

Bloomin' Brands, Inc.  
Form 10-Q  
September 05, 2012

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 June 30, 2012

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35625

BLOOMIN' BRANDS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

20-8023465

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

2202 North West Shore Boulevard, Suite 500, Tampa, Florida 33607

(Address of principal executive offices) (Zip Code)

(813) 282-1225

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

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As of August 31, 2012, 119,898,667 shares of common stock of the registrant were outstanding.

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BLOOMIN' BRANDS, INC.

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For the Quarterly Period Ended June 30, 2012

(Unaudited)

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BLOOMIN' BRANDS, INC.

## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA, UNAUDITED)

	JUNE 30, 2012	DECEMBER 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$279,954	\$ 482,084
Current portion of restricted cash	24,916	20,640
Inventories	74,131	69,223
Deferred income tax assets	28,040	31,959
Other current assets, net	85,801	104,373
Total current assets	492,842	708,279
Restricted cash	18,788	3,641
Property, fixtures and equipment, net	1,482,437	1,635,898
Investments in and advances to unconsolidated affiliates, net	35,256	35,033
Goodwill	268,902	268,772
Intangible assets, net	558,493	566,148
Other assets, net	144,104	136,165
Total assets	\$3,000,822	\$ 3,353,936

(CONTINUED...)

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## BLOOMIN' BRANDS, INC.

## CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA, UNAUDITED)

	JUNE 30, 2012	DECEMBER 31, 2011
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 102,351	\$ 97,393
Accrued and other current liabilities	176,255	211,486
Current portion of partner deposits and accrued partner obligations	16,828	15,044
Unearned revenue	193,512	299,596
Current portion of long-term debt	26,580	332,905
Current portion of guaranteed debt	24,500	—
Total current liabilities	540,026	956,424
Partner deposits and accrued partner obligations	91,913	98,681
Deferred rent	77,350	70,135
Deferred income tax liabilities	189,011	193,262
Long-term debt	1,737,210	1,751,885
Guaranteed debt	—	24,500
Other long-term liabilities, net	259,871	218,752
Total liabilities	2,895,381	3,313,639
Commitments and contingencies		
Stockholders' Equity		
Bloomin' Brands, Inc. Stockholders' Equity		
Common stock, \$0.01 par value, 120,000,000 shares authorized; 106,777,584 shares issued and outstanding at June 30, 2012; and 120,000,000 shares authorized; 106,573,193 shares issued and outstanding at December 31, 2011	1,068	1,066
Additional paid-in capital	877,474	874,753
Accumulated deficit	(755,617	) (822,625 )
Accumulated other comprehensive loss	(25,857	) (22,344 )
Total Bloomin' Brands, Inc. stockholders' equity	97,068	30,850
Noncontrolling interests	8,373	9,447
Total stockholders' equity	105,441	40,297
Total liabilities and stockholders' equity	\$3,000,822	\$ 3,353,936

The accompanying notes are an integral part of these Consolidated Financial Statements.

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## BLOOMIN' BRANDS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(IN THOUSANDS, EXCEPT PER SHARE DATA, UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS ENDED JUNE	
	JUNE 30,		30,	
	2012	2011	2012	2011
Revenues				
Restaurant sales	\$970,021	\$946,033	\$2,015,487	\$1,939,142
Other revenues	10,845	9,469	21,005	18,209
Total revenues	980,866	955,502	2,036,492	1,957,351
Costs and expenses				
Cost of sales	315,472	305,003	651,331	622,767
Labor and other related	271,400	275,314	564,901	558,121
Other restaurant operating	230,877	224,692	449,842	438,849
Depreciation and amortization	39,247	38,463	78,107	76,751
General and administrative	72,216	69,548	148,218	131,126
Provision for impaired assets and restaurant closings	4,654	3,723	9,089	3,931
Income from operations of unconsolidated affiliates	(1,720)	(1,995)	(4,124)	(5,641)
Total costs and expenses	932,146	914,748	1,897,364	1,825,904
Income from operations	48,720	40,754	139,128	131,447
Loss on extinguishment of debt	—	—	(2,851)	—
Other (expense) income, net	(183)	559	(129)	256
Interest expense, net	(24,037)	(20,692)	(45,011)	(41,885)
Income before provision for income taxes	24,500	20,621	91,137	89,818
Provision for income taxes	3,936	4,178	16,741	15,260
Net income	20,564	16,443	74,396	74,558
Less: net income attributable to noncontrolling interests	3,124	2,440	6,957	5,663
Net income attributable to Bloomin' Brands, Inc.	\$17,440	\$14,003	\$67,439	\$68,895
Net income	\$20,564	\$16,443	\$74,396	\$74,558
Other comprehensive income:				
Foreign currency translation adjustment	(6,662)	4,124	(3,513)	7,144
Comprehensive income	13,902	20,567	70,883	81,702
Less: comprehensive income attributable to noncontrolling interests	3,124	2,440	6,957	5,663
Comprehensive income attributable to Bloomin' Brands, Inc.	\$10,778	\$18,127	\$63,926	\$76,039
Net income attributable to Bloomin' Brands, Inc. per common share:				
Basic	\$0.16	\$0.13	\$0.63	\$0.65
Diluted	\$0.16	\$0.13	\$0.63	\$0.65
Weighted average common shares outstanding:				
Basic	106,361	106,135	106,361	106,135
Diluted	107,380	106,214	107,255	106,362

The accompanying notes are an integral part of these Consolidated Financial Statements.





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## BLOOMIN' BRANDS, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(IN THOUSANDS, UNAUDITED)

BLOOMIN' BRANDS, INC.								
	COMMON STOCK	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUM- ULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	NON- CONTROLLING INTERESTS	TOTAL	
Balance, December 31, 2011	106,573	\$ 1,066	\$ 874,753	\$(822,625)	\$ (22,344)	\$ 9,447	\$ 40,297	
Net income	—	—	—	67,439	—	6,957	74,396	
Foreign currency translation adjustment	—	—	—	—	(3,513)	—	(3,513)	
Stock-based compensation	261	3	1,460	—	—	—	1,463	
Repurchase of common stock	(56)	(1)	316	(431)	—	—	(116)	
Issuance of notes receivable due from stockholders	—	—	(518)	—	—	—	(518)	
Repayments of notes receivable due from stockholders	—	—	1,463	—	—	—	1,463	
Distributions to noncontrolling interests	—	—	—	—	—	(8,409)	(8,409)	
Contributions from noncontrolling interests	—	—	—	—	—	378	378	
Balance, June 30, 2012	106,778	\$ 1,068	\$ 877,474	\$(755,617)	\$ (25,857)	\$ 8,373	\$ 105,441	

BLOOMIN' BRANDS, INC.								
	COMMON STOCK	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUM- ULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	NON- CONTROLLING INTERESTS	TOTAL	
Balance, December 31, 2010	106,573	\$ 1,066	\$ 871,963	\$(922,630)	\$ (19,633)	\$ 13,323	\$(55,911)	
Net income	—	—	—	68,895	—	5,663	74,558	
Foreign currency translation	—	—	—	—	7,144	—	7,144	

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adjustment							
Stock-based compensation	—	—	1,357	—	—	—	1,357
Issuance of notes receivable due from stockholders	—	—	(985	)	—	—	(985 )
Distributions to noncontrolling interests	—	—	(38	)	—	(7,520	) (7,558 )
Contributions from noncontrolling interests	—	—	—	—	—	26	26
Balance, June 30, 2011	106,573	\$ 1,066	\$ 872,297	\$(853,735 )	\$ (12,489 )	\$ 11,492	\$ 18,631

The accompanying notes are an integral part of these Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS, UNAUDITED)

	SIX MONTHS ENDED JUNE	
	30,	
	2012	2011
Cash flows provided by operating activities:		
Net income	\$74,396	\$74,558
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	78,107	76,751
Amortization of deferred financing fees	4,983	6,276
Amortization of capitalized gift card sales commissions	11,193	9,390
Provision for impaired assets and restaurant closings	9,089	3,931
Accretion on debt discounts	362	325
Stock-based and other non-cash compensation expense	16,029	20,420
Income from operations of unconsolidated affiliates	(4,124	) (5,641
Change in deferred income taxes	(330	) (57
Loss on disposal of property, fixtures and equipment	1,001	1,841
Unrealized gain on derivative financial instruments	(191	) (35
Gain on life insurance and restricted cash investments	(2,208	) (486
Loss on extinguishment of debt	2,851	—
Recognition of deferred gain on sale-leaseback transaction	(537	) —
Change in assets and liabilities:		
(Increase) decrease in inventories	(4,949	) 6,043
Decrease (increase) in other current assets	6,642	(19,624
Decrease in other assets	892	3,942
(Decrease) increase in accounts payable and accrued and other current liabilities	(38,141	) 20,994
Increase in deferred rent	7,208	5,506
Decrease in unearned revenue	(106,084	) (95,292
Increase (decrease) in other long-term liabilities	1,515	(7,095
Net cash provided by operating activities	57,704	101,747
Cash flows provided by (used in) investing activities:		
Purchases of Company-owned life insurance	(308	) (789
Proceeds from sale of Company-owned life insurance	—	2,638
Proceeds from sale of property, fixtures and equipment	1,255	688
Proceeds from sale-leaseback transaction	192,886	—
Capital expenditures	(79,743	) (49,230
Restricted cash received for capital expenditures, property taxes and certain deferred compensation plans	50,614	45,569
Restricted cash used to fund capital expenditures, property taxes and certain deferred compensation plans	(70,032	) (70,417
Return on investment from unconsolidated affiliates	332	—
Net cash provided by (used in) investing activities	\$95,004	\$(71,541

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BLOOMIN' BRANDS, INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (IN THOUSANDS, UNAUDITED)

	SIX MONTHS ENDED JUNE	
	30,	
	2012	2011
Cash flows used in financing activities:		
Proceeds from issuance of long-term debt	\$495,186	\$—
Repayments of long-term debt	(12,211	) (9,598
Extinguishment of debt	(777,563	) —
Repayments of borrowings on revolving credit facilities	(33,000	) (78,072
Deferred financing fees	(5,442	) (52
Contributions from noncontrolling interests	378	26
Distributions to noncontrolling interests	(8,409	) (7,558
Repayments of partner deposits and accrued partner obligations	(15,306	) (21,188
Issuance of notes receivable due from stockholders	(83	) (985
Repayments of notes receivable due from stockholders	1,463	—
Net cash used in financing activities	(354,987	) (117,427
Effect of exchange rate changes on cash and cash equivalents	149	2,062
Net decrease in cash and cash equivalents	(202,130	) (85,159
Cash and cash equivalents at the beginning of the period	482,084	365,536
Cash and cash equivalents at the end of the period	\$279,954	\$280,377
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$39,923	\$36,328
Cash paid for income taxes, net of refunds	15,916	16,356
Supplemental disclosures of non-cash investing and financing activities:		
Conversion of partner deposits and accrued partner obligations to notes payable	\$3,932	\$3,814
Acquisitions of property, fixtures and equipment through accounts payable or capital lease liabilities	1,577	2,846

The accompanying notes are an integral part of these Consolidated Financial Statements.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation

Bloomin' Brands, Inc. ("Bloomin' Brands" or the "Company"), formerly known as Kangaroo Holdings, Inc., was formed by an investor group comprised of funds advised by Bain Capital Partners, LLC ("Bain Capital"), Catterton Management Company, LLC ("Catterton"), Chris T. Sullivan, Robert D. Basham and J. Timothy Gannon (the "Founders") and certain members of management. On June 14, 2007, Bloomin' Brands acquired OSI Restaurant Partners, Inc. by means of a merger and related transactions (the "Merger"). At the time of the Merger, OSI Restaurant Partners, Inc. was converted into a Delaware limited liability company named OSI Restaurant Partners, LLC ("OSI"). In connection with the Merger, Bloomin' Brands implemented a new ownership and financing arrangement for some of its restaurant properties, pursuant to which Private Restaurant Properties, LLC ("PRP"), a wholly-owned subsidiary of Bloomin' Brands, acquired 343 restaurant properties from OSI and leased them back to subsidiaries of OSI. OSI remains the primary operating entity, and a wholly-owned subsidiary of Bloomin' Brands continues to lease certain of the Company-owned restaurant properties to OSI's subsidiaries.

The Company owns and operates casual, upscale casual and fine dining restaurants primarily in the United States. The Company's restaurant portfolio has five concepts: Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill, Fleming's Prime Steakhouse and Wine Bar and Roy's. Additional Outback Steakhouse, Carrabba's Italian Grill and Bonefish Grill restaurants in which the Company has no direct investment are operated under franchise agreements.

The accompanying interim unaudited consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States ("U.S. GAAP") for complete financial statements. In the opinion of the Company, all adjustments considered necessary for the fair presentation of the Company's results of operations, financial position and cash flows for the periods presented have been included and are of a normal, recurring nature. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2011 included in the Company's registration statement on Form S-1, as amended (File No. 333-180615), that was declared effective on August 7, 2012 (the "Registration Statement"). The Company's initial public offering was completed on August 13, 2012.

2. Recently Issued Financial Accounting Standards

In May 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" ("ASU No. 2011-04"), that establishes a number of new requirements for fair value measurements. These include: (i) a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity's net exposure to the group; (ii) an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and (iii) a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. Additionally, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU No.

2011-04 on January 1, 2012 increased the Company's fair value disclosure requirements but did not have an impact on the Company's financial position, results of operations or cash flows.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) - Continued

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" ("ASU No. 2011-05"), that eliminates the option to report other comprehensive income and its components in the statement of changes in equity. Instead, the new guidance requires the Company to present the components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate but consecutive statements. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. ASU No. 2011-05 must be applied retrospectively and is effective for public companies during the interim and annual periods beginning after December 15, 2011. Additionally, in December 2011, the FASB issued ASU No. 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" ("ASU No. 2011-12"), which indefinitely defers the requirement in ASU No. 2011-05 to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. The deferral of the presentation requirements does not impact the effective date of the other requirements in ASU 2011-05. During the deferral period, the existing requirements in generally accepted accounting principles in the United States for the presentation of reclassification adjustments must continue to be followed. ASU No. 2011-12 is effective for public companies during the interim and annual periods beginning after December 15, 2011. The adoption of ASU No. 2011-05 and ASU No. 2011-12 on January 1, 2012 did not have an impact on the Company's financial position, results of operations or cash flows as the guidance only requires a presentation change to comprehensive income.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment" ("ASU No. 2011-08"), which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying the two-step quantitative goodwill impairment test. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing entities to go directly to the quantitative assessment. ASU No. 2011-08 is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. The adoption of this guidance on January 1, 2012 did not have an impact on the Company's financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU No. 2011-10, "Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification" ("ASU No. 2011-10"), which applies to a parent company that ceases to have a controlling financial interest in a subsidiary, that is in substance real estate, as a result of a default on the subsidiary's nonrecourse debt. The new guidance emphasizes that the parent should only deconsolidate the real estate subsidiary when legal title to the real estate is transferred to the lender and the related nonrecourse debt has been extinguished. If the reporting entity ceases to have a controlling financial interest under subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary's operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. This standard takes effect for public companies during the annual and interim periods beginning on or after June 15, 2012. The adoption of this guidance on July 1, 2012 did not have a material impact on the Company's financial statements.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) - Continued

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities" ("ASU No. 2011-11"), which enhances current disclosures about financial instruments and derivative instruments that are either offset on the statement of financial position or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the statement of financial position. The guidance requires the Company to provide both net and gross information for these assets and liabilities. ASU No. 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods with retrospective application required. This guidance will not have an impact on the Company's financial position, results of operations or cash flows as it only requires a presentation change to offsetting (netting) assets and liabilities.

In July 2012, the FASB issued ASU No. 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU No. 2012-02"), which permits an entity to make a qualitative assessment of whether it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying value before applying the two-step quantitative impairment test. If it is determined through the qualitative assessment that an indefinite-lived intangible asset's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing entities to go directly to the quantitative assessment. ASU No. 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company will adopt ASU No. 2012-02 effective January 1, 2013. This guidance will not have a material impact on the Company's financial position, results of operations or cash flows.

### 3. Stock-based and Deferred Compensation Plans

Shares of restricted stock issued on June 14, 2007 to certain of the Company's current and former executive officers and other members of management vested each June 14 through 2012. In accordance with the terms of their applicable agreements, the Company loaned an aggregate of \$0.4 million and \$0.9 million to these individuals in June of 2012 and 2011, respectively, for their personal income tax obligations that resulted from vesting of the restricted stock. During the first quarter of 2012, three of the Company's named executive officers and certain other former members of management repaid their entire loan balances to the Company. As of June 30, 2012 and December 31, 2011, a total of \$6.0 million and \$7.2 million, respectively, of loans and associated interest obligations to current and former executive officers and other members of management was outstanding and was recorded as contra-equity in the line item "Additional paid-in capital" in the Company's Consolidated Balance Sheets. The loans are full recourse and are collateralized by the vested shares of restricted stock. Although these loans are permitted in accordance with the terms of the agreements, the Company is not required to make them in the future. On May 10, 2012, the Company approved an amendment to the loans to extend the timing for mandatory prepayment in connection with an initial public offering to require full repayment by the last trading day in the first trading window subsequent to the expiration of contractual lock-up restrictions imposed in connection with the offering.

On May 10, 2012, the Board of Directors authorized an additional 850,000 shares for issuances of stock options and restricted stock under the Company's 2007 Equity Incentive Plan (the "2007 Equity Plan"). The total shares authorized under the 2007 Equity Plan, including the increase, is 13,200,000. Upon completion of the Company's initial public offering, the Bloomin' Brands, Inc. 2012 Incentive Award Plan (the "2012 Equity Plan") was adopted, and no further awards will be made under the 2007 Equity Plan (see Note 14).

On May 10, 2012, the retention bonus and the incentive bonus agreements with the Company's Chief Executive Officer ("CEO") were amended. In accordance with the terms of this amendment to the bonus agreements, the



remaining payments under each agreement were accelerated to a single lump sum payment of \$22.4 million as a result of the completion of the Company's initial public offering and was paid in the third quarter of 2012. The Company recorded \$18.1 million for the accelerated bonus expense in the line item "General and administrative" in its Consolidated Statement of Operations and Comprehensive Income for the three months ended September 30, 2012.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) - Continued

## 4. Net Income Attributable to Bloomin' Brands, Inc. Per Common Share

Basic net income attributable to Bloomin' Brands, Inc. per common share is computed on the basis of the weighted average number of common shares that were outstanding during the period. Diluted net income attributable to Bloomin' Brands, Inc. per common share includes the dilutive effect of common stock equivalents consisting of restricted stock and stock options, using the treasury stock method. Performance-based restricted stock and stock options are considered dilutive when the related performance criterion has been met.

The computation of basic and diluted net income attributable to Bloomin' Brands, Inc. per common share is as follows (in thousands, except share and per share amounts):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2012	2011	2012	2011
Net income attributable to Bloomin' Brands, Inc.	\$17,440	\$14,003	\$67,439	\$68,895
Basic weighted average common shares outstanding	106,360,717	106,134,814	106,360,717	106,134,814
Effect of diluted securities:				
Stock options	900,623	42,856	804,517	212,687
Unvested restricted stock	118,348	36,677	89,551	14,267
Diluted weighted average common shares outstanding	107,379,688	106,214,347	107,254,785	106,361,768
Basic net income attributable to Bloomin' Brands, Inc. per common share	\$0.16	\$0.13	\$0.63	\$0.65
Diluted net income attributable to Bloomin' Brands, Inc. per common share	\$0.16	\$0.13	\$0.63	\$0.65

Dilutive securities outstanding not included in the computation of net income attributable to Bloomin' Brands, Inc. per common share because their effect was antidilutive were as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2012	2011	2012	2011
Stock options	550,000	1,488,000	550,000	1,488,000

## 5. Variable Interest Entities

The Company consolidates variable interest entities in which it is deemed to have a controlling financial interest as a result of the Company having (1) the power to direct the activities that most significantly impact the entity's economic performance and (2) the obligation to absorb the losses or the right to receive the benefits that could potentially be significant to the variable interest entity. If the Company has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the operations of the variable interest entity are included in the consolidated financial statements.

Roy's and RY-8, Inc.

The Company's consolidated financial statements include the accounts and operations of its Roy's joint venture although it has less than majority ownership. The Company determined it is the primary beneficiary of the joint venture since the Company has the power to direct or cause the direction of the activities that most significantly impact the entity on a day-to-day basis, such as decisions regarding menu development, purchasing, restaurant expansion and closings and the management of employee-related processes. Additionally, the Company has the obligation to absorb losses

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or the right to receive benefits of the Roy's joint venture that could potentially be significant to the Roy's joint venture. The majority of capital contributions made by the Company's partner in the Roy's joint venture, RY-8, Inc. ("RY-8"), have been funded by loans to RY-8 from a third party which OSI guarantees. The guarantee is secured by a collateral interest in RY-8's membership interest in the joint venture. The carrying amounts of consolidated assets and liabilities included within the Company's Consolidated Balance Sheets for the Roy's joint venture were \$24.3 million and \$10.6 million, respectively, at June 30, 2012 and \$26.2 million and \$9.6 million, respectively, at December 31, 2011.

The Company is also the primary beneficiary of RY-8 because its implicit variable interest in that entity, which is considered a de facto related party, indirectly receives the variability of the entity through absorption of RY-8's expected losses, and therefore the Company also consolidates RY-8. Since RY-8's \$24.5 million line of credit became fully extended in 2007, the Company made interest payments, paid line of credit renewal fees and made capital expenditures for additional restaurant development on behalf of RY-8. The Company is obligated to provide financing, either through OSI's guarantee with a third-party institution or loans, for all required capital contributions and interest payments. Therefore, any additional RY-8 capital requirements in connection with the joint venture likely will be the Company's responsibility. RY-8's line of credit expires on April 15, 2013. The Company classifies OSI's \$24.5 million contingent obligation as guaranteed debt and the portion of income or loss attributable to RY-8 is eliminated in the line item in the Consolidated Statements of Operations and Comprehensive Income entitled "Net income attributable to noncontrolling interests." All material intercompany balances and transactions have been eliminated.

## Paradise Restaurant Group, LLC

In September 2009, the Company sold its Cheeseburger in Paradise concept, which included 34 restaurants, for \$2.0 million to Paradise Restaurant Group, LLC ("PRG"), an entity formed and controlled by the president of the concept. Based on the terms of the purchase and sale agreement, the Company determined at that time that it was the primary beneficiary and continued to consolidate PRG after the sale transaction.

Upon adoption of new accounting guidance for variable interest entities on January 1, 2010, the Company determined that it is no longer the primary beneficiary of PRG. As a result, the Company deconsolidated PRG on January 1, 2010. The Company determined that certain rights pursuant to a \$2.0 million promissory note, which is fully reserved, owed to the Company by PRG are non-substantive participating rights, and as a result, the Company does not have the power to direct the activities that most significantly impact the entity. At June 30, 2012, the maximum undiscounted exposure to loss as a result of the Company's involvement with PRG is \$17.8 million related to lease payments extending through June 13, 2022 in the event that PRG defaults on these leases.

## 6. Other Current Assets, Net

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

	JUNE 30, 2012	DECEMBER 31, 2011
Prepaid expenses	\$28,718	\$ 18,113
Accounts receivable - vendors, net	33,350	48,568
Accounts receivable - franchisees, net	2,787	2,396
Accounts receivable - other, net	6,018	11,869

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Other current assets, net	14,928	23,427
	\$85,801	\$ 104,373

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## 7. Property, Fixtures and Equipment, Net

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

	JUNE 30, 2012	DECEMBER 31, 2011
Land	\$265,244	\$ 329,143
Buildings and building improvements	906,922	1,013,618
Furniture and fixtures	279,854	263,266
Equipment	388,356	362,649
Leasehold improvements	381,627	369,726
Construction in progress	32,208	22,011
Less: accumulated depreciation	(771,774 )	(724,515 )
	\$1,482,437	\$ 1,635,898

Effective March 14, 2012, the Company entered into a sale-leaseback transaction (the "Sale-Leaseback Transaction") with two third-party real estate institutional investors in which the Company sold 67 restaurant properties at fair market value for net proceeds of \$192.9 million. The Company then simultaneously leased these properties under nine master leases (collectively, the "REIT Master Leases"). The initial term of the REIT Master Leases are 20 years with four five-year renewal options. One renewal period is at a fixed rental amount and the last three renewal periods are generally based at then-current fair market values. The sale at fair market value and subsequent leaseback qualified for sale-leaseback accounting treatment, and the REIT Master Leases are classified as operating leases. In accordance with the applicable accounting guidance, the 67 restaurant properties are not classified as held for sale at December 31, 2011 since the Company is leasing back the properties. The Company recorded the deferred gain of \$42.9 million on the sale of certain of the properties primarily in the line item "Other long-term liabilities, net" in its Consolidated Balance Sheet as of March 31, 2012, which is amortized over the initial term of the lease.

## 8. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following (in thousands):

	JUNE 30, 2012	DECEMBER 31, 2011
Accrued payroll and other compensation	\$91,064	\$ 117,013
Accrued insurance	21,459	19,284
Other current liabilities	63,732	75,189
	\$176,255	\$ 211,486

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## 9. Long-term Debt, Net

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

	JUNE 30, 2012	DECEMBER 31, 2011
Senior secured term loan facility, interest rates of 2.56% and 2.63% at June 30, 2012 and December 31, 2011, respectively (1) (2)	\$ 1,007,850	\$ 1,014,400
Senior secured pre-funded revolving credit facility, interest rate of 2.63% at December 31, 2011 (2)	—	33,000
Mortgage loan, weighted average interest rate of 3.96% at June 30, 2012 (3)	323,530	—
First mezzanine loan, interest rate of 9.00% at June 30, 2012 (3)	87,465	—
Second mezzanine loan, interest rate of 11.25% at June 30, 2012 (3)	87,520	—
Note payable, weighted average interest rate of 0.98% at December 31, 2011 (3)	—	466,319
First mezzanine note, interest rate of 3.28% at December 31, 2011 (3)	—	88,900
Second mezzanine note, interest rate of 3.53% at December 31, 2011 (3)	—	123,190
Third mezzanine note, interest rate of 3.54% at December 31, 2011 (3)	—	49,095
Fourth mezzanine note, interest rate of 4.53% at December 31, 2011 (3)	—	48,113
Senior notes, interest rate of 10.00% at June 30, 2012 and December 31, 2011 (2)	248,075	248,075
Other notes payable, uncollateralized, interest rates ranging from 0.73% to 7.00% and from 0.76% to 7.00% at June 30, 2012 and December 31, 2011, respectively (2)	9,213	9,094
Sale-leaseback obligations (2)	2,375	2,375
Capital lease obligations (2)	2,382	2,520
Guaranteed debt, interest rate of 2.67% and 2.65% at June 30, 2012 and December 31, 2011, respectively (2)	24,500	24,500
	1,792,910	2,109,581
Less: current portion of long-term debt	(26,580)	(332,905)
Less: guaranteed debt	(24,500)	(24,500)
Less: debt discount	(4,620)	(291)
Long-term debt, net	\$ 1,737,210	\$ 1,751,885

(1) At December 31, 2011, \$61.9 million of the Company's outstanding senior secured term loan facility was at an interest rate of 4.50%.

(2) Represents obligations of OSI.

(3) Represents obligations of New PRP (as defined below) at June 30, 2012 and obligations of PRP at December 31, 2011.

Bloomin' Brands is a holding company and conducts its operations through its subsidiaries, certain of which have incurred their own indebtedness as described below.

On June 14, 2007, OSI entered into senior secured credit facilities with a syndicate of institutional lenders and financial institutions. These senior secured credit facilities provide for senior secured financing of up to \$1.6 billion, consisting of a \$1.3 billion term loan facility, a \$150.0 million working capital revolving credit facility, including letter of credit and swing-line loan sub-facilities, and a \$100.0 million pre-funded revolving credit facility that provides financing for capital expenditures only.

The senior secured term loan facility matures June 14, 2014. At each rate adjustment, OSI has the option to select a Base Rate plus 125 basis points or a Eurocurrency Rate plus 225 basis points for the borrowings under this facility. The Base Rate option is the higher of the prime rate of Deutsche Bank AG New York Branch and the federal funds effective rate plus 0.5 of 1.0% ("Base Rate") (3.25% at June 30, 2012 and December 31, 2011). The Eurocurrency Rate option is the 30, 60, 90 or 180-day Eurocurrency Rate ("Eurocurrency Rate") (ranging from 0.31% to 0.81% and from 0.38% to 0.88% at June 30, 2012 and December 31, 2011, respectively). The Eurocurrency Rate may have a nine- or twelve-month interest period if agreed upon by the applicable lenders. With either the Base Rate or the Eurocurrency Rate, the interest rate is reduced by 25 basis points if the associated Moody's Applicable Corporate Rating then most recently published is B1 or higher (the rating was Caa1 at June 30, 2012 and December 31, 2011).



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OSI is required to prepay outstanding term loans, subject to certain exceptions, with:

- 50% of its "annual excess cash flow" (with step-downs to 25% and 0% based upon its rent-adjusted leverage ratio), as defined in the credit agreement and subject to certain exceptions;
- 100% of its "annual minimum free cash flow," as defined in the credit agreement, not to exceed \$75.0 million for each fiscal year, if its rent-adjusted leverage ratio exceeds a certain minimum threshold;
- 100% of the net proceeds of certain assets sales and insurance and condemnation events, subject to reinvestment rights and certain other exceptions; and
- 100% of the net proceeds of any debt incurred, excluding permitted debt issuances.

Additionally, OSI is required, on an annual basis, to first, repay outstanding loans under the pre-funded revolving credit facility and second, fund a capital expenditure account to the extent amounts on deposit are less than \$100.0 million, in both cases with 100% of OSI's "annual true cash flow," as defined in the credit agreement. In accordance with these requirements, OSI repaid its pre-funded revolving credit facility outstanding loan balance of \$33.0 million and funded \$37.6 million to its capital expenditure account using its "annual true cash flow" in April 2012.

OSI's senior secured credit facilities require scheduled quarterly payments on the term loans equal to 0.25% of the original principal amount of the term loans for the first six years and three quarters following June 14, 2007. These payments are reduced by the application of any prepayments, and any remaining balance will be paid at maturity. The outstanding balance on the term loans was \$1.0 billion at June 30, 2012 and December 31, 2011. OSI has classified \$13.1 million of its term loans as current at June 30, 2012 and December 31, 2011 due to its required quarterly payments and the results of its projected and actual covenant calculations, which indicate the additional term loan prepayments, as described above, will not be required. The amount of outstanding term loans required to be prepaid in accordance with OSI's debt covenants may vary based on year-end results.

Proceeds of loans and letters of credit under OSI's \$150.0 million working capital revolving credit facility, which matures June 14, 2013, provide financing for working capital and general corporate purposes and, subject to a rent-adjusted leverage condition, for capital expenditures for new restaurant growth. This revolving credit facility bears interest at rates ranging from 100 to 150 basis points over the Base Rate or 200 to 250 basis points over the Eurocurrency Rate. There were no loans outstanding under the revolving credit facility at June 30, 2012 and December 31, 2011; however, \$65.6 million and \$67.6 million, respectively, of the credit facility was committed for the issuance of letters of credit and not available for borrowing. OSI's total outstanding letters of credit issued under its working capital revolving credit facility may not exceed \$75.0 million.

Proceeds of loans under OSI's \$100.0 million pre-funded revolving credit facility, which expires June 14, 2013, are available to provide financing for capital expenditures, if the capital expenditure account described above has a zero balance. There were no loans outstanding under OSI's pre-funded revolving credit facility as of June 30, 2012 and \$33.0 million was outstanding under this facility as of December 31, 2011. This borrowing was recorded in "Current portion of long-term debt" in the Company's Consolidated Balance Sheet, as OSI is required to repay any outstanding borrowings in April following each fiscal year using its "annual true cash flow," as defined in the credit agreement. Subsequent to the end of the second quarter of 2012, OSI borrowed \$25.0 million from its pre-funded revolving credit facility.

At June 30, 2012 and December 31, 2011, OSI was in compliance with its debt covenants. See the Company's audited financial statements and notes thereto for the year ended December 31, 2011 included in the Company's Registration

Statement for further information about OSI's debt covenant requirements.

In March 2012, the Company refinanced the debt at PRP. Until that time, PRP had first mortgage and mezzanine notes (together, the commercial mortgage-backed securities loan, or the "CMBS Loan") totaling \$790.0 million, which were entered into on June 14, 2007. As part of the CMBS Loan, German American Capital Corporation and Bank of America,

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N.A. et al (the "Lenders") had a security interest in the acquired real estate and related improvements, and direct and indirect equity interests of certain of the Company's subsidiaries. The CMBS Loan comprised a note payable and four mezzanine notes. All notes bore interest at the one-month LIBOR which was 0.28% at December 31, 2011, plus an applicable spread which ranged from 0.51% to 4.25%. Interest-only payments were made on the ninth calendar day of each month and interest accrued beginning on the fifteenth calendar day of the preceding month.

Effective March 27, 2012, New Private Restaurant Properties, LLC and two of the Company's other indirect wholly-owned subsidiaries (collectively, "New PRP") entered into a new commercial mortgage-backed securities loan (the "2012 CMBS Loan") with German American Capital Corporation and Bank of America, N.A. The 2012 CMBS Loan totaled \$500.0 million at origination and was comprised of a first mortgage loan in the amount of \$324.8 million, collateralized by 261 of the Company's properties, and two mezzanine loans totaling \$175.2 million. The loans have a maturity date of April 10, 2017. The first mortgage loan has five fixed rate components and a floating rate component. The fixed rate components bear interest at rates ranging from 2.37% to 6.81% per annum. The floating rate component bears interest at a rate per annum equal to the 30-day LIBOR rate (with a floor of 1%) plus 2.37%. The first mezzanine loan bears interest at a rate of 9.0% per annum, and the second mezzanine loan bears interest at a rate of 11.25% per annum. The proceeds from the 2012 CMBS Loan, together with the proceeds from the Sale-Leaseback Transaction and excess cash held in PRP, were used to repay PRP's existing CMBS Loan. As a result of the 2012 CMBS Loan refinancing, the net amount repaid along with scheduled maturities within one year, \$281.3 million was classified as current at December 31, 2011. During the first quarter of 2012, the Company recorded a \$2.9 million loss related to the extinguishment in the line item, "Loss on extinguishment of debt" in its Consolidated Statement of Operations and Comprehensive Income. The Company deferred \$7.6 million of financing costs incurred to complete this transaction of which \$2.2 million had been capitalized as of December 31, 2011 and the remainder was capitalized in the first quarter of 2012. These deferred financing costs are included in the line item, "Other assets, net" in its Consolidated Balance Sheets. At June 30, 2012, the outstanding balance, excluding the debt discount, on the 2012 CMBS Loan was \$498.5 million.

Historically, the Company used an interest rate cap with a notional amount of \$775.7 million as a method to limit the volatility of PRP's variable-rate CMBS Loan. During the first quarter of 2012, this interest rate cap was terminated. In connection with the 2012 CMBS Loan refinancing, New PRP entered into a replacement interest rate cap instrument ("Rate Cap") effective March 27, 2012 with a notional amount of \$48.7 million as a method to limit the volatility of the floating rate component of the first mortgage loan. Under the Rate Cap, if the 30-day LIBOR market rate exceeds 7.0% per annum, the counterparty must pay to New PRP such excess on the notional amount of the floating rate component. Should it be necessary, New PRP would record any mark-to-market changes in the fair value of its derivative instrument into earnings in the period of change. The Rate Cap has a term of approximately two years from the closing of the 2012 CMBS Loan. Upon the expiration or termination of the Rate Cap or the downgrade of the credit ratings of the counterparty under the Rate Cap's specified thresholds, New PRP is required to replace the Rate Cap with a replacement interest rate cap in a notional amount equal to the outstanding principal balance (if any) of the floating rate component.

On July 25, 2012, OSI announced the commencement of a tender offer for all of its outstanding 10% senior notes due 2015, and on August 13, 2012, the remaining senior notes not tendered were called for redemption at 102.5% of the principal amount outstanding plus accrued interest, up to but not including such date of redemption (see Note 14).



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## 10. Other Long-term Liabilities, Net

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

	JUNE 30, 2012	DECEMBER 31, 2011
Accrued insurance liability	\$40,542	\$ 39,575
Unfavorable leases, net of accumulated amortization of \$20,083 and \$18,891 at June 30, 2012 and December 31, 2011, respectively	59,918	62,012
Partner Equity Plan obligation	81,492	77,642
Supplemental Partner Equity Plan obligation	14,926	16,235
Deferred gain on Sale-Leaseback Transaction, net of accumulated amortization of \$537 at June 30, 2012	40,255	—
Other long-term liabilities	22,738	23,288
	\$259,871	\$ 218,752

## 11. Fair Value Measurements

## Fair Value Measurements on a Recurring Basis

The Company invested \$23.3 million and \$37.7 million of its excess cash in money market funds classified as Cash and cash equivalents or restricted cash in its Consolidated Balance Sheets at June 30, 2012 and December 31, 2011, respectively, at a net value of 1:1 for each dollar invested. The fair value of the investment in the money market funds is determined by using quoted prices for identical assets in an active market.

At December 31, 2011, the Company was highly leveraged and exposed to interest rate risk to the extent of its variable-rate debt. The Company used an interest rate cap with a notional amount of \$775.7 million as a method to limit the volatility of PRP's variable-rate commercial mortgage-backed securities loan. During the first quarter of 2012, this interest rate cap was terminated. In connection with the refinancing of the commercial mortgage-backed securities loan that was effective in March 2012, a new Rate Cap with a notional amount of \$48.7 million was entered into for similar purposes (see Note 9). The interest rate caps did not have any fair market value at June 30, 2012 or December 31, 2011 and, therefore, were excluded from the applicable tables within this footnote.

The following tables present the Company's money market funds measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

	JUNE 30, 2012			
	CARRYING VALUE	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3
Assets:				
Money market funds - cash equivalents	\$208	\$208	\$—	\$—
Money market funds - restricted cash	23,084	23,084	—	—
Total recurring fair value measurements	\$23,292	\$23,292	\$—	\$—



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	DECEMBER 31, 2011			
	CARRYING VALUE	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3
Assets:				
Money market funds - cash equivalents	\$30,208	\$30,208	\$—	\$—
Money market funds - restricted cash	7,499	7,499	—	—
Total recurring fair value measurements	\$37,707	\$37,707	\$—	\$—

## Fair Value Measurements on a Nonrecurring Basis

The Company periodically evaluates long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. The Company analyzes historical and expected future cash flows of operating locations as well as lease terms, condition of the assets and related need for repairs and maintenance. Impairment loss is recognized to the extent that the fair value of the assets is less than the carrying value.

The following tables present losses related to the Company's assets and liabilities that were measured at fair value on a nonrecurring basis during the three and six months ended June 30, 2012 aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

	JUNE 30, 2012				THREE MONTHS ENDED JUNE 30, 2012 TOTAL LOSSES
	CARRYING VALUE	REMAINING FAIR VALUE			
		LEVEL 1	LEVEL 2	LEVEL 3	
Long-lived assets held and used	\$2,075	\$—	\$—	\$2,075	\$4,654

  

	JUNE 30, 2012				SIX MONTHS ENDED JUNE 30, 2012 TOTAL LOSSES
	CARRYING VALUE	REMAINING FAIR VALUE			
		LEVEL 1	LEVEL 2	LEVEL 3	
Long-lived assets held and used	\$2,933	\$—	\$650	\$2,283	\$9,088

The Company recorded \$4.7 million and \$9.1 million of impairment charges during the three and six months ended June 30, 2012, respectively, as a result of fair value measurement on a nonrecurring basis primarily related to certain specifically identified restaurant locations with individual store under-performance or having been designated for relocation or renovation. At the time of the impairment recognized in the second quarter of 2012, the impaired long-lived assets had \$2.1 million of remaining fair value. As of June 30, 2012, there was \$2.9 million remaining fair value associated with long-lived assets for which asset impairment losses were recognized during the six months ended June 30, 2012. Impairment losses for long-lived assets held and used were recognized in the line item "Provision for impaired assets and restaurant closings" in the Consolidated Statements of Operations and

Comprehensive Income.

The Company used a third-party market appraisal for the fair value of the assets included in Level 2 in the tables above and primarily used discounted cash flow models to estimate the fair value of the long-lived assets included in Level 3 in the tables above. Projected future cash flows, including discount rate and growth rate assumptions, are derived from current economic conditions, expectations of management and projected trends of current operating results. As a result, the Company has determined that the majority of the inputs used to value its long-lived assets held and used are unobservable inputs that fall within Level 3 of the fair value hierarchy.



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The following table presents quantitative information related to the unobservable inputs used in the Company's Level 3 fair value measurements for the impairment loss incurred in the six months ended June 30, 2012:

UNOBSERVABLE INPUT	RANGE
Weighted-average costs of capital (1)	10.4% - 11.2%
Long-term growth rate	3.0%
Annual revenue growth rates (2)	(8.7)% - 4.3%

(1) Weighted average of the costs of capital unobservable input range for the six months ended June 30, 2012 was 10.9%.

(2) Weighted average of the annual revenue growth rate unobservable input range for the six months ended June 30, 2012 was 2.6%.

The Company performed its annual goodwill and other indefinite-lived intangible assets impairment test during the second quarters of 2012 and 2011 and did not have any impairment charges. The Company did not have any other material impairment charges as a result of fair value measurements on a nonrecurring basis during the three and six months ended June 30, 2011.

## Interim Disclosures about Fair Value of Financial Instruments

The Company's non-derivative financial instruments at June 30, 2012 and December 31, 2011 consist of cash equivalents, restricted cash, accounts receivable, accounts payable and current and long-term debt. The fair values of cash equivalents, restricted cash, accounts receivable and accounts payable approximate their carrying amounts reported in the Consolidated Balance Sheets due to their short duration. The fair value of OSI's senior secured credit facilities and senior notes is determined based on quoted market prices in inactive markets. The fair value of PRP's and New PRP's commercial mortgage-backed securities is based on assumptions derived from current conditions in the real estate and credit environments, changes in the underlying collateral and expectations of management. Fair value estimates for other notes payable and guaranteed debt are derived using a discounted cash flow approach. Discounted cash flow inputs primarily include cost of debt rates which are used to derive the present value factors for the determination of fair value. Guaranteed debt fair value also includes assumptions of the probability and timing of performance under the guarantee. These inputs represent assumptions impacted by economic conditions and management expectations and may change in the future based on period-specific facts and circumstances.

The following table includes the carrying value and fair value of the Company's financial instruments (excluding cash equivalents and restricted cash shown in the table above) at June 30, 2012 aggregated by the level in the fair value hierarchy in which those measurements fall (in thousands):

	JUNE 30, 2012			
	CARRYING VALUE	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3
Senior secured term loan facility (1)	\$1,007,850	\$—	\$990,213	\$—
Mortgage loan (2)	323,530	—	—	323,530
First mezzanine loan (2)	87,465	—	—	87,465
Second mezzanine loan (2)	87,520	—	—	87,520
Senior notes (1)	248,075	—	254,897	—

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Other notes payable (1)	9,213	—	—	8,585
Guaranteed debt (1)	24,500	—	—	22,790

(1) Represents obligations of OSI.

(2) Represents obligations of New PRP.

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The carrying amounts of PRP's commercial mortgage-backed securities loan and OSI's Other notes payable and Guaranteed debt approximated fair value at December 31, 2011. The following table includes the carrying value and fair value of OSI's senior secured credit facilities and senior notes at December 31, 2011 (in thousands):

	DECEMBER 31, 2011	
	CARRYING VALUE	FAIR VALUE
Senior secured term loan facility	\$1,014,400	\$953,536
Senior secured pre-funded revolving credit facility	33,000	31,020
Senior notes	248,075	254,277

## 12. Income Taxes

The effective income tax rate for the three months ended June 30, 2012 was 16.1% compared to 20.3% for the same period in 2011. This net decrease in the effective income tax rate was primarily due to the benefit of items required to be treated discretely, such as changes in domestic and foreign uncertain tax positions, offsetting the effect of the increase in the projected and actual domestic pretax book income as compared to the prior year.

The effective income tax rate for the six months ended June 30, 2012 was 18.4% compared to 17.0% for the same period in 2011. This net increase in the effective income tax rate was primarily due to the increase in the projected and actual domestic pretax book income as compared to the prior year offsetting the benefit of items required to be treated discretely, such as changes in domestic and foreign uncertain tax positions.

The effective income tax rates for the three and six months ended June 30, 2012 were lower than the combined federal and state statutory rate of 38.7% primarily due to the benefit of the expected tax credit for excess FICA tax on employee-reported tips and the elimination of noncontrolling interest together being such a large percentage of projected annual pretax income. This was partially offset by an increase in the valuation allowance. The effective income tax rates for the three and six months ended June 30, 2011 were lower than the combined federal and state statutory rate of 38.9% due to the benefit of the expected tax credit for excess FICA tax on employee-reported tips and the foreign rate differential together being such a large percentage of projected annual pretax income. This was partially offset by an increase in the valuation allowance.

As of June 30, 2012 and December 31, 2011, the Company had \$11.9 million and \$14.0 million, respectively, of unrecognized tax benefits (\$0.9 million and \$1.5 million, respectively, in "Other long-term liabilities, net," \$1.0 million and \$2.5 million, respectively, in "Accrued and other current liabilities" and \$10.0 million in "Deferred income tax liabilities"). Additionally, the Company accrued \$2.3 million and \$4.1 million of interest and penalties related to uncertain tax positions as of June 30, 2012 and December 31, 2011, respectively. Of the total amount of unrecognized tax benefits, including accrued interest and penalties, \$12.1 million and \$15.2 million, respectively, if recognized, would impact the Company's effective tax rate. The difference between the total amount of unrecognized tax benefits and the amount that would impact the effective tax rate consists of items that are offset by deferred income tax assets and the federal tax benefit of state income tax items.

In many cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by relevant taxable authorities. Based on the outcome of these examinations, or as a result of the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the related recorded unrecognized tax benefits for tax positions taken on previously filed tax returns will decrease by approximately \$2.0 million to \$4.0 million within

the next twelve months after June 30, 2012.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2007 through 2011. The Company and its subsidiaries' state and foreign income tax returns are also open to audit under the statute of limitations for the years ended December 31, 2000 through 2011.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) - Continued

13. Related Parties

On May 10, 2012, the Company entered into a first amendment to its management agreement with Kangaroo Management Company I, LLC (the "Management Company"), whose members are entities associated with Bain Capital and Catterton and the Founders. In accordance with the terms of this amendment, the management agreement terminated immediately prior to the completion of the Company's initial public offering, and a termination fee of \$8.0 million was paid to the Management Company in the third quarter of 2012, in addition to a pro-rated periodic fee.

14. Subsequent Events

On July 25, 2012, OSI announced the commencement of a tender offer for all of its outstanding senior notes. On August 13, 2012, OSI accepted for payment \$102.2 million, or 41.2%, of the aggregate principal amount of its 10% senior notes, using a portion of the net proceeds from the Company's initial public offering. OSI paid \$106.8 million for the senior notes tendered, which included \$2.9 million of prepayment premium and early tender incentive fees and \$1.7 million of accrued interest. Further, on August 13, 2012, the remaining senior notes were called for redemption at 102.5% of the principal amount outstanding plus accrued interest, up to but not including such date of redemption. OSI deposited the full funds for the redemption with the trustee under the indenture governing the senior notes, which was comprised of the rest of the Company's net proceeds from its initial public offering and cash on hand, and the senior notes obligation was satisfied and discharged. The deposited funds will be used to repay in full \$145.9 million of remaining outstanding senior notes plus the related prepayment premium of \$3.6 million and accrued interest of \$3.5 million. As a result of these transactions, the Company recorded a loss from the extinguishment of debt of \$9.0 million in the third quarter of 2012, which included \$2.4 million for the write-off of unamortized deferred financing fees that related to the extinguished senior notes.

Upon completion of the Company's initial public offering, the Company recorded approximately \$16.0 million of aggregate non-cash compensation expense with respect to (i) certain stock options held by its CEO that become exercisable (to the extent then vested) if following the offering, the volume-weighted average trading price of the Company's common stock is equal to or greater than specified performance targets over a six-month period and (ii) the time vested portion of stock options containing a management call option due to the automatic termination of the call option upon completion of the offering.

Upon completion of the Company's initial public offering, the 2012 Equity Plan was adopted, and no further awards will be made under the 2007 Equity Plan. The 2012 Equity Plan provides for grants of stock options, stock appreciation rights, restricted stock and restricted stock units, performance awards and other stock-based awards determined by the compensation committee. The maximum number of shares of common stock available for issuance pursuant to the 2012 Equity Plan is initially 3,000,000 shares. As of the first business day of each fiscal year, commencing on January 1, 2013, the aggregate number of shares that may be issued pursuant to the 2012 Equity Plan will automatically increase by a number equal to 2% of the total number of shares then issued and outstanding. The 2012 Equity Plan provides that grants of performance awards will be made based upon, and subject to achieving, one or more performance measures over a performance period of not less than one year established by the compensation committee. Unless terminated earlier, the 2012 Equity Plan will terminate ten years from its effective date.

On September 4, 2012, the Company entered into an amended and restated employment agreement with its CEO, Elizabeth A. Smith. The agreement became effective upon execution and extends her employment until August 13, 2017 with one year automatic renewals thereafter. In accordance with the terms of the amended and restated employment agreement, Ms. Smith's annual base salary increased by \$50,000 to \$975,000, and she will be eligible for

additional equity award grants beginning in 2014.

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BLOOMIN' BRANDS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with our Unaudited Consolidated Financial Statements and the related Notes. Unless the context otherwise indicates, as used in this report, the term the "Company," "we," "us," "our" and other similar terms mean Bloomin' Brands, Inc.

Cautionary Statement

This Quarterly Report on Form 10-Q includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "feels," "forecasts," "seeks," "projects," "intends," "plans," "may," "will," "should," "could" or "would" and their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, the following:

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

(ii) Challenging economic conditions may affect our liquidity by adversely impacting numerous items that include, but are not limited to: consumer confidence and discretionary spending; the availability of credit presently arranged from our revolving credit facilities; the future cost and availability of credit; interest rates; foreign currency exchange rates; and the liquidity or operations of our third-party vendors and other service providers;

(iii) Our ability to expand is dependent upon various factors such as the availability of attractive sites for new restaurants; our ability to obtain appropriate real estate sites at acceptable prices; our ability to obtain all required governmental permits including zoning approvals and liquor licenses on a timely basis; the impact of government moratoriums or approval processes, which could result in significant delays; our ability to obtain all necessary contractors and subcontractors; union activities such as picketing and hand billing that could delay construction; our ability to generate or borrow funds; our ability to negotiate suitable lease terms; the ability to recruit and train skilled management and restaurant employees; and our ability to receive the premises from the landlord's developer without any delays;

(iv) Our results can be impacted by changes in consumer tastes and the level of consumer acceptance of our restaurant concepts (including consumer tolerance of our prices); local, regional, national and international economic and political conditions; the seasonality of our business; demographic trends; traffic patterns and our ability to effectively respond in a timely manner to changes in traffic patterns; changes in consumer dietary habits; employee availability; the cost of advertising and media; government actions and policies; inflation or deflation; unemployment rates; interest rates; exchange rates; and increases in various costs, including construction, real

estate and health insurance costs;

- (v) Weather, natural disasters and other disasters 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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BLOOMIN' BRANDS, INC.

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