319,000, which included proximately $1,200,000 for one Outback Steakhouse restaurant closing in Puerto Rico, and approximately $1,944,000 for one Fleming's ime Steakhouse and Wine Bar closing in Dallas. The remainder of the provision was for the reduction in carrying value of five Outback eakhouses. The restaurant closing provision primarily consisted of the write down of the Dallas building and write off of leasehold provements and furniture and fixtures as well as expenses to terminate the Puerto Rico restaurant's property lease. Remaining accrued ıtaurant closing expenses of approximately $231,000 and $307,000 were included in other accrued expenses as of March 31, 2004 and cember 31, 2003, respectively, related to the restaurant closing provision.

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

Long-term Debt

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

	MARCH 31, 2004 (UNAUDITED)	DECEMBER 31, 2003
volving lines of credit, interest at 1.83% at March 31, 2004 and ecember 31, 2003	$ 10,000	$ 10,000
tback Korea notes payable, interest rates ranging from 5.90% to 7.00% at arch 31, 2004 and 5.60% to 6.00% at December 31, 2003	24,169	21,130
tback Japan notes payable, uncollateralized, interest rates ranging from 76% to 1.88% at March 31, 2004 and 0.68% to 1.88% at December 31, 2003	11,072	16,249
tback Japan revolving lines of credit, interest rates ranging from 0.76% to 0.77% at arch 31, 2004 and 0.77% at December 31, 2003, respectively	10,992	5,648
ıer notes payable, uncollateralized, interest rates ranging)m 2.07% to 7.00% at March 31, 2004 and 40% to 7.00% at December 31, 2003	6,107	5,424
aranteed debt of franchisee	28,743	-
	91,083	58,451
s current portion	48,040	48,901
s current guaranteed debt of franchisee	28,743	-
ıg-term debtof Outback Steakhouse, Inc.	$ 14,300	$ 9,550

)NG-TERM DEBT

e Company has an uncollateralized revolving line of credit which permits borrowing up to a maximum of $125,000,000 at 57.5 basis points er the 30, 60, 90 or 180 day London Interbank Offered Rate (LIBOR) (ranging from 1.09% to 1.16% at March 31, 2004 and ranging from 2% to 1.22% at December 31, 2003). At March 31, 2004 and December 31, 2003, the unused portion of the revolving line of credit was 15,000,000. The credit agreement matures in December 2004. Subsequent to March 31, 2004, the Company replaced this line of credit with ew facility, and therefore classified the $10,000,000 owed as long-term debt in the Consolidated Balance Sheet. (See Note 15 of Notes to audited Consolidated Financial Statements).

: revolving line of credit contains certain restrictions and conditions as defined in the agreement which require the Company to maintain net rth of $618,500,000 as of March 31, 2004, a fixed charge coverage at a minimum of 3.5 to 1.0, and a maximum total debt to EBITDA ratio 2.0 to 1.0. At March 31, 2004, the Company was in compliance with all of the above debt covenants.

: 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. proximately $11,882,000 and $8,942,000 of the line of credit was committed for the issuance of letters of credit at March 31, 2004 and cember 31, 2003, respectively, as required by insurance companies that underwrite the Company's workers' compensation insurance and) where required for construction of new restaurants. The remaining $3,118,000 at March 31, 2004 is available to the Company. ısequent to March 31, 2004, the Company replaced this line of credit with a new facility. (See Note 15 of Notes to Unaudited Consolidated ancial Statements).

of March 31, 2004, the Company had approximately $6,107,000 of notes payable at interest rates ranging from 2.07% to 7.00%, which ıure through 2009. These notes have been primarily issued for buyouts of general manager interests in the cash flows of their restaurants generally are payable over five years.

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

Long-term Debt (continued)

ıe Company has notes payable with banks bearing interest at rates ranging from 5.90% to 6.00% to finance development of the Company's staurants in Korea. The notes are denominated and payable in Korean won and mature at dates ranging from August 2004 to March 2005. As March 31, 2004 and December 31, 2003, the outstanding balance was approximately $24,169,000 and $21,130,000, respectively. Certain of e notes payable are collateralized by lease and other deposits. At March 31, 2004 and December 31, 2003, collateralized notes totaled proximately $20,865,000 and $16,490,000, respectively.

April 2003, the Company obtained a controlling interest in its franchised restaurants in Japan ("Outback Japan"). As a result, upon closing of e transaction the Company became directly liable for notes outstanding that it had previously guaranteed. The notes are payable to banks, llateralized by lease deposits of approximately $3,300,000 and letters of credit and bear interest at rates ranging from 0.76% to 1.88%. The ıtes are denominated and payable in Japanese yen, with outstanding balances maturing at dates ranging from April through September 2004. ; of March 31, 2004 and December 31, 2003, outstanding balances totaled approximately $11,072,000 and $16,249,000, respectively.

October 2003, Outback Japan established a revolving line of credit to finance the development of new restaurants in Japan and refinance rtain notes payable. The line permits borrowing up to a maximum of $10,000,000 with interest at 70.0, 82.5 or 107.5 basis points over BOR. The line matures in December 2004. As of March 31, 2004 and December 31, 2003, the Company had borrowed approximately ;790,000 and $5,648,000, respectively, on the line of credit at an interest rate of 0.77%, maturing in June and August 2004. The revolving ıe of credit contains certain restrictions and conditions as defined in the agreement. As of March 31, 2004, the Company was in compliance th all of the debt covenants. Subsequent to March 31, 2004, Outback Japan amended this line of credit. (See Note 15 of Notes to Unaudited ınsolidated Financial Statements.)

February 2004, Outback Japan established an additional revolving line of credit to finance the development of new restaurants in Japan and inance certain notes payable. The line permits borrowing up to a maximum of $10,000,000 with interest of LIBOR divided by a percentage ual to 1.00 minus the Eurocurrency Reserve Percentage. The line matures in December 2006. As of March 31, 2004, the Company had rrowed approximately $1,202,000 on the line of credit at an interest rate of 0.77%, maturing in September 2004. The revolving line of credit ntains certain restrictions and conditions as defined in the agreement. As of March 31, 2004, the Company was in compliance with all of the bt covenants.

.e Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to $35,000,000, maturing in December 2004, : a limited liability company owned by its California franchisee. The Company was required to consolidate the entity holding this debt ("T- rd") effective January 1, 2004 upon adoption of a new accounting standard (see Note 13 of Notes to Unaudited Consolidated Financial ıtements). At March 31, 2004, the outstanding balance on the line of credit was $28,743,000 and is included in the Company's Consolidated lance Sheet. The Company also guarantees additional term loans associated with the owner of T-Bird, which are not consolidated, and ıch had outstanding balances of approximately $352,000 as of March 31, 2004. As of December 31, 2003, the outstanding balance was proximately $28,583,000, and was disclosed as a guarantee, but was not consolidated in the Company's financial statements. The line of :dit bears interest at rates ranging from 57.5 to 95.0 basis points over LIBOR based on T-Bird's ratio of consolidated debt to EBITDA, as fined by the line of credit agreement.

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

Long-term Debt (continued)

EBT GUARANTEES

November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, cluding Indirect Guarantees of Indebtedness of Others." FIN 45 requires that upon the issuance of a guarantee, the guarantor must recognize liability for the fair value of the obligation it assumes under the guarantee. FIN 45 provides that initial recognition and measurement should applied on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year end. The sclosure requirements are effective for financial statements of both interim and annual periods that end after December 15, 2002. The mpany has complied with the disclosure requirements and did not have any modifications of outstanding guarantees subsequent to cember 31, 2002 through March 31, 2004. The Company has the following outstanding debt guarantees, all of which existed prior to cember 31, 2002, that could require recognition in the Consolidated Financial Statements if future modifications occur or upon renewal of guarantee.

e Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of $24,500,000, maturing in cember 2004, for its joint venture partner in the development of Roy's restaurants. At March 31, 2004 and December 31, 2003, the tstanding balance was approximately $21,541,000 and $21,435,000, respectively.

e Company is the guarantor of up to $9,445,000 of a $68,000,000 note for an unconsolidated affiliate, Kentucky Speedway, in which the mpany has a 22.22% equity interest and for which the Company operates catering and concession facilities. Payments on this note began in cember 2003 with final maturity December 2022. At March 31, 2004 and December 31, 2003, the outstanding balance and our guarantee on note were approximately $66,550,000 and $9,244,000, respectively.

e Company's contractual unconsolidated debt guarantees as of March 31, 2004 are summarized in the table below (in thousands):

	TOTAL	CURRENT PORTION	LONG-TERM PORTION
tguarantees	$ 33,744	$ 24,715	$ 9,029
unt outstanding under debt guarantees	$ 30,785	$ 21,756	$ 9,029

Other Long-term Liabilities

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

	MARCH 31, 2004 (UNAUDITED)	DECEMBER 31, 2003
ued insurance	$ 4,000	$ 4,000
r deferred liability	1,189	1,189
	$ 5,189	$ 5,189

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). Foreign Currency Translation and Comprehensive Income

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

omprehensive income includes net income and foreign currency translation adjustments. Total comprehensive income for the three months ıded March 31, 2004 was $48,269,000, which included the effect of losses from translation adjustments of approximately $62,000 during the ıarter.

l. Business Combinations

n March 1, 2004, the Company acquired the 36% minority ownership interests of its partners in nine Carrabba's restaurants in Texas for ›proximately $3,738,000 in cash. No minority interest for these stores has been reflected in the consolidated financial statements since that ıte. The Company recorded goodwill of approximately $4,722,000 associated with this transaction, all of which is expected to be deductible r income tax purposes.

!. Earnings Per Share

ıe following table represents the computation of basic and diluted earnings per common share as required by SFAS No. 128 "Earnings Per ıare" (in thousands, except per share data):

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
t income	$ 48,331	$ 42,575
sic weighted average number of common shares outstanding	74,487	75,755
sic earnings per common share	$ 0.65	$ 0.56
ect of dilutive stock options	4,012	2,460
uted weighted average number of common shares outstanding	78,499	78,215
uted earnings per common share	$ 0.62	$ 0.54

luted earnings per common share excludes antidilutive stock options of approximately 2,354,000 for the first quarter of 2003. There were no tidilutive options for the first quarter of 2004.

. Recently Issued Financial Accounting Standards

:onsolidation of Variable Interest Entities"

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

is interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an terprise obtains an interest after that date. FIN 46 initially applied to preexisting variable interest entities no later than the beginning of the ›t interim reporting period beginning after June 15, 2003. However, the implementation deadline was delayed by the FASB to periods ling after March 15, 2004 and the FASB issued a revised "FIN 46R" in December 2003. The Company adopted FIN 46R effective January 2004 and is an investor in several variable interest entities as discussed below.

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

3. Recently Issued Financial Accounting Standards (continued)

Consolidation of Variable Interest Entities" (continued)

he Company's joint ventures in the Outback/Fleming's LLC (the "LLC") and the Roy's/Outback Joint Venture (the "Roy's JV") have istorically been consolidated by the Company. These ventures are considered variable interest entities under the provisions of FIN 46, and the 'ompany has continued consolidating them upon adoption of that interpretation. The LLC and the Roy's JV restaurant systems consist of pproximately 17 and 13 restaurants, respectively, as of March 31, 2004.

he Company has ownership interests in 33 individual joint ventures that were previously reported by the Company as unconsolidated evelopment joint ventures. As of January 1, 2004, the Company consolidated those joint ventures, which consist of 29 Carrabba's Italian 'rills, two Outback Steakhouses, one Roy's and one Bonefish Grill, as it is the primary beneficiary of those entities. The Company has wnership interests in 11 individual 50/50 joint ventures that remained unconsolidated upon adoption of FIN 46, as the Company was not eemed the primary beneficiary.

he Company has a minority investment in an unconsolidated affiliate in which it has a 22.22% equity interest and for which it operates ıtering and concession facilities. Additionally, the Company guarantees a portion of the affiliate's debt (see Note 8 of Notes to Unaudited onsolidated Financial Statements). Although the Company holds an interest in this variable interest entity, it is currently believed that the ompany is not the primary beneficiary of this entity and therefore it was not consolidated upon adoption of FIN 46.

he Company is a franchisor of 144 restaurants as of March 31, 2004, but does not possess any ownership interests in its franchisees and enerally does not provide financial support to franchisees in its typical franchise relationship. These franchise relationships were not deemed ıriable interest entities and were not consolidated upon adoption of FIN 46. However, the Company guarantees an uncollateralized line of edit that permits borrowing of up to $35,000,000, maturing in December 2004, for one of its franchisees (see Note 8 of Notes to Unaudited onsolidated Financial Statements). The limited liability company that holds this line of credit was deemed to be a variable interest entity and as consolidated by the Company effective January 1, 2004. This entity draws on its line of credit to loan funds to corporations in California purchase and/or build land and buildings for lease to individual Outback Steakhouse franchisee partnerships. Therefore, it holds as collateral e notes receivable and underlying assets from these corporations in offsetting amounts to the debt owed to the bank, which are both now cluded in the Company's Consolidated Balance Sheet and Statement of Income as of and for the quarter ended March 31, 2004.

he following table reflects the approximate effect of consolidation of the above entities on the Company's Unaudited Consolidated Statement Income and Balance Sheet as of and through the period ended March 31, 2004 (in thousands):

ıvenues	$	23,843
come from operations of unconsolidated affiliates		(1,000)
imination of minority partners' interest		1,050
t income		-
sic and diluted earnings per common share		-
ırrent assets		2,845
operty, fixtures and equipment, net		25,206
ırrent liabilities		5,858
erest of minority partners in consolidated partnerships		6,148

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

4. Commitments and Contingencies

ı June 2003, in a civil case against the Company in Indiana state court alleging liability under the "dram shop" liquor liability statute, a jury :turned a verdict in favor of the two plaintiffs who were injured by a drunk driver. The portion of the verdict against the Company was 39,000,000. The Company intends to appeal the decision and believes it has valid grounds for appeal. The Company has insurance coverage :lated to this case provided by its primary carrier for $21,000,000 and by an excess insurance carrier for the balance of the verdict of)proximately $19,000,000. During the quarter ended September 30, 2003, the excess insurance carrier filed a declaratory judgment suit .aiming it was not notified of the case and is therefore not liable for its portion of the verdict. The Company does not believe the excess urrier's case has any merit and the Company intends to vigorously defend the case. If the excess carrier's suit were to succeed, the Company :lieves it would have rights against the primary carrier and its third party administrator to recover any amounts the Company may have to pay.

ı January 2004, one of the cofounders of Bonefish Grill was killed in a boating accident. Under the terms of the Bonefish agreements, the ompany will purchase the ownership interest of this founder in the Bonefish partnership. The purchase price of the ownership interest will be :sessed at the fair market value of actual restaurants open and in operation at the time of purchase, estimated to be approximately $9,000,000.

5. Subsequent Events

n April 21, 2004, the Board of Directors declared a quarterly dividend of $0.13 per share of the Company's common stock. The dividend is ıyable June 4, 2004 to shareholders of record as of May 21, 2004.

uring the quarter ended 2004, the Board of Directors approved an amendment and restatement (the "Amendment") of the Company's mended and Restated Stock Option Plan (the "Plan") to allow for the grant of shares of restricted common stock under the Plan and to crease the number of shares for which options and shares of restricted common stock may be granted under the Plan by 1,000,000, or from ',500,000 to 23,500,000. This amendment was approved by vote of the shareholders of the Company on April 21, 2004.

fective April 27, 2004, the Company replaced a $125,000,000 revolving credit facility that was scheduled to mature in December 2004, with ıew uncollateralized three-year $150,000,000 revolving bank credit facility that matures in June 2007. The revolving line of credit permits rrowing at interest rates ranging from 50 to 90 basis points over the 30, 60, 90 or 180 day London Interbank Offered Rate (LIBOR). The :dit agreement contains certain restrictions and conditions as defined in the agreement that require the Company to maintain consolidated net)rth equal to or greater than consolidated total debt and a maximum total consolidated debt to EBITDAR (earnings before interest, taxes, preciation, amortization and rent) ratio of 3.0 to 1.0.

ıe Company also replaced a $15,000,000 line of credit that was scheduled to mature in December 2004, with a new $20,000,000 collateralized line of credit. The new line of credit matures in June 2007 and permits borrowing at interest rates ranging from 50 to 90 basis ints over LIBOR for loan draws and 65 to 112.5 basis points over LIBOR for letters of credit. The credit agreement contains certain :trictions and conditions as defined in the agreement.

fective April 27, 2004, Outback Japan amended its $10,000,000 revolving credit facility that was scheduled to mature in December 2004, th a new maturity date in June 2007. Additionally, the revolving line of credit now permits borrowing at interest rates ranging from 70 to 7.5 basis points over LIBOR. The credit agreement amendment contains certain restrictions and conditions as defined in the agreement.

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

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

lanagement's discussion and analysis of financial condition and results of operations should be read in conjunction with the Unaudited onsolidated Financial Statements and the related Notes.

verview

'e are one of the largest casual dining restaurant companies in the world, with seven restaurant concepts, over 1,000 system-wide restaurants ıd 2003 annual revenues for Company-owned stores exceeding $2.7 billion. We operate in all 50 states and in 21 countries internationally, :edominantly through Company-owned stores, but we also operate under a variety of partnerships and franchises. Our primary focus as a ›mpany of restaurants is to provide a quality product together with quality service across all of our brands. This goal entails offering ›nsumers of different demographic backgrounds an array of dining alternatives suited for differing needs. Our sales are primarily generated rough a diverse customer base, which includes people eating in our restaurants as regular users who return for meals several times a week or ı special occasions such as birthday parties, private events, and for business entertainment. Secondarily, we generate revenues through sale of anchises and ongoing royalties as well as the sale and redemption of gift certificates.

he restaurant industry is a highly competitive and fragmented business, which is subject to sensitivity from changes in the economy, trends in festyles and fluctuating costs. Operating margins for restaurants are susceptible to fluctuations in prices of commodities, which include nong other things, beef, chicken, seafood, butter, cheese, produce and other necessities to operate a store such as natural gas or other energy ıpplies. Additionally, the restaurant industry is characterized by a high initial capital investment, coupled with high labor costs. The ›mbination of these factors underscores our initiatives to drive increased sales at existing stores in order to raise margins and profits, because e incremental sales contribution to profits from every additional dollar of sales above the minimum costs required to open, staff and operate a ore is very high. We are not a company focused on growth in the number of restaurants just to generate additional sales. Our expansion and ›eration strategies are to balance investment costs and the economic factors of operation, in order to generate reasonable, sustainable margins ıd achieve acceptable returns on investment from our restaurant concepts.

:omotion of our Outback Steakhouse and Carrabba's Italian Grill restaurants is assisted by the use of national broadcast and spot television ıd radio media, which we have also begun to use for our Bonefish Grill brand. We advertise on television in spot markets when our brands :hieve sufficient penetration to make a meaningful broadcast schedule affordable. We rely on word-of-mouth customer experience, grassroots arketing in local venues, direct mail and national print media to support broadcast media and as the primary campaigns for our upscale casual ıd newer brands. We do not run price specials or attempt to lure customers with discounts, as is common to many restaurants in the casual ning industry. Our advertising dollars are targeted to promote and maintain brand image and develop consumer awareness. We strive to drive les through excellence in execution rather than through discounting and other short-lived marketing efforts. Our marketing strategy of :tting people to visit frequently and also recommend our restaurants to others complements what we believe are the fundamental elements of ıccess: convenient sites, service-oriented employees, and flawless execution in a well-managed restaurant.

ey factors which can be used in evaluating and understanding our restaurants and assessing our business include the following:

Average unit volumes – a per store calculated average sales amount, which helps us gauge the changes in consumer traffic, pricing and :velopment of the brand;

Operating margins –store revenues after deduction of the main store-level operating costs (including cost of sales, restaurant operating :penses, and labor and related costs);

System-wide sales – a total sales volume for all company-owned, franchise, and unconsolidated joint venture stores, regardless of vnership to interpret the health of our brands; and

Same-store or comparable sales – a year-over-year comparison of sales volumes for stores that are open in both years order to remove e impact of new openings in comparing the operations of existing stores.

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verview (continued)

ur consolidated operating results are affected by the growth of our newer brands. As we continue to develop and expand new restaurant ncepts at different rates, our cost of sales, labor costs, restaurant operating expenses, and income from operations change from the mix of ands in our portfolio with slightly different operating characteristics.. Labor and related expenses are higher at our new format stores than ve typically been experienced at Outback Steakhouses. However, cost of sales at those stores is lower than those at Outback. These trends e expected to continue with our planned development of stores in 2004.

ur industry's challenges and risks include, but are not limited to, the potential for government regulation, the availability of employees, nsumer perceptions regarding food safety and/or the health benefits of certain types of food, including attitudes about alcohol consumption, onomic conditions and commodity pricing. We have provided information in our Outlook section that outlines our current beliefs regarding e anticipated changes to our operations resulting from increased beef prices and other commodity costs, continued preopening expenses from e development of new restaurants and our expansion strategy, among other factors that may affect our results in 2004.

esults of Operations (unaudited)

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

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Revenues		
Restaurant sales	99.4%	99.2%
Other revenues	0.6	0.8
Total revenues	100.0	100.0
Costs and expenses		
Cost of sales (1)	36.0	36.0
Labor & other related (1)	24.5	24.6
Other restaurant operating (1)	20.9	20.9
Distribution expense to employee partners, excluding stock expense	2.3	2.3
Employee partner stock buyout expense	0.3	0.2
Depreciation	3.0	3.1
General & administrative	3.8	3.5
Income from operations of unconsolidated affiliates	(*)	(0.2)
Total costs and expenses	90.2	89.7
Income from operations	9.8	10.3
Other income (expense), net	(0.1)	(0.1)
Interest income	*	0.1
Interest expense	(0.1)	(0.1)
Income before elimination of minority partners' interest and income taxes	9.6	10.2
Elimination of minority partners' interest	0.5	0.2
Income before provision for income taxes	9.1	10.0
Provision for income taxes	3.2	3.5
Net income	5.9%	6.5%

(1) As a percentage of restaurant sales.

*Less than 1/10 of one percent of total revenues

See discussion below for the impact of FIN 46 and other factors on the above ratios.

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

esults of Operations (unaudited) (continued)

ystem-wide sales grew by 16.8% for the quarter ended March 31, 2004. System-wide sales is a non-GAAP financial measure that includes les of all restaurants operating under our brand names, whether we own them or not. The two components of system-wide sales, including ose of Outback Steakhouse, Inc. and those of franchisees and unconsolidated development joint ventures, is provided below:

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
JTBACK STEAKHOUSE, INC. RESTAURANT SALES (in millions):		
utback Steakhouses		
Domestic	$ 575	$ 505
International	35	21
Total	610	526
rabba's Italian Grills	122	76
her restaurants	80	45
tal Company-owned restaurant sales	$ 812	$ 647

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

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

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
ANCHISE AND DEVELOPMENT JOINT VENTURE SALES (in millions) (1):		
tback Steakhouses		
Domestic (3)	$ 88	$ 96
International	23	24
Total	111	120

rrabba's Italian Grills (3)	-	22
her restaurants (3)	3	4
tal franchise and development joint venture sales (1)	$ 114	$ 146
:ome from franchise and development joint ventures (2) (3)	$ 4	$ 6

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

Represents the franchise royalty and portion of total income included in our Unaudited Consolidated Statements of Income in the line items Other revenues or Income from operations of unconsolidated affiliates.

Two Outback Steakhouses, 29 Carrabba's Italian Grills, one Bonefish Grill and one Roy's are now included in Company-owned stores as a result of adoption of FIN 46. Additionally, the 36% minority ownership interests of our partners in nine of the newly consolidated Carrabba's were acquired in March 2004.

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

:sults of Operations (unaudited) (continued)

	MARCH 31,		
	2004		2003
nber of restaurants (at end of the period):			
:back Steakhouses			
ompany owned- domestic	629	(1)	589
ompany owned - international	57		33
anchised and development joint venture– domestic	100	(1)	118
anchised and development joint venture- international	51		55
tal	837		795
rabba's Italian Grills			
ompany owned	154	(1)	98
velopment joint venture	-	(1)	29
tal	154		127
efish Grills			
ompany owned	38	(1)	15
ranchised and development joint venture	4	(1)	4
otal	42		19

.eming's Prime Steakhouse and Wine Bars			
Company owned	22		18
oy's			
Company owned	18	(1)	15
Franchised and development joint venture	-	(1)	2
Total	18		17
e Roy Selmon's			
Company owned	2		1
ıeeseburger in Paradise			
Company owned	4		1
stem-wide total	1,079		978

) Two Outback Steakhouses, 29 Carrabba's Italian Grills, one Bonefish Grill and one Roy's are now included in Company-owned stores as a result of adoption of FIN 46. Additionally, the 36% minority ownership interests of our partners in nine of the newly consolidated Carrabba's were acquired in March 2004.

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

hree months ended March 31, 2004 and 2003 (unaudited)

EVENUES

estaurant sales. Restaurant sales increased by 25.5% to $811,592,000 during the first quarter of 2004 compared with $646,672,000 in the me period in 2003. The increase in restaurant sales was primarily attributable to the following: additional revenues of approximately 4,451,000 from the opening of new restaurants after March 31, 2003; an increase of approximately $23,843,000 resulting from the nsolidation of 33 joint venture stores due to implementation of a new accounting pronouncement effective January 1, 2004; revenues of proximately $16,671,000 from the acquisitions of 19 franchised Outback Steakhouses in Alabama and New York in July and August 2003; d additional revenues of approximately $5,573,000 from obtaining the controlling interest in our franchise operating restaurants in Japan in pril 2003. The following table includes additional activities that influenced the changes in restaurant sales at domestic Company owned staurants for the three months ended March 31, 2004 and 2003:

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
erage unit volumes (weekly) for restaurants opened for one year or more:		
utback Steakhouses	$ 70,643	$ 67,140
arrabba's Italian Grills	62,914	62,791
leming's Prime Steakhouse and Wine Bars	99,276	81,619

Roy's	75,420	68,652
Bonefish Grills	71,621	67,378
verage unit volumes (weekly) for restaurants opened for less than one year:		
Outback Steakhouses	$ 64,847	$ 66,336
Carrabba's Italian Grills	61,892	59,538
Fleming's Prime Steakhouse and Wine Bars	66,325	84,835
Roy's	70,871	53,657
Bonefish Grills	66,585	66,758
perating weeks		
Outback Steakhouses	8,143	7,501
Carrabba's Italian Grills	1,937	1,222
Fleming's Prime Steakhouse and Wine Bars	286	231
Roy's	234	192
Bonefish Grills	459	168
ear to year percentage change:		
Menu price increases (1)		
Outback Steakhouses	2.5%	2.1%
Carrabba's Italian Grills	1.2%	1.3%
Bonefish Grills	2.0%	0.0%
Same-store sales (stores open 18 months or more):		
Outback Steakhouses	6.7%	1.1%
Carrabba's Italian Grills	5.0%	-0.3%
Fleming's Prime Steakhouse and Wine Bars	19.1%	10.1%
Roy's	17.9%	3.1%
Bonefish Grills	13.4%	2.6%

Reflects nominal amounts of menu price changes, prior to any change in product mix because of price increases, and may not reflect amounts effectively paid by the customer. Menu price increases are not provided for Fleming's and Roy's as a significant portion of their sales come from specials, which fluctuate daily.

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OUTBACK STEAKHOUSE, INC.
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ree months ended March 31, 2004 and 2003 (unaudited) (continued)

her revenues. Other revenues, consisting primarily of initial franchise fees and royalties, remained consistent for the first quarter of 2004, mpared with 2003. Although we purchased 19 domestic Outback Steakhouse franchised restaurants in the second half of 2003, which sulted in a decline in franchise fee revenue since we now record 100% of the restaurants' revenues as Company owned restaurants, increased yalties from international franchisees offset the decline.

OSTS AND EXPENSES

st of sales. Cost of sales, consisting of food and beverage costs, was flat as a percentage of restaurant sales in the first quarter of 2004 mpared with the same period in 2003. Decreases in cost of sales resulted from an increase in the proportion of consolidated sales associated th our non-Outback Steakhouse restaurants, which have lower cost of goods sold ratios than Outback Steakhouses, as well as favorable imp costs and a product mix shift away from higher cost steaks at domestic Outback Steakhouses in the quarter. These decreases were set by commodity cost increases for beef, dairy, lobster and certain produce.

abor and other related expenses. Labor and other related expenses include all direct and indirect labor costs incurred in operations, except for istribution expense to employee partners and employee partner stock buyout expense, described below. Labor and other related expenses as a ercentage of restaurant sales decreased 0.1% to 24.5% in the first quarter of 2004 compared with 24.6% in the same period in 2003. Higher verage unit volumes and increased productivity in most of our brands was partially offset by higher state unemployment taxes, employee onuses and workers' compensation expense.

'ther restaurant operating expenses. Other restaurant operating expenses include certain unit-level operating costs such as operating supplies, nt, repair and maintenance, advertising expenses, utilities, pre-opening costs and other occupancy costs. A substantial portion of these penses is fixed or indirectly variable. These costs remained flat at 20.9% of restaurant sales in the first quarter of 2004, compared with the ime period in 2003. Increased other restaurant operating expenses resulted from an increase in the proportion of new format restaurants and ternational Outback Steakhouses in operation, which have higher average restaurant operating expenses as a percentage of restaurant sales an domestic Outback Steakhouses and Carrabba's Italian Grills. However, higher average unit volumes across the consolidated brands in the rst quarter of 2004 offset these increases, and preopening costs for the quarter were consistent with the first quarter of 2003.

istribution expense to employee partners. Distribution expense to employee partners, excluding stock expense, includes distributions to anaging partners and area operating partners of their percentage of restaurant cash flows pursuant to their interest agreements and cash ayouts of managing partners' rights in the cash flows of their restaurants. These costs remained consistent as a percentage of total revenues at 3% in the first quarter of 2004, compared with the same period in 2003.

nployee partner stock buyout expense. Employee partner stock buyout expense includes non-cash expenses recorded for the accrual of future ayouts of area operating partners' rights to the cash flows of their restaurants. Upon buyout, area operating partners generally receive mmon stock in exchange for their rights in the cash flows of a restaurant. Employee partner stock buyout expense increased 0.1% as a rcentage of total revenues to 0.3% of total revenues for the first quarter of 2004, compared with 0.2% for the same period in 2003. The crease was primarily due to higher average unit volumes and operating margins in the Roy's and Fleming's Prime Steakhouse and Wine Bar ands, which translates into higher anticipated buyout costs for the improved performance in these younger brands.

epreciation. Depreciation costs decreased 0.1% as a percentage of total revenues to 3.0% in the first quarter of 2004, from 3.1% in the same riod in 2003. Higher average unit volumes across the consolidated brands offset higher depreciation costs for certain of our new restaurant rmats, which have higher average construction costs than an Outback Steakhouse.

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OUTBACK STEAKHOUSE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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ree months ended March 31, 2004 and 2003 (unaudited) (continued)

neral and administrative. General and administrative costs increased by $8,207,000 to $30,703,000 in the first quarter of 2004 compared th $22,496,000 during the same period in 2003. This increase resulted from an increase in overall administrative costs associated with erating additional domestic and international Outback Steakhouses, Carrabba's Italian Grills, Fleming's Prime Steakhouses, Roy's and nefish Grills. Additionally, the increase resulted from approximately $1,300,000 in consulting fees paid for supply chain management jects, approximately $600,000 in payroll taxes associated with additional stock option exercises resulting from an increase in the trading ice of our common stock, and costs associated with the development of new restaurant formats, including approximately $400,000 associated th the start-up of Paul Lee's Chinese Kitchen.

come from operations of unconsolidated affiliates. Income from operations of unconsolidated affiliates represents our portion of net income m restaurants operated as development joint ventures. Income from development joint ventures was $253,000 during the first quarter of 04 compared with $1,289,000 during the same period in 2003. This decrease was attributable to the consolidation of 33 previously consolidated joint venture restaurants effective January 1, 2004 upon adoption of FIN 46. Approximately $1,000,000 of income recorded in s line item in the first quarter of 2003 did not recur in the same period in 2004 since, upon consolidation, the results of those 33 stores were luded in all other lines of the Consolidated Statement of Income.

come from operations. As a result of the increase in revenues, the opening of new restaurants subsequent to March 31, 2003, and the changes

ı the relationships between revenues and expenses discussed above, including the approximately $2,636,000 impact of consolidation of 33 ıint ventures, income from operations increased by $12,661,000 to $79,956,000 in the first quarter of 2004 compared with $67,295,000 in the ıme period in 2003.

ther income (expense), net. Other income (expense) represents the net of revenues and expenses from non-restaurant operations. Net other cpense was $873,000 during the first quarter of 2004 compared with $943,000 in the same period in 2003. There was no material change in ɔn-operating income and expenses from the cash surrender value of life insurance, Kentucky Speedway and other miscellaneous expenses in is line item.

terest income. Interest income was $332,000 during the first quarter of 2004 compared with $542,000 in the same period in 2003. Interest come decreased due to lower short-term investment balances as a result of cash used for acquisitions of franchisees and treasury stock ırchases during the first quarter of 2004 compared with the same period in 2003. The decrease in interest income was partially offset by the ınsolidation of a limited liability company owned by our California franchisee effective January 1, 2004 upon adoption of FIN 46. Interest come included in our Consolidated Statement of Income for the quarter ended March 31, 2004, included approximately $118,000 of income ɔm notes receivable held by this entity.

terest expense. Interest expense was $705,000 during the first quarter of 2004 compared with $353,000 in the same period in 2003. The crease in interest expense is due to higher average debt balances on borrowings for Outback Steakhouse's international operations during the st quarter of 2004 compared with the first quarter of 2003. Additionally, the increase in interest expense was partially attributable to the ınsolidation of a limited liability company owned by our California franchisee effective January 1, 2004 upon adoption of FIN 46. Interest pense included in our Consolidated Statement of Income for the quarter ended March 31, 2004, included approximately $118,000 of expense ɔm outstanding borrowings on the line of credit held by this entity.

imination of minority partners' interest. The allocation of minority partners' income included in this line item represents the portion of come or loss from operations included in consolidated operating results attributable to our partners' ownership interests. As a percentage of venues, the income allocations as a percentage of total sales were 0.5% and 0.2% during the quarters ended March 31, 2004 and 2003, spectively. The increase in the ratio is the result of consolidation of 33 joint venture stores during the quarter, which increased minority rtner income by approximately $1,050,000, or about 0.1%, and the remainder by an increase in overall restaurant operating margins and ıprovement in the performance of new format restaurants, which have a higher percentage of minority interest than our older formats.

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OUTBACK STEAKHOUSE, INC.
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ıree months ended March 31, 2004 and 2003 (unaudited) (continued)

ovision for income taxes. The provision for income taxes in the first quarter of both 2004 and 2003 reflects expected income taxes due at leral statutory rates and state income tax rates, net of the federal benefit. The effective income tax rate was 35.0% during the first quarter of)4 and 34.7% during the first quarter of 2003. The increase in the rate resulted from a decrease in the percentage of FICA tax credits for ployee-reported tips during 2004. Approximately 50% of our international restaurants in which we have a direct investment are owned ough a Cayman Island corporation.

t income and earnings per share. Net income for the first quarter of 2004 was $48,331,000 compared with $42,575,000 in the same period in)3. Basic earnings per share increased $.09 as a result of the increase in net income as well as a decrease in basic weighted average shares standing of approximately 1,268,000 shares. The decrease in basic weighted average shares outstanding for the quarter ended March 31,)4 compared with March 31, 2003 was primarily due to the purchase of treasury shares, partially offset by the issuance of shares under stock ion plans. Diluted earnings per share increased $.08 during the first quarter of 2004 compared with the same period in 2003. Diluted ighted average shares outstanding increased by approximately 284,000 shares, primarily as a result of the dilutive effect of stock options standing resulting from an increase in the average trading prices of our common stock during the quarter.

ıuidity and Capital Resources (unaudited)

'he following table presents a summary of our cash flows from operating, investing and financing activities for the periods indicated (in housands):

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
'et cash provided by operating activities	$ 69,744	$ 22,580
'et cash used in investing activities	(53,574)	(34,279)
'et cash used in financing activities	(26,758)	(20,130)
'et decrease in cash and cash equivalents	$ (10,588)	$ (31,829)

'e require capital principally for the development of new restaurants, remodeling older restaurants and investments in technology. We also :quire capital to pay dividends to common stockholders (refer to additional discussion in the Dividend section of Management's Discussion nd Analysis of Financial Condition and Results of Operation). We also utilize capital to repurchase our common stock as part of an ongoing ıare repurchase program. Capital expenditures totaled approximately $194,754,000 for the year ended December 31, 2003 and approximately 57,838,000 and $38,488,000 during the first three months of 2004 and 2003, respectively. We either lease our restaurants under operating :ases for periods ranging from five to 30 years (including renewal periods) or build free standing restaurants where it is cost effective.

' demand for our products and services were to decrease as a result of increased competition, changing consumer tastes, changes in local, :gional and national economic conditions or changes in the level of consumer acceptance of our restaurant brands, our restaurant sales could ecline significantly. The following table sets forth approximate amounts by which cash provided by operating activities may decline in the vent of a decrease in revenues of 5%, 10% and 15% compared with total revenues for the period ended December 31, 2003 (in thousands):

	5%	10%	15%
:crease in restaurant sales	$ (136,000)	$ (272,000)	$ (409,000)
:crease in cash provided by operating activities	$ (24,000)	$ (48,000)	$ (72,000)

he estimates above are based on the assumption that income before minority partners' interest and provision for income taxes decreases)proximately $0.29 for every $1.00 decrease in restaurant sales. These numbers are estimates only and do not consider other measures we)uld implement were such decreases in revenue to occur.

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OUTBACK STEAKHOUSE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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iquidity and Capital Resources (unaudited) (continued)

'e have formed joint ventures to develop Outback Steakhouses in Brazil and the Philippines. We are also developing Company owned staurants internationally in Puerto Rico, Korea, Hong Kong and Japan.

'e have an agreement to develop and operate Fleming's Prime Steakhouses and Wine Bars ("Fleming's") with our partners in the ıtback/Fleming's, LLC (the "LLC", which is a consolidated entity). We have loaned approximately $16,245,000 to our operating partners r their share of capital to build new restaurants beyond the initial agreed upon development under the LLC. We expect to continue to make vances to our operating partners for the construction of new restaurants, and the assets of the LLC will continue to collateralize these vances. Additionally, we are subject to a purchase or sale option after the twentieth restaurant is opened, which may require us to purchase

additional 40% in the LLC at a market value as determined by the terms of the LLC agreement. The twentieth restaurant is scheduled to en in the second half of 2004.

uring September 2003, we formed a limited liability company to develop Paul Lee's Chinese Kitchen ("Paul Lee's") restaurants, which is cluded in our Consolidated Financial Statements. Under the terms of the agreement, we committed to the first $10,000,000 of future velopment costs to open the first five restaurants, $925,000 of which had been expended as of March 31, 2004. Additionally, we are subject a purchase or sale option if for eighteen consecutive months there is no restaurant development, whereby our partner may purchase our terest in the LLC for five times the restaurant cash flows for the immediately preceding twelve months.

REDIT FACILITIES

e had an uncollateralized revolving line of credit which permitted borrowing of up to a maximum of $125,000,000 at 57.5 basis points over 30, 60, 90 or 180 day London Interbank Offered Rate (LIBOR) (ranging from 1.09% to 1.16% at March 31, 2004 and ranging from 1.12% 1.22% at December 31, 2003). At March 31, 2004 and December 31, 2003 the unused portion of the revolving line of credit was 15,000,000. The credit agreement was to have matured in December 2004. Subsequent to March 31, 2004, this line of credit was replaced a new facility (discussed below), and therefore outstanding borrowings are classified as long-term debt in the Consolidated Balance Sheet.

e revolving line of credit contains certain restrictions and conditions as defined in the agreement which requires us to maintain net worth of 18,500,000 as of March 31, 2004, a fixed charge coverage at a minimum of 3.5 to 1.0, and a maximum total debt to EBITDA ratio of 2.0 to). At March 31, 2004, we were in compliance with all of the above covenants.

e had a $15,000,000 uncollateralized line of credit bearing interest at rates ranging from 57.5 to 95.0 basis points over LIBOR. proximately $11,882,000 and $8,942,000 of the line of credit was committed for the issuance of letters of credit at March 31, 2004 and cember 31, 2003, respectively, as required by insurance companies that underwrite our workers compensation insurance and also where quired for construction of new restaurants. The remaining $3,118,000 at March 31, 2004 was available to us. Subsequent to March 31, 2004, replaced this line of credit with a new facility (discussed below).

fective April 27, 2004, we replaced the $125,000,000 revolving credit facility that was scheduled to mature in December 2004, with a new collateralized three-year $150,000,000 revolving bank credit facility that matures in June 2007. The revolving line of credit permits rrowing at interest rates ranging from 50 to 90 basis points over the 30, 60, 90 or 180 day LIBOR rate. The credit agreement contains certain strictions and conditions as defined in the agreement that require us to maintain consolidated net worth equal to or greater than consolidated al debt and a maximum total consolidated debt to EBITDAR (earnings before interest, taxes, depreciation, amortization and rent) ratio of 3.0 1.0.

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OUTBACK STEAKHOUSE, INC.
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quidity and Capital Resources (unaudited) (continued)

REDIT FACILITIES (continued)

e also replaced the $15,000,000 line of credit that was scheduled to mature in December 2004, with a new $20,000,000 uncollateralized line credit. The new line of credit matures in June 2007 and permits borrowing at interest rates ranging from 50 to 90 basis points over LIBOR loan draws and 65 to 112.5 basis points over LIBOR for letters of credit. The credit agreement contains certain restrictions and conditions defined in the agreement.

of March 31, 2004, we had approximately $6,107,000 of notes payable at interest rates ranging from 2.07% to 7.00%. These notes have en primarily issued for buyouts of general manager interests in the cash flows of their restaurants.

e have notes payable with banks bearing interest at rates ranging from 5.90% to 6.00% to finance development of our restaurants in Korea.

he notes are denominated and payable in Korean won and mature at dates ranging from August 2004 to March 2005. As of March 31, 2004 ıd December 31, 2003, the outstanding balance was approximately $24,169,000 and $21,130,000, respectively. Certain of the notes payable e collateralized by lease and other deposits. At March 31, 2004 and December 31, 2003, collateralized notes totaled approximately 20,865,000 and $16,490,000, respectively.

April 2003, we obtained a controlling interest in our franchised restaurants in Japan ("Outback Japan"). As a result, upon closing of the ınsaction we became directly liable for notes outstanding that we had previously guaranteed. The notes are payable to banks, collateralized r lease deposits of approximately $3,300,000 and letters of credit and bear interest at rates ranging from 0.76% to 1.88%. The notes are nominated and payable in Japanese yen, with outstanding balances maturing at dates ranging from April through September 2004. As of arch 31, 2004 and December 31, 2003, outstanding balances totaled approximately $11,072,000 and $16,249,000, respectively.

October 2003, Outback Japan established a revolving line of credit to finance the development of new restaurants in Japan and refinance rtain notes payable. The line permits borrowing up to a maximum of $10,000,000 with interest at 70.0, 82.5 or 107.5 basis points over BOR. The line matures in December 2004. As of March 31, 2004 and December 31, 2003, Outback Japan had borrowed approximately ,790,000 and $5,648,000, respectively, on the line of credit at an interest rate of 0.77%, maturing in June and August 2004. The revolving ıe of credit contains certain restrictions and conditions as defined in the agreement. As of March 31, 2004, Outback Japan was in compliance th all of the debt covenants.

fective April 27, 2004, Outback Japan amended its $10,000,000 revolving credit facility that was scheduled to mature in December 2004, th a new maturity date in June 2007. Additionally, the revolving line of credit now permits borrowing at interest rates ranging from 70 to 7.5 basis points over LIBOR. The amended credit agreement contains certain restrictions and conditions as defined in the agreement.

February 2004, Outback Japan established an additional revolving line of credit to finance the development of new restaurants in Japan and inance certain notes payable. The line permits borrowing up to a maximum of $10,000,000 with interest of LIBOR divided by a percentage ual to 1.00 minus the Eurocurrency Reserve Percentage. The line matures in December 2006. As of March 31, 2004, Outback Japan had rrowed approximately $1,202,000 on the line of credit at an interest rate of 0.77%, maturing in September 2004. The revolving line of credit ntains certain restrictions and conditions as defined in the agreement. As of March 31, 2004, Outback Japan was in compliance with all of : debt covenants.

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OUTBACK STEAKHOUSE, INC.
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ıuidity and Capital Resources (unaudited) (continued)

EDIT FACILITIES (continued)

are the guarantor of an uncollateralized line of credit that permits borrowing of up to $35,000,000, maturing in December 2004, for a ited liability company, T-Bird, owned by our California franchisee. The line of credit bears interest at rates ranging from 57.5 to 95.0 basis nts over LIBOR based on T-Bird's ratio of consolidated debt to EBITDA, as defined by the line of credit agreement. We were required to- solidate T-Bird effective January 1, 2004 upon adoption of FIN 46. At March 31, 2004, the outstanding balance on the line of credit was roximately $28,743,000 and is included in our Consolidated Balance Sheet. We also guarantee additional term loans associated with the ıer of T-Bird, which are not consolidated, and which had outstanding balances of approximately $352,000 as of March 31, 2004. We are the primary obligor on the line of credit and we are not aware of any non-compliance with the underlying terms of the borrowing agreement : would result in us having to perform in accordance with the terms of the guarantee. If a default under the line of credit were to occur and se us to perform under the guarantee obligation, we have the right to call into default all of our franchisees in California and exercise any ıts and remedies under those agreements as well as the rights to the notes and assets which underlie the loans T-Bird has made to individual ɔorations in California which own the land and/or building for those franchise locations.

expect that our capital requirements through the end of 2004 will be met by cash flows from operations and, to the extent needed, advances ɔur lines of credit.

ur primary source of credit is our uncollateralized revolving line of credit that permits borrowing up to $150,000,000 (effective April 27,)04). Based upon provisions of the line of credit agreement as of April 27, 2004 and operating data and outstanding borrowings as of and rough March 31, 2004, the margin over LIBOR rates charged to the us on future amounts drawn under the line would not be affected unless:) outstanding debt balances increased by more than $250,000,000; or (ii) earnings before interest, taxes, depreciation, amortization and rent ecreased more than 25%. In addition, based upon provisions of the line of credit agreement as of April 27, 2004, availability of funds under e uncollateralized revolving line of credit would not be affected unless: (i) outstanding debt balances increased by more than $450,000,000; i) earnings before interest, taxes, depreciation, amortization and rent decreased more than 50%; or (iii) our net worth decreased approximately 5%.

EBT GUARANTEES

'e are the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of $24,500,000 for our joint venture irtner in the development of Roy's restaurants. At March 31, 2004, the outstanding balance was approximately $21,541,000.

'e are the guarantor of up to approximately $9,445,000 of a $68,000,000 note for an unconsolidated affiliate, Kentucky Speedway, in which e have a 22.22% equity interest and for which we operate catering and concession facilities. At March 31, 2004, the outstanding balance on e note was approximately $66,550,000. Our investment is included in the line item entitled "Investments In and Advances to Unconsolidated ffiliates, Net." This affiliate has not yet reached its operating break-even point. Accordingly, we have made three additional working capital ntributions, $667,000 in December 2001, $444,000 in July 2002 and $333,000 in August 2003, in addition to our original investment. We ticipate that we may need to make additional contributions for our pro rata portion of future losses, if any.

'e are not aware of any non-compliance with the underlying terms of the borrowing agreements for which we provide a guarantee that would sult in us having to perform in accordance with the terms of the guarantee.

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OUTBACK STEAKHOUSE, INC.
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iquidity and Capital Resources (unaudited) (continued)

HARE REPURCHASE

n July 26, 2000, our Board of Directors authorized the repurchase of up to 4,000,000 shares of our common stock, with the timing, price, tantity and manner of the purchases to be made at the discretion of management, depending upon market conditions. In addition, the Board of irectors also authorized the repurchase of shares on a regular basis to offset shares issued as a result of stock option exercises. On July 23,)03, our Board of Directors extended both the repurchase authorization for an additional 2,500,000 shares of our common stock, and the thorization to offset shares issued as a result of stock option exercises. We will fund the repurchase program with available cash and bank edit facilities. During the period from the authorization date through March 31, 2004, approximately 5,994,000 shares of our common stock ve been issued as the result of stock option exercises. As of March 31, 2004, under these authorizations we have repurchased approximately),425,000 shares of our common stock for approximately $341,312,000.

IVIDENDS

ir Board of Directors authorized the following dividends during 2003 and 2004:

Declaration Date	Record Date	Payable Date	Amount per Share of Common Stock
January 22, 2003	February 21, 2003	March 7, 2003	$0.12
April 23, 2003	May 23, 2003	June 6, 2003	$0.12
July 23, 2003	August 22, 2003	September 5, 2003	$0.12

October 22, 2003	November 21, 2003	December 5, 2003	$0.13
January 28, 2004	February 20, 2004	March 5, 2004	$0.13
April 21, 2004	May 21, 2004	June 4, 2004	$0.13

.t the current dividend rate, the annual dividend payment is expected to be between $36,000,000 and $40,000,000 depending on the shares utstanding during the respective quarters. We intend to pay dividends with cash flow from operations.

:RITICAL ACCOUNTING POLICIES AND ESTIMATES

ıur discussion and analysis of our financial condition and results of operations are based upon our Unaudited Consolidated Financial tatements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The reparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, :venues and expenses, and related disclosure of contingent assets and liabilities during the reporting period. We base our estimates on istorical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the asis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may iffer from these estimates under different assumptions or conditions. Our significant accounting policies are described in Note 1 of Notes to onsolidated Financial Statements included in our Annual Report on Form 10-K. We consider the following policies to be the most critical in ıderstanding the judgments that are involved in preparing our financial statements.

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OUTBACK STEAKHOUSE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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RITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)

:operty, Fixtures and Equipment

'operty, fixtures and equipment are recorded at cost. We expense repair and maintenance costs incurred to maintain the appearance and nctionality of the restaurant that do not extend the useful life of any restaurant asset or are less than $1,000. Depreciation is computed on the :aight-line basis over the following estimated useful lives:

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

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

ıpairment of Long-Lived Assets

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

a) Restaurant sales trends;
b) Local competition;
c) Changing demographic profiles;

d) Local economic conditions;
e) New laws and government regulations that adversely affect sales and profits; and
f) The ability to recruit and train skilled restaurant employees.

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

udgments and estimates made by us related to the expected useful lives of long-lived assets are affected by factors such as changes in conomic conditions and changes in operating performance. As we assess the ongoing expected cash flows and carrying amounts of our long-ved assets, these factors could cause us to realize a material impairment charge.

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OUTBACK STEAKHOUSE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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:RITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)

ısurance Reserves

/e self-insure a significant portion of expected losses under our workers' compensation, general liability, health and property insurance rograms. We purchase insurance for individual claims that exceed the amounts listed in the following table:

	2004
Workers' Compensation	$ 1,000,000
General Liability (1)	1,500,000
Health (2)	300,000
Property Loss and Damage	5,000,000

) Beginning in 2004, for claims arising from liquor liability, there is an additional $1,000,000 deductible until a $2,000,000 aggregate has :en met. At that time, any claims arising from liquor liability revert to the general liability deductible.

) Beginning in 2004, we are self-insured for annual aggregate health insurance claims that exceed 113% of estimates provided by our third ırty administrator and insurance company.

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

:venue Recognition

e record revenues for normal recurring sales upon the performance of services. Revenues from the sales of franchises are recognized as :ome when we have substantially performed all of our material obligations under the franchise agreement. Continuing royalties, which are a

ercentage of net sales of franchised restaurants, are accrued as income when earned. These revenues are included in the line "Other revenues" a the Unaudited Consolidated Statements of Income.

Jnearned revenues primarily represent our liability for gift certificates that have been sold but not yet redeemed and are recorded at the nticipated redemption value. When the gift certificates are redeemed, we recognize restaurant sales and reduce the related deferred liability.

Employee Partner Stock Buyout Expense

rea operating partners are required to purchase a 4-9% limited partner ownership interest in the restaurants they develop for an initial ivestment of $50,000. Under the terms of these partners' employment agreements, we have the option to purchase their interest after a five-ear period under the conditions of the agreement. We estimate future purchases of our area operating partners' interests using current iformation on restaurant performance to calculate and record an accrued buyout liability in the line item "Partner deposit and accrued buyout ability" in the Consolidated Balance Sheets. When partner buyouts occur, they are primarily completed through issuance of our common tock to the partner equivalent to the fair value of their interest. In the period we complete the buyout, an adjustment is recorded to recognize ny remaining expense associated with the purchase and reduce the related accrued buyout liability.

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

RITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)

rinciples of Consolidation

he Consolidated Financial Statements include the accounts and operations of Outback Steakhouse, Inc. and our affiliated partnerships in hich we are a general partner and own a controlling financial interest. We consolidate variable interest entities in which we absorb a majority f the entity's expected losses, receive a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other nancial interests in the entity. The consolidated financial statements also include the accounts and operations of consolidated ventures in hich we have a less than majority ownership. We consolidate these ventures because we control the executive committee (which functions as board of directors) or have control through representation on the board by related parties and we are able to direct or cause the direction of anagement and operations on a day-to-day basis. Additionally, the majority of capital contributions made by partners in the consolidated entures have been funded by loans to the partners either directly from us, or from a third party where we are required to be a guarantor of the ebt, which provides us control through our collateral interest in the joint venture partners' membership interests. The portion of income or ss attributable to the minority interests, not to exceed the minority interest's equity in the subsidiary, is eliminated in the line item in our onsolidated Statements of Income entitled "Elimination of minority partners' interest." All material intercompany balances and transactions ive been eliminated.

UTLOOK

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

the Outlook portion of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report to the curities and Exchange Commission on Form 10-K for the year ended December 31, 2003, we provided information on the outlook for our sinesses in 2004 and factors that may affect our financial results for that year. The remaining paragraphs in this Outlook section update the formation provided in the Form referenced above and we recommend that this section be read in conjunction with our Form 10-K.

'uture Operating Results

)ur revenues and financial results in the remainder of 2004 could vary significantly depending upon consumer and business spending trends.

004 Revenue. During the three-month period ended March 31, 2004, compared with the same period a year ago, average unit volumes for omestic Company-owned Outback Steakhouses increased by approximately 5.2% and increased approximately 1.0% for domestic Company-wned Carrabba's Italian Grills. Average unit volumes for Carrabba's includes the effect of the consolidation of 29 joint venture stores upon doption of FIN 46. Therefore, on a comparative basis, it is more appropriate to use the system-wide Carrabba's average of 2.7%, which ncludes revenues from both periods for all stores, which are now included as Company-owned. For the remainder of 2004, average unit olumes for Carrabba's Italian Grills are expected to meet anticipated levels as provided in Form 10-K referenced above and average unit olumes for Outback Steakhouses are anticipated to increase 3.5% to 4.5% for the year, which is an increase from our original estimate of 2%) 3% during 2004 compared with 2003.

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

'UTLOOK (continued)

'uring the quarter ended March 31, 2004, compared with the same period in 2003, average unit volumes for Fleming's Prime Steakhouse and /ine Bar increased 11.2%, Roy's increased 14.0% and Bonefish Grills' average unit volumes were relatively flat. Although there was a gnificant increase in average unit volumes at Fleming's, we are maintaining our original estimate of 4% to 5% increases as new stores tend to pen at lower volumes and we expect to add 12 stores during 2004. We are revising our original estimates for increases in Roy's average unit olumes to 7% to 10% based on results achieved in the first quarter. Fleming's and Roy's are not anticipated to maintain increases in average nit volumes as obtained in the first quarter for the remainder of the year. We are not adjusting our previous estimates on average unit volumes r Bonefish Grill based on the opening schedule for the remainder of the year and results in the first quarter of 2004.

)04 Cost of Revenue. As a result of marked increases in dairy prices, particularly butter, and changes in certain meat contracts which are heduled to increase in the second quarter, as well as increases in certain produce costs, such as potatoes and onions, we now expect cost of ods sold as a percentage of restaurant sales for the full year to be 10 to 20 basis points higher than originally expected, for a total of proximately 20 to 40 basis points increase for the full year from 2003 amounts.

)04 Labor Costs. As more of the new format restaurants (Roy's, Fleming's and Bonefish Grills) are opened, labor costs as a percentage of staurant sales are expected to increase because the labor costs as a percentage of sales at the new restaurant formats run at a higher rate than Outback and Carrabba's. However, we anticipate that increases in average unit volumes for our more mature formats will leverage costs as a rcentage of restaurant sales. Because of increased productivity in most of our brands experienced in the first quarter of 2004, which was rtially offset by higher state unemployment taxes, employee bonuses and workers' compensation claims, we continue to expect labor costs as percentage of restaurant sales for the full year to meet our original plan, of a 10 to 20 basis points decrease for the full year from 2003 nounts.

)04 Restaurant Operating Expenses. Because we will continue to incur preopening costs to open approximately 20 more new restaurants in)04 compared with 2003, we are not adjusting our original expectation for restaurant operating expenses as a percentage of restaurant sales, r a total of 40 to 50 basis points increase for the full year from 2003 amounts.

)04 Distribution Expense to Employee Partners. Distribution expense to employee partners is affected by the number of cash buyouts of anaging partners' interests in their restaurants, average unit volumes, ownership percentage levels of our employee partners and operating argins across the consolidated brands. We are currently planning for distribution expense as a percentage of total sales to be between flat and increase of 10 basis points in 2004 compared with 2003, based on the operating results achieved by Roy's and Fleming's in the first quarter 2004.

e are now planning for the remainder of 2004 for all other expense ratio variances to be comparable to those estimated in the 2003 Form 10-Outlook section.

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

)UTLOOK (continued)

xpansion Strategy

ur goal is to add new restaurants to the system during the remainder of 2004. The following table presents a summary of the expected :staurant openings during the full year 2004:

	2004
Outback Steakhouses – Domestic	
Company owned	28 to 30
Franchised	4 to 5
Outback Steakhouses – International	
Company owned	13 to 15
Franchised	3 to 5
Carrabba's Italian Grills	
Company owned	24 to 25
Fleming's Prime Steakhouse and Wine Bars	
Company owned	10 to 12
Bonefish Grills	
Company owned	30 to 35
Franchised	-
Roy's	
Company owned	1 to 2
Cheeseburger in Paradise	
Company owned	6 to 8
Paul Lee's Chinese Kitchen	
Company owned	2
Lee Roy Selmon's	
Company owned	-

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

ıutionary Statement

noted above, our actual results could differ materially from those stated or implied in the forward-looking statements included in the cussion 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) Our results can be impacted by changes in consumer tastes and the level of consumer acceptance of our restaurant concepts; local, regional and national economic conditions; the seasonality of our business; demographic trends; traffic patterns; change in consumer dietary habits; employee availability; the cost of advertising and media; government actions and policies; inflation; and increases in various costs;

iii) Consumer perception of food safety;

.v) Our 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;

/) Price and availability of commodities, including but not limited to, such items as beef, chicken, shrimp, pork, seafood, dairy, potatoes, onions and energy supplies are subject to fluctuation and could increase or decrease more than we expect; and/or

/i) Weather and acts of God could result in construction delays and also adversely affect the results of one or more restaurants for an indeterminate amount of time.

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

em 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

'e are exposed to market risk from changes in interest rates on debt, changes in foreign currency exchange rates and changes in commodity ices.

ur exposure to interest rate fluctuations is limited to our outstanding bank debt. At March 31, 2004, outstanding borrowings under our volving lines of credit bear interest at 57.5 basis points over the 30, 60, 90 or 180 London Interbank Offered Rate. The weighted average fective interest rate on the $10,000,000 outstanding balance at March 31, 2004 was 1.83%. At March 31, 2004, outstanding borrowings ıder our Japanese lines of credit bear interest at either 70.0, 82.5 or 107.5 basis points over LIBOR or LIBOR divided by a percentage equal 1.00 minus the Eurocurrency Reserve Percentage. The weighted average effective interest rate on the approximately $10,992,000 ıtstanding balance at March 31, 2004 was 0.77%. Notes payable of approximately $11,072,000 to Japanese banks bear interest at rates nging from 0.76% to 1.88% at March 31, 2004. Notes payable of approximately $24,169,000 to Korean banks bear interest at rates ranging ɔm 5.90% to 7.00% at March 31, 2004.

ur debt balance did not exceed $35,000,000 for the years ended December 31, 2002 and 2001. At March 31, 2004 and December 31, 2003, ır total debt was approximately $91,000,000 and $58,000,000, respectively. Should interest rates based on our average borrowings of ıproximately $89,000,000 through March 31, 2004 increase by one percentage point, our estimated annual interest expense would increase by ıproximately $900,000 over amounts reported for the year ended December 31, 2003.

ır exposure to foreign currency exchange fluctuations relates primarily to our direct investment in restaurants in Korea, Hong Kong, Japan, e Philippines and Brazil, our outstanding debt to Japanese and Korean banks of approximately $22,064,000 and $24,169,000, respectively, at arch 31, 2004 and to our royalties from international franchisees in 21 countries. We do not use financial instruments to hedge foreign rrency exchange rate changes. Our investments in these countries totaled approximately $21,677,000 and $21,457,000 as of March 31, 2004 d December 31, 2003, respectively.

any of the ingredients used in the products sold in our restaurants are commodities that are subject to unpredictable price volatility. Although attempt to minimize the effect of price volatility by negotiating fixed price contracts for the supply of key ingredients, there are no tablished fixed price markets for certain commodities such as produce and wild fish and we are subject to prevailing market conditions when

purchasing those types of commodities. Other commodities are purchased based upon negotiated price ranges established with vendors with reference to the fluctuating market prices. The related agreements may contain contractual features that limit the price paid by establishing certain price floors and caps. We do 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 our financial results adversely, although any changes in commodity prices would affect our competitors at about the same time as us. We expect that in most cases increased commodity prices could be passed through to our consumers via increases in menu prices. However, if there is a time lag between the increasing commodity prices and our ability to increase menu prices or, if we believe the commodity price increase to be short in duration and we choose not to pass on the cost increases, our short-term financial results could be negatively affected. Additionally, from time to time, competitive circumstances could limit menu price flexibility, and in those cases margins would be negatively impacted by increased commodity prices.

In addition to the market risks identified above and to the risks discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," we are subject to business risk as our beef supply is highly dependent upon four vendors. We currently purchase approximately 75% of our beef from the two largest beef suppliers in the country. If these vendors were unable to fulfill their obligations under their contracts, we would encounter supply shortages and incur higher costs to secure adequate supplies.

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

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OUTBACK STEAKHOUSE, INC.
CONTROLS AND PROCEDURES

Item 4. CONTROLS AND PROCEDURES

We have established and maintain disclosure controls and procedures that are designed to ensure that material information relating to the Company and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with an internal audit review conducted in April 2004, we identified approximately $27,000 of audit fees paid to a foreign affiliate of our independent auditor by one of our international subsidiaries that were inadvertently excluded from our 2004 Proxy disclosure. Our internal audit review also revealed that approximately $36,000 of non-audit services were provided by another foreign affiliate of our independent auditor to one of our international subsidiaries without the pre-approval of the audit committee of our board of directors, as required by the audit committee's charter and SEC rules. We have agreed with our independent auditor that we will not pay for the non-audit services that were not pre-approved. Upon review of the services provided, our management and the audit committee have concluded that our external auditor's independence was not compromised by the foregoing because of the immaterial amounts involved, because neither our senior financial management nor any member of our auditor's audit team was aware that the services were being provided, and because the type of services provided were permissible under the Sarbanes-Oxley Act SEC rules. We have implemented new controls that we believe will help assure our future compliance and have been advised of enhanced procedures that will be performed by our external auditor to ensure its ongoing independence. Upon discussion with our auditor and our audit committee, we do not believe that these incidents rise to the level of material weaknesses or significant deficiencies in our disclosure controls and procedures or in our internal controls over financial reporting. However, because of the commitment of management and the audit committee to maintaining absolute independence of our auditor, we believe that disclosure of our findings and subsequent resolution was appropriate in this quarterly evaluation of controls.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the date of such evaluation. Other than improvement in our procedures for the engagement of services of outside consultants and other actions taken as a result of the matters discussed above, there has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to affect, our internal controls over financial reporting.

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OUTBACK STEAKHOUSE, INC.
PART II: OTHER INFORMATION

tem 1. Legal Proceedings

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

n June 2003, in a civil case against us in Indiana state court alleging liability under the "dram shop" liquor liability statute, a jury returned a 'erdict in favor of the two plaintiffs who were injured by a drunk driver. The portion of the verdict against us was $39,000,000. We intend to ppeal the decision and believe we have valid grounds for appeal. We have insurance coverage related to this case provided by our primary arrier for $21,000,000 and by an excess insurance carrier for the balance of the verdict of approximately $19,000,000. As of the date of this iling, the excess insurance carrier has filed a declaratory judgment suit claiming it was not notified of the case and is therefore not liable for its ortion of the verdict. We do not believe the excess carrier's case has any merit and we intend to vigorously defend the case. If the excess arrier's suit were to succeed, we believe we would have rights against the primary carrier and its third party administrator to recover any mounts we may have to pay.

tem 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

(e) Issuer Purchases of Equity Securities

he following table includes information with respect to purchases of our common stock made by us during the first quarter of the year ended Iarch 31, 2004:

	(a)		(b)	(c)	(d)
erlod	Total number of shares purchased (1)		Average price paid per share	Total number of shares purchased as part of publicly announced programs (1)	Maximum number of shares that may yet be purchased under the programs (2)
lonth #1					
January 1 to January 31)	60,000	$	42.98	60,000	2,082,000
lonth #2					
February 1 to February 29)	-	$	-	-	2,316,000
onth #3					
March 1 to March 31)	700,000	$	48.61	700,000	2,318,000
otal	760,000	$	48.17	760,000	2,318,000

:) No shares were repurchased other than through our publicly announced repurchase programs and authorizations during the first quarter of ur year ending December 31, 2004.

!) On July 26, 2000, our Board of Directors authorized the repurchase of up to 4,000,000 shares of our common stock, with the timing, price, uantity and manner of the purchases to be made at the discretion of management, depending upon market conditions. In addition, the Board of irectors also authorized the repurchase of shares on a regular basis to offset shares issued as a result of stock option exercises. On July 23, 003, our Board of Directors extended both the repurchase authorization for an additional 2,500,000 shares of our common stock, and the

uthorization to offset shares issued as a result of stock option exercises. During the period from the authorization date through March 31, 2004, approximately 5,994,000 shares of our common stock have been issued as the result of stock option exercises. As of March 31, 2004, under these authorizations we have repurchased approximately 10,425,000 shares of our common stock for approximately $341,312,000.

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OUTBACK STEAKHOUSE, INC.
PART II: OTHER INFORMATION

tem 6. Exhibits and Reports on Form 8-K

(a) Exhibits

.79a	First Amendment to Multi-Currency Revolving Credit Facility and Guaranty Agreement between Outback Steakhouse Japan KK and Wachovia Bank, NA (filed herewith)
.81	$150,000,000.00 Credit Agreement dated as of April 27, 2004 among Outback Steakhouse, Inc., The Banks Listed Herein, Wachovia Bank, National Association, as Agent, Wachovia Capital Markets, LLC, as Sole Arranger, SunTrust Bank as Syndication Agent and SouthTrust Bank, as Documentation Agent (filed herewith)
.82	$20,000,000.00 Credit Agreement dated as of April 27, 2004 between Outback Steakhouse, Inc. and Wachovia Bank, National Association (filed herewith)
.83	Amended and Restated Loan Agreement dated as of February 6, 2001 between T-Bird Nevada, LLC and Bank of America, N.A. (filed herewith)
.83a	Amended and Restated Promissory Note by T-Bird Nevada, LLC to Bank of America, N.A. (filed herewith)
1.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act
1.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act
2.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[1]
2.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[1]

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

he registrant hereby undertakes to furnish supplementally a copy of any omitted schedule or other attachment to the Securities and Exchange ommission upon request.

(b) Reports on Form 8-K

/e furnished the following current reports on Form 8-K on the following dates during the 1st quarter of 2004:

ebruary 11, 2004 reporting our financial results for the fourth quarter of 2003.

February 18, 2004 announcing a 10b5-1 plan entered into by Paul E. Avery.

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SIGNATURE

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

OUTBACK STEAKHOUSE, INC.

Date: May 10, 2004

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