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MARSHALL & ILSLEY CORP

Form ARS

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| | | | | |
|-----------------------------------------------------------------|-----------|-----------|-----------|-------------|
| Total revenues | 905,770 | 1,016,508 | 1,870,164 | 2,085,990 |
| Costs and expenses | | | | |
| Cost of sales | 291,496 | 355,178 | 612,835 | 728,058 |
| Labor and other related | 258,394 | 282,538 | 527,965 | 577,039 |
| Other restaurant operating | 241,475 | 262,397 | 478,224 | 521,015 |
| Depreciation and amortization | 43,479 | 46,990 | 89,851 | 94,041 |
| General and administrative | 71,114 | 54,306 | 129,597 | 126,480 |
| Loss on contingent debt guarantee | | | - | - 24,500 - |
| Goodwill impairment | 11,078 | 161,589 | 11,078 | 161,589 |
| Provision for impaired assets and restaurant closings | 112,206 | 23,928 | 119,342 | 27,592 |
| Loss (income) from operations of unconsolidated affiliates | 355 | (2,368) | (117) | (3,245) |
| Total costs and expenses | 1,029,597 | 1,184,558 | 1,993,275 | 2,232,569 |
| Loss from operations | (123,827) | (168,050) | (123,111) | (146,579) |
| Gain on extinguishment of debt | | | - | - 158,061 - |
| Other income (expense), net | 2,466 | (3,805) | (3,194) | (3,805) |
| Interest income | 63 | 1,660 | 258 | 2,447 |
| Interest expense | (22,934) | (21,960) | (49,944) | (69,787) |
| Loss before benefit from income taxes | (144,232) | (192,155) | (17,930) | (217,724) |
| Benefit from income taxes | (56,177) | (14,751) | (13,287) | (31,482) |
| Net loss | (88,055) | (177,404) | (4,643) | (186,242) |
| Less: net (loss) income attributable to noncontrolling interest | | (1,794) | (739) | (729) 120 |
| Net loss attributable to OSI Restaurant Partners, LLC | | | | |

\$(86,261) \$(176,665) \$(3,914) \$(186,362)

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

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OSI Restaurant Partners, LLC
CONSOLIDATED STATEMENTS OF (DEFICIT) EQUITY
(IN THOUSANDS, EXCEPT COMMON UNITS, UNAUDITED)

| | COMMON UNITS | | ADDITIONAL PAID-IN CAPITAL | | ACCUMULATED DEFICIT | | ACCUMULATED OTHER COMPREHENSIVE LOSS | | NONCONTROLLING INTEREST | TOTAL |
|--------------------------------------------|--------------|--------|----------------------------|----|---------------------|----|--------------------------------------|----|-------------------------|--------------|
| | UNITS | AMOUNT | | | | | | | | |
| Balance, December 31, 2008 | 100 | \$ - | \$ 651,043 | \$ | (788,940) | \$ | (24,857) | \$ | 26,707 | \$ (136,047) |
| Stock-based compensation | - | - | 13,866 | | - | | - | | - | 13,866 |
| Contribution from OSI HoldCo, Inc. | - | - | 47,000 | | - | | - | | - | 47,000 |
| Net loss | - | - | - | | (3,914) | | - | | (729) | (4,643) |
| Foreign currency translation adjustment | - | - | - | | - | | 2,178 | | - | 2,178 |
| Total comprehensive loss | - | - | - | | - | | - | | - | (2,465) |
| Distributions to noncontrolling interest | - | - | - | | - | | - | | (4,700) | (4,700) |
| Contributions from noncontrolling interest | - | - | - | | - | | - | | 340 | 340 |
| Balance, June 30, 2009 | 100 | \$ - | \$ 711,909 | \$ | (792,854) | \$ | (22,679) | \$ | 21,618 | \$ (82,006) |

| | COMMON UNITS | | ADDITIONAL PAID-IN CAPITAL | | ACCUMULATED DEFICIT | | ACCUMULATED OTHER COMPREHENSIVE LOSS | | NONCONTROLLING INTEREST | TOTAL |
|---------------------------------------|--------------|--------|----------------------------|----|---------------------|----|--------------------------------------|----|-------------------------|------------|
| | UNITS | AMOUNT | | | | | | | | |
| Balance, December 31, 2007 | 100 | \$ - | \$ 641,647 | \$ | (40,055) | \$ | (2,200) | \$ | 34,862 | \$ 634,254 |
| Adjustment for EITF No. 06-4 adoption | - | - | - | | (9,477) | | - | | - | (9,477) |
| Stock-based compensation | - | - | 3,542 | | - | | - | | - | 3,542 |
| Net (loss) income | - | - | - | | (186,362) | | - | | 120 | (186,242) |

| | | | | | | | | | | | | | |
|--------------------------------------------|-----|----|---|----|---------|---------|-----------|----|---------|----|--------|----|---------|
| Foreign currency translation adjustment | - | - | - | - | (6,771) | - | (6,771) | | | | | | |
| Total comprehensive loss | - | - | - | - | - | - | (193,013) | | | | | | |
| Distributions to noncontrolling interest | - | - | - | - | - | (4,955) | (4,955) | | | | | | |
| Contributions from noncontrolling interest | - | - | - | - | - | 445 | 445 | | | | | | |
| Balance, June 30, 2008 | 100 | \$ | - | \$ | 645,189 | \$ | (235,894) | \$ | (8,971) | \$ | 30,472 | \$ | 430,796 |

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

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OSI Restaurant Partners, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS, UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | |
|-----------------------------------------------------------------------------------------------------------|------------------------------|--------------|
| | 2009 | 2008 |
| Cash flows used in operating activities: | | |
| Net loss | \$ (4,643) | \$ (186,242) |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Depreciation and amortization | 89,851 | 94,041 |
| Amortization of deferred financing fees | 4,480 | 5,535 |
| Amortization of capitalized gift card sales commissions | 5,368 | - |
| Goodwill impairment | 11,078 | 161,589 |
| Provision for impaired assets and restaurant closings | 119,342 | 27,592 |
| Stock-based and other non-cash compensation expense | 28,796 | 18,241 |
| Income from operations of unconsolidated affiliates | (117) | (3,245) |
| Change in deferred income taxes | (23,232) | (38,243) |
| Loss (gain) on disposal of property, fixtures and equipment | 2,391 | (1,794) |
| Unrealized gain on derivative financial instruments | (1,086) | (1,611) |
| (Gain) loss on life insurance investments | (2,915) | 3,642 |
| Gain on restricted cash investments | (8) | (461) |
| Loss on contingent debt guarantee | 24,500 | - |
| Gain on extinguishment of debt | (158,061) | - |
| Gain on disposal of subsidiary | (2,001) | - |
| Allowance for receivables | 2,508 | - |
| Change in assets and liabilities: | | |
| Decrease (increase) in inventories | 21,397 | (2,532) |
| (Increase) decrease in other current assets | (13,370) | 2,208 |
| Decrease in other assets | 4,226 | 8,103 |
| Increase (decrease) in accrued interest payable | 4,903 | (1,490) |
| Decrease in accounts payable, sales taxes payable and accrued expenses | (70,421) | (54,339) |
| Increase in deferred rent | 10,264 | 16,001 |
| Decrease in unearned revenue | (82,255) | (69,815) |
| Decrease in income taxes payable | (59) | (1,461) |
| (Decrease) increase in other long-term liabilities | (11,031) | 1,450 |
| Net cash used in operating activities | (40,095) | (22,831) |
| Cash flows used in investing activities: | | |
| Purchases of Company-owned life insurance | (6,571) | (652) |
| Proceeds from sale of Company-owned life insurance | 9,657 | - |
| Acquisitions of liquor licenses | (19) | (1,702) |
| Capital expenditures | (32,641) | (60,232) |
| Proceeds from the sale of property, fixtures and equipment | 961 | 9,753 |
| Restricted cash received for capital expenditures, property taxes and certain deferred compensation plans | 17,150 | 94,445 |
| Restricted cash used to fund capital expenditures, property | | |

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| | | |
|-----------------------------------------------|-------------|-------------|
| taxes and certain deferred compensation plans | (15,869) | (92,171) |
| Payments from unconsolidated affiliates | - | 1,490 |
| Net cash used in investing activities | \$ (27,332) | \$ (49,069) |

(CONTINUED...)

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OSI Restaurant Partners, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS, UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | |
|------------------------------------------------------------------------------|------------------------------|-----------|
| | 2009 | 2008 |
| Cash flows used in financing activities: | | |
| Proceeds from issuance of long-term debt | \$ 700 | \$ 310 |
| Repayments of long-term debt | (23,851) | (8,790) |
| Extinguishment of senior notes | (75,967) | - |
| Deferred financing fees | (155) | - |
| Purchase of note related to guaranteed debt for consolidated affiliate | (33,283) | - |
| Contribution from OSI HoldCo, Inc. | 47,000 | - |
| Contributions from noncontrolling interest | 340 | 445 |
| Distributions to noncontrolling interest | (4,700) | (4,955) |
| Repayment of partner deposit and accrued buyout contributions | (2,463) | (10,308) |
| Receipt of partner deposit and accrued buyout contributions | 1,854 | 4,064 |
| Net cash used in financing activities | (90,525) | (19,234) |
| Effect of exchange rate changes on cash and cash equivalents | (1,137) | - |
| Net decrease in cash and cash equivalents | (159,089) | (91,134) |
| Cash and cash equivalents at the beginning of the period | 271,470 | 171,104 |
| Cash and cash equivalents at the end of the period | \$ 112,381 | \$ 79,970 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 47,200 | \$ 66,928 |
| Cash paid for income taxes, net of refunds | 7,359 | 235 |
| Supplemental disclosures of non-cash items: | | |
| Conversion of partner deposit and accrued buyout liability to notes | \$ 635 | \$ 2,955 |
| Acquisitions of property, fixtures and equipment through accounts payable | 2,255 | 2,881 |
| Litigation liability and insurance receivable | 20,300 | 10,791 |

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

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OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

Basis of Presentation

On June 14, 2007, OSI Restaurant Partners, Inc., by means of a merger and related transactions (the “Merger”), was acquired by Kangaroo Holdings, Inc. (the “Ultimate Parent” or “KHI”), which is controlled by an investor group comprised of funds advised by Bain Capital Partners, LLC (“Bain Capital”), Catterton Partners (“Catterton”), Chris T. Sullivan, Robert D. Basham and J. Timothy Gannon (the “Founders” of the Company) and certain members of management of the Company. In connection with the Merger, OSI Restaurant Partners, Inc. converted into a Delaware limited liability company named OSI Restaurant Partners, LLC (the “Company”).

The total purchase price for the Merger was approximately \$3.1 billion, and it was financed by borrowings under senior secured credit facilities and proceeds from the issuance of senior notes (see Note 10), proceeds from the sale-leaseback transaction with Private Restaurant Properties, LLC (“PRP”), an investment made by Bain Capital and Catterton, rollover equity from the Founders and investments made by certain members of management.

The accompanying 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 (consisting only of normal recurring entries) necessary for the fair presentation of the Company's results of operations, financial position and cash flows for the periods presented have been included. 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 financial statements and financial notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (the “2008 10-K”).

On January 1, 2009, the Company adopted SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – Including an Amendment of ARB No. 51” (“SFAS No. 160”). SFAS No. 160 modifies the presentation of noncontrolling interests in the consolidated balance sheet and the consolidated statement of operations. It requires noncontrolling interests to be clearly identified, labeled and included separately from the parent's equity (deficit) and consolidated net income (loss). The presentation and disclosure requirements of SFAS No. 160 have been applied retrospectively, and the Company's consolidated financial statements have been recharacterized accordingly. Other than the change in presentation of noncontrolling interests, the adoption of SFAS No. 160 did not have a material impact on the Company's consolidated financial statements.

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

Revisions

Certain prior year amounts shown in the accompanying Consolidated Statements of Cash Flows in the consolidated financial statements have been revised to correctly reflect the 2009 presentation and are deemed not to be material to

the Consolidated Statements of Cash Flows. These revisions had no effect on total assets, total liabilities, total deficit or net loss. The Company has revised its Consolidated Statements of Cash Flows to reflect "Purchases of Company-owned life insurance" separately as investing cash flows rather than combined in "Decrease in other assets" as operating cash flows. This change caused the line items "Decrease in other assets" and "Net cash used in investing activities" to increase by \$652,000 and the line item "Net cash used in operating activities" to decrease by \$652,000 for the six months ended June 30, 2008.

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OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation (continued)

Economic Outlook

The ongoing disruptions in the financial markets and adverse changes in the economy have created a challenging environment for the Company and for the restaurant industry, and these factors have limited and may continue to limit the Company's liquidity. During 2008, the Company incurred goodwill impairment charges of \$604,071,000, intangible asset impairment charges of \$46,420,000 and restaurant impairment charges of \$65,767,000, such that at December 31, 2008, the Company had a Total OSI Restaurant Partners, LLC unitholder's deficit of \$162,754,000. During the six months ended June 30, 2009, the Company incurred goodwill impairment charges of \$11,078,000 and intangible asset impairment charges of \$43,016,000, the majority of which were recorded during the second quarter of 2009, and restaurant impairment charges of \$76,326,000, such that at June 30, 2009, the Company had a Total OSI Restaurant Partners, LLC unitholder's deficit of \$103,624,000. In 2008, the Company experienced downgrades in its credit ratings, and it continues to experience declining restaurant sales and be subject to risk from: consumer confidence and spending patterns; the availability of credit presently arranged from revolving credit facilities; the future cost and availability of credit; interest rates; foreign currency exchange rates; and the liquidity or operations of the Company's third-party vendors and other service providers. Additionally, the Company's substantial leverage could adversely affect the ability to raise additional capital, to fund operations or to react to changes in the economy or industry. In response to these conditions, the Company accelerated existing initiatives and implemented new measures in 2008 to manage liquidity. The Company has continued these measures and implemented additional measures in 2009.

The Company has implemented various cost-saving initiatives, including food cost decreases via waste reduction and supply chain efficiency, labor efficiency initiatives and reductions to both capital expenditures and general and administrative expenses. The Company developed new menu items to appeal to value-conscious consumers and has used marketing campaigns to promote these items. Additionally, interest expense declined significantly for the six months ended June 30, 2009 as compared to the same period in 2008 due to (i) a significant decrease in outstanding senior notes as a result of the Company's open market purchases during the fourth quarter of 2008 and the completion of a cash tender offer during the first quarter of 2009 and (ii) an overall decline in the variable interest rates on the Company's senior secured term loan facility and other variable-rate debt (see Note 10).

If the Company's revenue and resulting cash flow decline to levels that cannot be offset by reductions in costs, efficiency programs and improvements in working capital management, the Company may not remain in compliance with the various financial and operating covenants in the instruments governing its senior secured credit facilities. If this occurs, the Company intends to take such actions available and determined to be appropriate at such time, which may include, but are not limited to, engaging in a permitted equity issuance, seeking a waiver from its lenders, amending the terms of such facilities, or refinancing all or a portion of the facilities under modified terms. There can be no assurance that the Company will be able to effect any such actions on terms that are acceptable or at all or that such actions will be successful in maintaining covenant compliance. The failure to meet debt service obligations or to remain in compliance with the financial covenants would constitute an event of default under those facilities and the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit.

The Company believes that its implemented initiatives will allow it to appropriately manage its liquidity to meet its debt service requirements, operating lease obligations, capital expenditures and working capital obligations for the next twelve months. The Company's anticipated revenues and cash flows have been estimated based on results of actions taken, its knowledge of the economic trends and the declines in sales at its restaurants combined with its attempts to mitigate the impact of those declines. However, further deterioration in excess of the Company's estimates could cause a material adverse impact on its business, liquidity and financial position.

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OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

2. Recently Issued Financial Accounting Standards

In September 2006, the Financial Accounting Standards Board (the “FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities or for nonfinancial assets and liabilities that are re-measured at least annually. In February 2008, the FASB issued FASB Staff Position (“FSP”) SFAS No. 157-2, “Effective Date of FASB Statement No. 157” to defer the effective date for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis until fiscal years beginning after November 15, 2008. Beginning January 1, 2009, the Company applied SFAS No. 157 to nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. The adoption of SFAS No. 157 did not have a material impact on the Company’s consolidated financial statements. See Note 4 for the Company’s disclosure requirements and accounting effect of the adoption of SFAS No. 157 on the Company’s consolidated financial statements.

In October 2008, the FASB issued FSP SFAS No. 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,” which clarifies the application of SFAS No. 157 in a market that is not active and provides guidance for determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective upon issuance, but it did not impact the Company’s consolidated financial statements. In April 2009, the FASB issued FSP SFAS No. 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (“FSP SFAS No. 157-4”). FSP SFAS No. 157-4 provides additional guidance on measuring fair value when there has been a significant decrease in the volume and level of activity for an asset or liability, and for identifying transactions that are not orderly. The guidance for FSP SFAS No. 157-4 also emphasizes that the objective of a fair value measurement will remain in accordance with SFAS No. 157’s provisions, even when there has been a significant decrease in market activity and regardless of the valuation technique used. The adoption of FSP SFAS No. 157-4 for the period ended June 30, 2009 did not have a material impact on the Company’s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised), “Business Combinations” (“SFAS No. 141R”), a revision of SFAS No. 141. SFAS No. 141R retains the fundamental requirements of SFAS No. 141, but revises certain elements including: the recognition and fair value measurement as of the acquisition date of assets acquired and liabilities assumed, the accounting for goodwill and financial statement disclosures. In April 2009, the FASB issued FSP SFAS No. 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies” (“FSP SFAS No. 141(R)-1”), which amends and clarifies the provisions in SFAS No. 141R relating to the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. The provisions of FSP SFAS No. 141(R)-1 are effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS No. 141R and FSP SFAS No. 141(R)-1 on January 1, 2009 did not have an effect on the Company’s consolidated financial statements, as the Company did not engage in any business combinations during the six months ended June 30, 2009. SFAS No. 141R and FSP SFAS No. 141(R)-1 will only impact the Company’s accounting should it acquire any businesses in the future.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"), an amendment of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133"). SFAS No. 161 is intended to enable investors to better understand how derivative instruments and hedging activities affect the entity's financial position, financial performance and cash flows by enhancing disclosures. SFAS No. 161 requires disclosure of fair values of derivative instruments and their gains and losses in a tabular format, disclosure of derivative features that are credit-risk-related to provide information about the entity's liquidity and cross-referencing within the footnotes to help financial statement users locate important information about derivative instruments. The adoption of SFAS No. 161 on January 1, 2009 did not have a material impact on the Company's consolidated financial statements. See Note 5 for the Company's disclosures required by the adoption of SFAS No. 161.

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OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

2. Recently Issued Financial Accounting Standards (continued)

In April 2008, the FASB issued FSP SFAS No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP SFAS No. 142-3"). FSP SFAS No. 142-3 amends the factors an entity should consider when developing renewal or extension assumptions for determining the useful life of recognized intangible assets under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP SFAS No. 142-3 is intended to improve the consistency between the useful life of recognized intangible assets under SFAS No. 142 and the period of expected cash flows used to measure the fair value of assets under SFAS No. 141R and other U.S. GAAP. The adoption of FSP SFAS No. 142-3 on January 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In November 2008, the FASB ratified the consensus on EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations" ("EITF No. 08-6"), which provides guidance on and clarification of accounting and impairment considerations involving equity method investments under SFAS No. 141R and SFAS No. 160. EITF No. 08-6 provides guidance on how the equity method investor should initially measure the equity method investment, account for impairment charges of the equity method investment and account for a share issuance by the investee. The adoption of EITF No. 08-6 on January 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP SFAS No. 107-1 and Accounting Principles Board ("APB") Opinion No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP SFAS No. 107-1 and APB Opinion No. 28-1"). FSP SFAS No. 107-1 and APB Opinion No. 28-1 amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" and APB Opinion No. 28, "Interim Financial Reporting," to require disclosures about fair value of financial instruments for interim reporting periods. The adoption of FSP SFAS No. 107-1 and APB Opinion No. 28-1 for the period ended June 30, 2009 did not have a material impact on the Company's consolidated financial statements. See Note 4 for the Company's disclosures required by the adoption of FSP SFAS No. 107-1 and APB Opinion No. 28-1.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 requires disclosure of the date through which subsequent events have been evaluated and whether such date represents the date the financial statements were issued or were available to be issued. The adoption of SFAS No. 165 for the period ended June 30, 2009 did not have a material impact on the Company's consolidated financial statements. See Note 17 for the Company's disclosures required by the adoption of SFAS No. 165.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46R" ("SFAS No. 167"). SFAS No. 167 amends revised FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R") to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. SFAS No. 167 requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the impact that SFAS No. 167 will have on its financial statements, as it has variable interest entities that may be affected by the adoption of SFAS No. 167 (see Note 16).

In July 2009, the FASB issued SFAS No. 168, "FASB Accounting Standards Codification" ("SFAS No. 168"), as the single source of authoritative nongovernmental U.S. GAAP. All existing accounting standards are superseded as described in SFAS No. 168. All other accounting literature not included in the codification is non-authoritative. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The Company does not expect SFAS No. 168 to materially affect its consolidated financial statements.

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OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

3. Stock-based Compensation Plans

The Company's Ultimate Parent has adopted the Kangaroo Holdings, Inc. 2007 Equity Incentive Plan (the "KHI Equity Plan") which permits the grant of stock options and restricted stock of KHI to Company management and other key employees. As KHI is a holding company with no significant operations of its own, equity transactions in KHI are pushed down to the Company and stock-based compensation expense is recorded by the Company, where applicable.

On June 14, 2009 and 2008, 2,978,437 and 941,512 shares of KHI restricted stock, respectively, issued to four of the Company's executive officers and other members of management vested either pursuant to the terms of the applicable restricted stock agreements or pursuant to amendments to restricted stock agreements referred to below. The shares of restricted stock that vested were originally "rolled over" from OSI Restaurant Partners, Inc. in conjunction with the Merger or issued under a separate agreement and were not issued under the KHI Equity Plan. In accordance with the terms of the applicable restricted stock agreements, KHI loaned an aggregate of approximately \$3,332,000 and \$2,067,000 to these individuals in June 2009 and July 2008, respectively, for their personal income tax obligations that resulted from vesting. The loans are full recourse and are also collateralized by the vested shares of KHI restricted stock. The Company recorded \$11,824,000 and \$13,549,000 of compensation expense in its Consolidated Statements of Operations for the three and six months ended June 30, 2009, respectively, and \$1,745,000 and \$3,489,000 for the three and six months ended June 30, 2008, respectively, for the vesting of KHI restricted stock.

During the second quarter of 2009, the restricted stock and stock option agreements between KHI and three of the Company's named executive officers were amended. The amendments to the restricted stock agreements accelerated the vesting of these officers' shares of KHI restricted stock such that they were fully vested on June 14, 2009. Of the total compensation expense recorded for the vesting of KHI restricted stock during the three months ended June 30, 2009, \$10,289,000 (2,036,925 shares) related to the accelerated vesting of the restricted stock held by these officers. The amendments to the stock option agreements eliminated a call provision that allowed KHI to repurchase all shares acquired by the executives upon exercise of stock options following termination of employment. In accordance with SFAS No. 123R, "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," as a result of the call provision, the Company historically has not recorded any compensation expense relating to these stock options. Since the call provision has been removed for these officers, the Company recorded \$317,000 of compensation expense for the vested stock options in its Consolidated Statements of Operations for the three and six months ended June 30, 2009 and will continue to record compensation expense in future periods through the applicable vesting dates. The amended stock option agreements also contain provisions that extend the stock option exercise period for each of these officers under certain circumstances. Further, the amendments add a provision that upon retirement, the number of options to be fully vested and exercisable shall be the greater of (i) the amount of options that are vested and exercisable as of the officer's separation date or (ii) 40%, 60% or 100% of the officer's options, depending on the officer.

Due to the retirement of one of these named executive officers on July 1, 2009, 275,530 stock options were forfeited subsequent to the end of the second quarter of 2009. Additionally, this officer's stock option agreement was further amended to require the officer to pay to the Company any future sales proceeds from the officer's sales of KHI stock acquired upon exercise of the options in excess of \$20.00 per share, less the taxes that must be paid by the officer on the proceeds in excess of \$20.00 per share.

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4. Fair Value Measurements

On January 1, 2008, the Company adopted SFAS No. 157 for financial assets and liabilities and nonfinancial assets and liabilities that are re-measured at least annually. On January 1, 2009, the Company applied SFAS No. 157 to nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). To measure fair value, the Company incorporates assumptions that market participants would use in pricing the asset or liability, and utilizes market data to the maximum extent possible. In accordance with SFAS No. 157, measurement of fair value incorporates nonperformance risk (i.e., the risk that an obligation will not be fulfilled). In measuring fair value, the Company reflects the impact of its own credit risk on its liabilities, as well as any collateral. The Company also considers the credit standing of its counterparties in measuring the fair value of its assets.

As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2 – Inputs, other than the quoted market prices included in Level 1, which are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market data available.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Fair Value Measurements on a Recurring Basis

The Company invests its excess cash in money market funds classified as Cash and cash equivalents or restricted cash in its Consolidated Balance Sheet at June 30, 2009 at a net value of 1:1 for each dollar invested. The fair value of the majority of the investment in the money market fund is determined by using quotes for similar assets in an active market. As a result, the Company has determined that the majority of the inputs used to value this investment fall within Level 2 of the fair value hierarchy. As of June 30, 2009, \$30,968,000 of the Company's money market investments were guaranteed by the federal government under the Treasury Temporary Guarantee Program for Money Market Funds. This program expires on September 18, 2009.

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4. Fair Value Measurements (continued)

Fair Value Measurements on a Recurring Basis (continued)

The Company is highly leveraged and exposed to interest rate risk to the extent of its variable-rate debt. In September 2007, the Company entered into an interest rate collar with a notional amount of \$1,000,000,000 as a method to limit the variability of its variable-rate term loan. The valuation of the Company's interest rate collar is based on a discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflects the contractual terms of the collar, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

Although the Company has determined that the majority of the inputs used to value its interest rate collar fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with this derivative utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2009, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate collar derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of this derivative. As a result, the Company has determined that its interest rate collar derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The Company's restaurants are dependent upon energy to operate and are affected by changes in energy prices, including natural gas. The Company uses derivative instruments to mitigate some of its overall exposure to material increases in natural gas prices. The valuation of the Company's natural gas derivatives is based on quoted exchange prices and is classified in Level 2 of the fair value hierarchy.

The Company's third party distributor charges the Company for the diesel fuel used to deliver inventory to the Company's restaurants. The Company enters into forward contracts to procure certain amounts of this diesel fuel at set prices in order to mitigate the Company's exposure to unpredictable fuel prices. The effects of this derivative instrument were immaterial to the Company's financial statements for all periods presented and have been excluded from the tables within this footnote.

The following table presents the Company's money market funds and derivative financial instruments measured at fair value on a recurring basis as of June 30, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

| | TOTAL JUNE 30, 2009 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
|----------------------------------|---------------------------|---------|-----------|---------|
| Assets: | | | | |
| Money market funds | \$ 31,939 | \$ - | \$ 31,939 | \$ - |
| Liabilities: | | | | |
| Derivative financial instruments | \$ 24,340 | \$ - | \$ 24,340 | \$ - |

A SFAS No. 157 credit valuation adjustment of \$1,652,000 decreased the liability recorded for the interest rate collar as of June 30, 2009.

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4. Fair Value Measurements (continued)

Fair Value Measurements on a Nonrecurring Basis

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, 2009 aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

| | THREE MONTHS ENDED JUNE 30, 2009 | | | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL LOSSES |
|------------------------------------|-------------------------------------------|---------|----|---------|---------|---------|-----------------|
| Long-lived assets held and used | \$ | 3,912 | \$ | - | \$ | 3,912 | \$ 69,716 |
| Goodwill | | 368,628 | | - | - | 368,628 | 11,078 |
| Indefinite-lived intangible assets | | 362,000 | | - | - | 362,000 | 36,000 |

| | SIX MONTHS ENDED JUNE 30, 2009 | | | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL LOSSES |
|------------------------------------|-----------------------------------------|---------|----|---------|---------|---------|-----------------|
| Long-lived assets held and used | \$ | 4,623 | \$ | - | \$ | 4,623 | \$ 74,846 |
| Goodwill | | 368,628 | | - | - | 368,628 | 11,078 |
| Indefinite-lived intangible assets | | 362,000 | | - | - | 362,000 | 36,000 |

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), the Company recorded \$69,716,000 and \$74,846,000 of impairment charges as a result of the fair value measurement on a nonrecurring basis of its long-lived assets held and used during the three and six months ended June 30, 2009, respectively. Due to the pending sale of its Cheeseburger in Paradise concept, the Company recorded a \$45,962,000 impairment charge (included in the totals above) during the second quarter of 2009 in order to reduce the carrying value of this concept's long-lived assets to their estimated fair market value (see Note 7). The Company used a weighted-average probability analysis and estimates of expected future cash flows to determine the fair value of this concept at June 30, 2009. The Company used a discounted cash flow model to estimate the fair value of the remaining long-lived assets included in the table above at June 30, 2009. 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.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), and as a result of the Company's annual impairment test in the second quarter, the Company recorded goodwill impairment charges of \$11,078,000 and indefinite-lived intangible asset impairment charges of \$36,000,000 during the three and six months ended June 30, 2009. The Company tests both its goodwill and its indefinite-lived intangible assets, which are trade names, for impairment by utilizing discounted cash flow models to estimate their fair values. These cash flow models involve several assumptions. Changes in the Company's assumptions could materially impact its fair value estimates. Assumptions critical to its fair value estimates are: (i) weighted-average cost of capital rates used to derive the present value factors used in determining the fair value of the reporting units and trade names; (ii) projected annual revenue growth rates used in the reporting unit and trade name models; and (iii) projected long-term growth rates used in the derivation of terminal year values. Other assumptions include estimates of projected capital expenditures and working capital requirements. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period-specific facts and circumstances. As a result, the Company has determined that the majority of the inputs used to value its goodwill and indefinite-lived intangible assets are unobservable inputs that fall within Level 3 of the fair value hierarchy.

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4. Fair Value Measurements (continued)

Fair Value Measurements on a Nonrecurring Basis (continued)

The following table presents the range of assumptions the Company used to derive its fair value estimates among its reporting units during the impairment test conducted in the second quarter of 2009.

| | ASSUMPTIONS | |
|----------------------------------|----------------|---------------|
| | GOODWILL | TRADE NAMES |
| Weighted-average cost of capital | 12.5% - 15.0% | 13.0% - 14.0% |
| Long-term growth rates | 3.0% | 3.0% |
| Annual revenue growth rates | (6.9)% - 12.0% | (3.9)% - 5.0% |

FSP SFAS No. 107-1 and APB Opinion No. 28-1

During the second quarter of 2009, the Company adopted FSP SFAS No. 107-1 and APB Opinion No. 28-1 which requires disclosures about the fair value of financial instruments for interim reporting periods.

The Company's non-derivative financial instruments at June 30, 2009 and December 31, 2008 consist of cash equivalents, accounts receivable, accounts payable and current and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying amounts reported in the Consolidated Balance Sheets due to their short duration. The carrying amount of the Company's other notes payable, sale-leaseback obligations and guaranteed debt approximates fair value. The fair value of its senior secured credit facilities and senior notes is determined based on quoted market prices. The following table includes the carrying value and fair value of the Company's senior secured credit facilities and senior notes at June 30, 2009 and December 31, 2008 (in thousands):

| | JUNE 30, 2009 | | DECEMBER 31, 2008 | |
|----------------------------------------------------------|-------------------|---------------|----------------------|---------------|
| | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| Senior secured term loan facility | \$ 1,178,450 | \$ 854,376 | \$ 1,185,000 | \$ 533,250 |
| Senior secured working capital revolving credit facility | 50,000 | 36,250 | 50,000 | 22,500 |
| Senior secured pre-funded revolving credit facility | - | - | 12,000 | 5,400 |
| Senior notes | 248,075 | 173,653 | 488,220 | 91,541 |

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5. Derivative Instruments and Hedging Activities

Effective January 1, 2009, the Company adopted SFAS No. 161 which requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative instruments.

The Company is exposed to market risk from changes in interest rates on debt, changes in commodity prices and changes in foreign currency exchange rates.

The Company's exposure to interest rate fluctuations includes its borrowings under its senior secured credit facilities that bear interest at floating rates based on the Eurocurrency Rate or the Base Rate, in each case plus an applicable borrowing margin (see Note 10). The Company manages its interest rate risk by offsetting some of its variable-rate debt with fixed-rate debt, through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not enter into financial instruments for trading or speculative purposes.

Many of the ingredients used in the products sold in the Company's restaurants are commodities that are subject to unpredictable price volatility. Although the Company attempts to minimize the effect of price volatility by negotiating fixed price contracts for the supply of key ingredients, there are no established fixed price markets for certain commodities such as produce and wild fish, and the Company is 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 Company attempts to offset the impact of fluctuating commodity prices with other strategic purchasing initiatives.

The Company's restaurants are dependent upon energy to operate and are impacted by changes in energy prices, including natural gas. The Company utilizes derivative instruments to mitigate some of its overall exposure to material increases in natural gas prices.

The Company's third party distributor charges the Company for the diesel fuel used to deliver inventory to the Company's restaurants. The Company enters into forward contracts to procure certain amounts of this diesel fuel at set prices in order to mitigate the Company's exposure to unpredictable fuel prices. The effects of this derivative instrument were immaterial to the Company's financial statements for all periods presented and have been excluded from the tables within this footnote.

The Company's exposure to foreign currency exchange fluctuations relates primarily to its direct investment in restaurants in South Korea, Japan, the Philippines and Brazil and to our royalties from international franchisees. The Company does not use financial instruments to hedge foreign currency exchange rate changes.

In addition to the market risks identified above, the Company is subject to business risk as its beef supply is highly dependent upon a limited number of vendors. In 2008, the Company purchased approximately 90% of its beef raw materials from four beef suppliers who represented 87% of the total beef marketplace in the United States. In 2009, the Company contracted more than 90% of its beef raw materials from two beef suppliers. These two beef suppliers represent approximately 47% of the total beef marketplace in the United States.

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5. Derivative Instruments and Hedging Activities (continued)

Non-designated Hedges of Interest Rate Risk and Commodity Price Risk

The Company's objectives in using an interest rate derivative are to add stability to interest expense and to manage its exposure to interest rate movements. For the Company's variable-rate debt, interest rate changes generally impact its earnings and cash flows, assuming other factors are held constant. The Company uses an interest rate collar as part of its interest rate risk management strategy.

In September 2007, the Company entered into an interest rate collar with a notional amount of \$1,000,000,000 as a method to limit the variability of its \$1,310,000,000 variable-rate term loan. The collar consists of a LIBOR cap of 5.75% and a LIBOR floor of 2.99%. The collar's first variable-rate set date was December 31, 2007, and the option pairs expire at the end of each calendar quarter beginning March 31, 2008 and ending September 30, 2010. The quarterly expiration dates correspond to the scheduled amortization payments of the Company's term loan.

As of June 30, 2009, the Company's interest rate collar was a non-designated hedge of the Company's exposure to interest rate risk. The Company records marked-to-market changes in the fair value of the derivative instrument in earnings in the period of change in accordance with SFAS No. 133.

The Company's objective in using natural gas derivatives is to mitigate some of its overall exposure to material increases in natural gas prices. As of June 30, 2009, the Company had a notional volume of 155,400 MMBtus in unrealized natural gas swaps. These natural gas derivatives were a non-designated hedge, and the Company records marked-to-market changes in the fair value of these derivative instruments in earnings in the period of change in accordance with SFAS No. 133.

The following table presents the fair value of the Company's derivative financial instruments and their classification in its Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008 (in thousands):

| FAIR VALUES OF DERIVATIVE INSTRUMENTS | | | | | | | |
|----------------------------------------------------------------------|----------------------|-------------------|----------------------|-----------------------|------------------|-------------------|------------------|
| ASSET DERIVATIVES | | | | LIABILITY DERIVATIVES | | | |
| JUNE 30, 2009 | | DECEMBER 31, 2008 | | JUNE 30, 2009 | | DECEMBER 31, 2008 | |
| BALANCE | | BALANCE | | BALANCE | | BALANCE | |
| SHEET | FAIR | SHEET | FAIR | SHEET | FAIR | SHEET | FAIR |
| LOCATION | VALUE | LOCATION | VALUE | LOCATION | VALUE | LOCATION | VALUE |
| Derivatives not designated as hedging instruments under SFAS No. 133 | | | | | | | |
| Interest rate collar | Other current assets | \$ - | Other current assets | \$ - | Accrued expenses | \$ 23,749 | Accrued expenses |
| | | - | | - | | 591 | |
| | | | | | | | 1,172 |

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| Natural gas swaps | Other current assets | Other current assets | Accrued expenses | Accrued expenses |
|-------------------------------------------------------------------------------------------|-------------------------|-------------------------|---------------------|---------------------|
| Total derivatives not designated as hedging instruments under SFAS No. 133 | \$ - | \$ - | \$ 24,340 | \$ 25,457 |

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5. Derivative Instruments and Hedging Activities (continued)

The following table presents the location and effects of the Company's derivative financial instruments on its Consolidated Statements of Operations for the three and six months ended June 30, 2009 and 2008 (in thousands):

| DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS UNDER SFAS NO. 133 | LOCATION OF (LOSS) OR GAIN RECOGNIZED IN INCOME ON DERIVATIVE | AMOUNT OF (LOSS) OR GAIN RECOGNIZED IN INCOME ON DERIVATIVE | | | |
|----------------------------------------------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------------------|------------------|------------------|------------------|
| | | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
| | | JUNE 30, 2009 | JUNE 30, 2008 | JUNE 30, 2009 | JUNE 30, 2008 |
| Interest rate collar | Interest expense | \$ (4,648) | \$ 11,713 | \$ (7,802) | \$ 857 |
| Natural gas swaps | Other restaurant operating | (65) | 821 | (651) | 921 |
| Total | | \$ (4,713) | \$ 12,534 | \$ (8,453) | \$ 1,778 |

Credit-risk-related Contingent Features

The Company's agreement with its derivative counterparty for the interest rate collar contains a provision in which the Company could be declared in default on its derivative obligation if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

As of June 30, 2009 and December 31, 2008, the fair value of the interest rate collar derivative related to this agreement, including accrued interest but excluding any adjustment for nonperformance risk, was in a net liability position of \$25,467,000 and \$28,857,000, respectively. As of June 30, 2009 and December 31, 2008, the Company was not required to post and did not post any collateral related to this agreement. If the Company breached the agreement's provision at June 30, 2009, it would be required to settle its obligation under the agreement at its termination value of \$25,467,000.

6. Other Current Assets

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

| | JUNE 30, 2009 | DECEMBER 31, 2008 |
|----------------------------------------|------------------|----------------------|
| Prepaid expenses | \$ 25,916 | \$ 14,664 |
| Accounts receivable | 25,167 | 25,296 |
| Accounts receivable - franchisees, net | 4,868 | 4,476 |
| Insurance receivable | 20,300 | - |
| Other current assets | 19,974 | 17,387 |
| | \$ 96,225 | \$ 61,823 |

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7. Property, Fixtures and Equipment, Net

| | JUNE 30, 2009 | DECEMBER 31, 2008 |
|-------------------------------------|------------------|----------------------|
| Land | \$ 12,012 | \$ 11,957 |
| Buildings and building improvements | 392,781 | 427,348 |
| Furniture and fixtures | 192,440 | 192,331 |
| Equipment | 295,729 | 296,736 |
| Leasehold improvements | 372,514 | 383,313 |
| Construction in progress | 11,364 | 19,036 |
| Less: accumulated depreciation | (335,408) | (257,222) |
| | \$ 941,432 | \$ 1,073,499 |

In May 2009, the Company executed a letter of intent to sell its Cheeseburger in Paradise concept for \$2,000,000 to an entity to be formed and controlled by the president of the concept. Based on the proposed terms as outlined in the letter of intent, including the Company's financing of the proposed transaction, the Company determined that its Cheeseburger in Paradise concept does not meet the assets held for sale criteria defined in SFAS No. 144. In addition, the Company recorded a \$45,962,000 impairment charge during the second quarter of 2009 in order to reduce the carrying value of this concept's assets to their estimated fair market value. This impairment included \$39,169,000 of charges to fixed assets, \$5,861,000 of charges to intangible assets and \$932,000 of charges to other assets.

During the three and six months ended June 30, 2009, the Company recorded impairment charges and restaurant closing expense (including the Cheeseburger in Paradise fixed asset impairment charges described above) of \$68,604,000 and \$75,144,000, respectively, and during the three and six months ended June 30, 2008, recorded total impairment charges and restaurant closing expense of \$17,429,000 and \$21,093,000, respectively, for certain of the Company's restaurants in the line item "Provision for impaired assets and restaurant closings" in its Consolidated Statement of Operations (see Note 4). These fixed asset impairment charges primarily occurred as a result of the carrying value of a restaurant's assets exceeding its estimated fair market value, generally due to anticipated closures or declining future cash flows from lower projected future sales on existing locations.

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8. Goodwill and Intangible Assets, Net

The change in the carrying amount of goodwill for the six months ended June 30, 2009 is as follows (in thousands):

| | |
|-------------------|------------|
| December 31, 2008 | \$ 459,800 |
| Impairment loss | (11,078) |
| June 30, 2009 | \$ 448,722 |

During the second quarter of 2009, the Company performed its annual assessment for impairment of goodwill and other indefinite-lived intangible assets. The Company's review of the recoverability of goodwill was based primarily upon an analysis of the discounted cash flows of the related reporting units as compared to the carrying values (see Note 4). The Company also used the discounted cash flow method to determine the fair value of its intangible assets.

Due to poor overall economic conditions, declining sales at Company-owned restaurants, reductions in the Company's projected results for future periods and a challenging environment for the restaurant industry, the Company recorded an aggregate goodwill impairment loss of \$11,078,000 for the domestic Outback Steakhouse, Bonefish Grill and Fleming's Prime Steakhouse and Wine Bar concepts and impairment charges of \$36,000,000 for the domestic Outback Steakhouse and Carrabba's Italian Grill trade names during the three and six months ended June 30, 2009. The Company also recorded impairment charges of \$6,670,000 and \$7,016,000 for other intangible assets for the three and six months ended June 30, 2009, respectively. The Company recorded goodwill and intangible asset impairment charges of \$161,589,000 and \$6,499,000, respectively, during the three and six months ended June 30, 2008.

At June 30, 2009, remaining goodwill by reporting unit is as follows (in thousands):

| | JUNE 30, 2009 |
|------------------------------------|---------------|
| Outback Steakhouse (domestic) | \$ 319,108 |
| Outback Steakhouse (international) | 59,740 |
| Carrabba's Italian Grill | 20,354 |
| Bonefish Grill | 49,520 |
| | \$ 448,722 |

9. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

| | JUNE 30, 2009 | DECEMBER 31, 2008 |
|----------------------------------------|------------------|----------------------|
| Accrued payroll and other compensation | \$ 73,719 | \$ 66,057 |
| Accrued insurance | 43,796 | 19,480 |
| Other accrued expenses | 81,655 | 82,558 |
| | \$ 199,170 | \$ 168,095 |

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10. Long-term Debt

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

| | JUNE 30, 2009 | DECEMBER 31, 2008 |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| Senior secured term loan facility, interest rate of 2.63% at June 30, 2009 and 2.81% at December 31, 2008 | \$ 1,178,450 | \$ 1,185,000 |
| Senior secured working capital revolving credit facility, interest rate of 2.63% at June 30, 2009 and 2.81% at December 31, 2008 | 50,000 | 50,000 |
| Senior secured pre-funded revolving credit facility, interest rate of 2.81% at December 31, 2008 | - | 12,000 |
| Senior notes, interest rate of 10.00% at June 30, 2009 and December 31, 2008 | 248,075 | 488,220 |
| Other notes payable, uncollateralized, interest rates ranging from 1.21% to 7.30% at June 30, 2009 and 2.28% to 7.30% at December 31, 2008 | 8,021 | 11,987 |
| Sale-leaseback obligations | 4,925 | 4,925 |
| Guaranteed debt of consolidated joint venture partner | 24,500 | - |
| Guaranteed debt of consolidated affiliate | - | 33,283 |
| | 1,513,971 | 1,785,415 |
| Less: current portion of long-term debt of OSI Restaurant Partners, LLC | (79,852) | (30,953) |
| Less: guaranteed debt | (24,500) | (33,283) |
| Long-term debt of OSI Restaurant Partners, LLC | \$ 1,409,619 | \$ 1,721,179 |

On June 14, 2007, in connection with the Merger, the Company 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 \$1,560,000,000, consisting of a \$1,310,000,000 term loan facility, a \$150,000,000 working capital revolving credit facility, including letter of credit and swing-line loan sub-facilities, and a \$100,000,000 pre-funded revolving credit facility that provides financing for capital expenditures only.

The senior secured term loan facility matures June 14, 2014, and its proceeds were used to finance the Merger. At each rate adjustment, the Company 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 ½ of 1% ("Base Rate") (3.25% at June 30, 2009 and December 31, 2008). The Eurocurrency Rate option is the 30, 60, 90 or 180-day Eurocurrency Rate ("Eurocurrency Rate") (ranging from 0.31% to 1.11% and from 0.44% to 1.75% at June 30, 2009 and December 31, 2008, 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 Company's Moody's Applicable Corporate Rating then most recently published is B1 or higher (the rating was Caa1 at June 30, 2009 and December 31, 2008).

The Company will be 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 \$50,000,000 for the fiscal year ended December 31, 2007 or \$75,000,000 for each subsequent 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.

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10. Long-term Debt (continued)

Additionally, the Company will, on an annual basis, be required to (1) first, repay outstanding loans under the pre-funded revolving credit facility and (2) second, fund a capital expenditure account established on the closing date of the Merger to the extent amounts on deposit are less than \$100,000,000, in both cases with 100% of the Company's "annual true cash flow," as defined in the credit agreement. In accordance with these requirements, in April 2009, the Company repaid its pre-funded revolving credit facility outstanding loan balance.

The Company'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 the closing of the Merger. These payments will be reduced by the application of any prepayments, and any remaining balance will be paid at maturity. The outstanding balance on the term loans was \$1,178,450,000 and \$1,185,000,000 at June 30, 2009 and December 31, 2008, respectively. The Company has classified \$75,000,000 of its term loans as current at June 30, 2009 due to its prepayment requirements.

Proceeds of loans and letters of credit under the \$150,000,000 working capital revolving credit facility 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 matures June 14, 2013 and 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. At June 30, 2009 and December 31, 2008, the outstanding balance was \$50,000,000. In addition to outstanding borrowings at June 30, 2009 and December 31, 2008, \$70,770,000 and \$63,300,000, respectively, of the credit facility was not available for borrowing as (i) \$37,540,000 of the credit facility was committed for the issuance of letters of credit as required by insurance companies that underwrite the Company's workers' compensation insurance and also, where required, for construction of new restaurants, (ii) \$24,500,000 of the credit facility was committed for the issuance of a letter of credit for the Company's guarantee of an uncollateralized line of credit for its joint venture partner, RY-8, Inc. ("RY-8"), in the development of Roy's restaurants (iii) \$6,000,000 of the credit facility at June 30, 2009 was committed for the issuance of a letter of credit to the insurance company that underwrites our bonds for liquor licenses, utilities, liens and construction and (iv) \$2,730,000 and \$1,260,000, respectively, of the credit facility was committed for the issuance of other letters of credit. As of June 30, 2009, the Company's total outstanding letters of credit were \$4,230,000 below the maximum of \$75,000,000 of letters of credit permitted to be issued under its working capital revolving credit facility. Fees for the letters of credit range from 2.00% to 2.50% and the commitment fees for unused working capital revolving credit commitments range from 0.38% to 0.50%.

Proceeds of loans under the \$100,000,000 pre-funded revolving credit facility are available to provide financing for capital expenditures once the Company fully utilizes \$100,000,000 of restricted cash that was funded on the closing date of the Merger. At June 30, 2009 and December 31, 2008, the Company had fully utilized all of its restricted cash for capital expenditures, and at December 31, 2008, it had borrowed \$12,000,000 from its pre-funded revolving credit facility. This borrowing was recorded in "Current portion of long-term debt" in the Company's Consolidated Balance Sheet at December 31, 2008, as the Company was required to repay this outstanding loan in April 2009 using its "annual true cash flow," as defined in the credit agreement. At June 30, 2009, no draws were outstanding on the pre-funded revolving credit facility. This facility matures June 14, 2013. At each rate adjustment, the Company has the option to select the Base Rate plus 125 basis points or a Eurocurrency Rate plus 225 basis points for the borrowings under this facility. In either case, the interest rate is reduced by 25 basis points if the Company's Moody's Applicable Corporate Rating then most recently published is B1 or higher. Subsequent to the end of the second

quarter of 2009, the Company drew \$7,700,000 from its pre-funded revolving credit facility.

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OSI Restaurant Partners, LLC
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10. Long-term Debt (continued)

The Company's senior secured credit facilities require it to comply with certain financial covenants, including a quarterly Total Leverage Ratio ("TLR") test and an annual Minimum Free Cash Flow ("MFCF") test. The TLR is the ratio of Consolidated Total Debt to Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization as defined in the senior secured credit facilities) and may not exceed 6.00 to 1.00. On an annual basis, if the Rent Adjusted Leverage Ratio is greater than or equal to 5.25 to 1.00, the Company's MFCF cannot be less than \$75,000,000. MFCF is calculated as Consolidated EBITDA plus decreases in Consolidated Working Capital less Consolidated Interest Expense, Capital Expenditures (except for that funded by the Company's senior secured pre-funded revolving credit facility), increases in Consolidated Working Capital and cash paid for taxes. (All of the above capitalized terms are as defined in the credit agreement). The Company's senior secured credit facilities agreement also includes negative covenants that, subject to significant exceptions, limit its ability and the ability of its restricted subsidiaries to: incur liens, make investments and loans, make capital expenditures (as described below), incur indebtedness or guarantees, engage in mergers, acquisitions and assets sales, declare dividends, make payments or redeem or repurchase equity interests, alter its business, engage in certain transactions with affiliates, enter into agreements limiting subsidiary distributions and prepay, redeem or purchase certain indebtedness. The Company's senior secured credit facilities contain customary representations and warranties, affirmative covenants and events of default.

The Company's capital expenditures are limited by the credit agreement. The annual capital expenditure limits range from \$200,000,000 to \$250,000,000 with various carry-forward and carry-back allowances. The Company's annual expenditure limits may increase after an acquisition. However, if (i) the Rent Adjusted Leverage Ratio at the end of a fiscal year is greater than 5.25 to 1.00, (ii) the "annual true cash flows" are insufficient to repay fully our pre-funded revolving credit facility and (iii) the capital expenditure account has a zero balance, its capital expenditures will be limited to \$100,000,000 for the succeeding fiscal year. This limitation will remain until there are no pre-funded revolving credit facility loans outstanding and the amount on deposit in the capital expenditures account is greater than zero or until the Rent Adjusted Leverage Ratio is less than 5.25 to 1.00.

The obligations under the Company's senior secured credit facilities are guaranteed by each of its current and future domestic 100% owned restricted subsidiaries in its Outback Steakhouse, Carrabba's Italian Grill and Cheeseburger in Paradise concepts and certain non-restaurant subsidiaries (the "Guarantors") and by OSI HoldCo, Inc. ("OSI HoldCo"), the Company's direct owner and an indirect, wholly-owned subsidiary of the Company's Ultimate Parent. Subject to the conditions described below, the obligations are secured by a perfected security interest in substantially all of the Company's assets and assets of the Guarantors and OSI HoldCo, in each case, now owned or later acquired, including a pledge of all of the Company's capital stock, the capital stock of substantially all of the Company's domestic wholly-owned subsidiaries and 65% of the capital stock of certain of the Company's material foreign subsidiaries that are directly owned by the Company, OSI HoldCo, or a Guarantor. Also, the Company is required to provide additional guarantees of the senior secured credit facilities in the future from other domestic wholly-owned restricted subsidiaries if the consolidated EBITDA (earnings before interest, taxes, depreciation and amortization as defined in the senior secured credit facilities) attributable to the Company's non-guarantor domestic wholly-owned restricted subsidiaries as a group exceeds 10% of the Company's consolidated EBITDA as determined on a Company-wide basis. If this occurs, guarantees would be required from additional domestic wholly-owned restricted subsidiaries in such number that would be sufficient to lower the aggregate consolidated EBITDA of the non-guarantor domestic wholly-owned restricted subsidiaries as a group to an amount not in excess of 10% of the Company-wide consolidated

EBITDA.

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OSI Restaurant Partners, LLC
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10. Long-term Debt (continued)

On June 14, 2007, the Company issued senior notes in an original aggregate principal amount of \$550,000,000 under an indenture among the Company, as issuer, OSI Co-Issuer, Inc., as co-issuer ("Co-Issuer"), Wells Fargo Bank, National Association, as trustee, and the Guarantors. Proceeds from the issuance of the senior notes were used to finance the Merger, and the senior notes mature on June 15, 2015. Interest is payable semiannually in arrears, at 10% per annum, in cash on each June 15 and December 15, commencing on December 15, 2007. Interest payments to the holders of record of the senior notes occur on the immediately preceding June 1 and December 1. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months.

The senior notes are guaranteed on a senior unsecured basis by each restricted subsidiary that guarantees the senior secured credit facility (see Note 13). The senior notes are general, unsecured senior obligations of the Company, Co-Issuer and the Guarantors and are equal in right of payment to all existing and future senior indebtedness, including the senior secured credit facility. The senior notes are effectively subordinated to all of the Company's, Co-Issuer's and the Guarantors' secured indebtedness, including the senior secured credit facility, to the extent of the value of the assets securing such indebtedness. The senior notes are senior in right of payment to all of the Company's, Co-Issuer's and the Guarantors' existing and future subordinated indebtedness.

The indenture governing the senior notes limits, under certain circumstances, the Company's ability and the ability of Co-Issuer and the Company's restricted subsidiaries to: incur liens, make investments and loans, incur indebtedness or guarantees, engage in mergers, acquisitions and assets sales, declare dividends, make payments or redeem or repurchase equity interests, alter its business, engage in certain transactions with affiliates, enter into agreements limiting subsidiary distributions and prepay, redeem or purchase certain indebtedness.

In accordance with the terms of the senior notes and the senior secured credit facility, the Company's restricted subsidiaries are also subject to restrictive covenants. Under certain circumstances, the Company is permitted to designate subsidiaries as unrestricted subsidiaries, which would cause them not to be subject to the restrictive covenants of the indenture or the credit agreement. As of December 31, 2008, all of the Company's consolidated subsidiaries were restricted subsidiaries. In April 2009, one of the Company's restricted subsidiaries that operated six restaurants in Canada was designated as an unrestricted subsidiary.

Additional senior notes may be issued under the indenture from time to time, subject to certain limitations. Initial and additional senior notes issued under the indenture will be treated as a single class for all purposes under the indenture, including waivers, amendments, redemptions and offers to purchase.

The Company filed a Registration Statement on Form S-4 (which became effective June 2, 2008) for an exchange offer relating to its senior notes. As a result, the Company is required to file reports under Section 15(d) of the Securities Exchange Act of 1934, as amended.

The Company may redeem some or all of the senior notes on and after June 15, 2011 at the redemption prices (expressed as percentages of principal amount of the senior notes to be redeemed) listed below, plus accrued and unpaid interest thereon and additional interest, if any, to the applicable redemption date.

| Year | Percentage |
|------|------------|
|------|------------|

| | |
|---------------------|--------|
| 2011 | 105.0% |
| 2012 | 102.5% |
| 2013 and thereafter | 100.0% |

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OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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10. Long-term Debt (continued)

The Company also may redeem all or part of the senior notes at any time prior to June 15, 2011, at a redemption price equal to 100% of the principal amount of the senior notes redeemed plus the applicable premium as of, and accrued and unpaid interest and additional interest, if any, to the date of redemption.

Upon a change in control as defined in the indenture, the Company would be required to make an offer to purchase all of the senior notes at a price in cash equal to 101% of the aggregate principal amount thereof plus accrued interest and unpaid interest and additional interest, if any, to the date of purchase.

Between November 18, 2008 and November 21, 2008, the Company purchased on the open market and extinguished \$61,780,000 in aggregate principal amount of its senior notes for \$11,711,000, representing an average of 19.0% of face value, and \$2,729,000 of accrued interest.

On February 18, 2009, the Company commenced a cash tender offer to purchase the maximum aggregate principal amount of its senior notes that it could purchase for \$73,000,000, excluding accrued interest. The tender offer expired on March 20, 2009, and the Company accepted for purchase \$240,145,000 in principal amount of its senior notes. The Company paid \$72,998,000 for the senior notes accepted for purchase and \$6,671,000 of accrued interest. The Company recorded a gain from the extinguishment of its debt of \$158,061,000 in the line item "Gain on extinguishment of debt" in its Consolidated Statement of Operations for the six months ended June 30, 2009. The gain was reduced by \$6,117,000 for the pro rata portion of unamortized deferred financing fees that related to the extinguished senior notes and by \$2,969,000 of fees related to the tender offer. The principal balance of senior notes outstanding at June 30, 2009 and December 31, 2008 was \$248,075,000 and \$488,220,000, respectively. The purpose of the tender offer was to reduce the principal amount of debt outstanding, reduce the related debt service obligations and improve the Company's financial covenant position under its senior secured credit facilities.

The Company funded the tender offer with (i) cash on hand and (ii) proceeds from a contribution (the "Contribution") of \$47,000,000 from the Company's direct owner, OSI HoldCo. The Contribution was funded through distributions to OSI HoldCo by one of its subsidiaries that owns (indirectly through subsidiaries) approximately 340 restaurant properties that are sub-leased to the Company.

In June 2009, the Company renewed a one-year line of credit with a reduced maximum borrowing amount of 10,000,000,000 Korean won, or \$7,784,000 at June 30, 2009 (12,000,000,000 Korean won, or \$9,543,000 at December 31, 2008). The line bears interest at 2.51% and 1.50% over the Korean Stock Exchange three-month certificate of deposit rate (4.92% and 6.94% at June 30, 2009 and December 31, 2008, respectively). The line matures June 14, 2010. There were no draws outstanding on this line of credit as of June 30, 2009 and December 31, 2008.

In June 2009, the Company renewed a one-year overdraft line of credit with a maximum borrowing amount of 5,000,000,000 Korean won (\$3,892,000 and \$3,976,000 at June 30, 2009 and December 31, 2008, respectively). The line bears interest at 2.75% and 1.15% over the Korean Stock Exchange three-month certificate of deposit rate (5.16% and 6.59% at June 30, 2009 and December 31, 2008, respectively) and matures June 14, 2010. There were no draws outstanding on this line of credit as of June 30, 2009 and December 31, 2008.

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OSI Restaurant Partners, LLC
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10. Long-term Debt (continued)

DEBT GUARANTEES

The Company was the guarantor of an uncollateralized line of credit that matured December 31, 2008 and permitted borrowing of up to \$35,000,000 by a limited liability company, T-Bird Nevada, LLC ("T-Bird"), which is owned by the principal of each of the Company's California franchisees of Outback Steakhouse restaurants. The line of credit bore interest at rates ranging from 50 to 90 basis points over LIBOR. The Company was required to consolidate T-Bird effective January 1, 2004 upon adoption of FIN 46R. At December 31, 2008, the outstanding balance on the line of credit was approximately \$33,283,000 and was included in the Company's Consolidated Balance Sheet. T-Bird used proceeds from the line of credit for loans to its affiliates ("T-Bird Loans") that serve as general partners of 42 franchisee limited partnerships, which own and operate 41 Outback Steakhouse restaurants. The funds were ultimately used for the purchase of real estate and construction of buildings to be opened as Outback Steakhouse restaurants and leased to the franchisees' limited partnerships. According to the terms of the line of credit, T-Bird was able to borrow, repay, re-borrow or prepay advances at any time before the termination date of the agreement.

On January 12, 2009, the Company received notice that an event of default had occurred in connection with the line of credit because T-Bird failed to pay the outstanding balance of \$33,283,000 due on the maturity date. On February 17, 2009, the Company terminated its guarantee obligation by purchasing the note and all related rights from the lender for \$33,311,000, which included the principal balance due on maturity and accrued and unpaid interest. In anticipation of receiving a notice of default subsequent to the end of the year, the Company recorded a \$33,150,000 allowance for the T-Bird Loan receivables during the fourth quarter of 2008. Since T-Bird defaulted on its line of credit, the Company has the right to call into default all of its franchise agreements in California and exercise any rights and remedies under those agreements as well as the right to recourse under loans T-Bird has made to individual corporations in California which own the land and/or building that is leased to those franchise locations. Therefore, on February 19, 2009, the Company filed suit against T-Bird and its affiliates in Florida state court seeking, among other remedies, to enforce the note and collect on the T-Bird Loans. On February 20, 2009, T-Bird and certain of its affiliates filed suit against the Company and certain of its officers and affiliates (see Note 14).

As a result of these lawsuits, the Company made certain assumptions and estimates in its consolidation of T-Bird at and for the three and six months ended June 30, 2009, as T-Bird did not provide the Company with financial statements for the first and second quarters of 2009. The Company is not aware of any events or transactions for T-Bird that are not reflected in the Company's consolidated financial statements at and for the three and six months ended June 30, 2009 that would materially affect these consolidated financial statements.

The Company is the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of \$24,500,000 for its joint venture partner, RY-8, in the development of Roy's restaurants. The line of credit originally expired in December 2004 and was amended for a fourth time on April 1, 2009 to a revised termination date of April 15, 2013. According to the terms of the credit agreement, RY-8 may borrow, repay, re-borrow or prepay advances at any time before the termination date of the agreement. On the termination date of the agreement, the entire outstanding principal amount of the loan then outstanding and any accrued interest is due. At June 30, 2009 and December 31, 2008, the outstanding balance on the line of credit was \$24,500,000.

RY-8's obligations under the line of credit are unconditionally guaranteed by the Company and Roy's Holdings, Inc. ("RHI"). If an event of default occurs, as defined in the agreement, then the total outstanding balance, including any accrued interest, is immediately due from the guarantors. At June 30, 2009 and December 31, 2008, \$24,500,000 of the Company's \$150,000,000 working capital revolving credit facility was committed for the issuance of a letter of credit for this guarantee.

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OSI Restaurant Partners, LLC
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10. Long-term Debt (continued)

DEBT GUARANTEES (continued)

If an event of default occurs and RY-8 is unable to pay the outstanding balance owed, the Company would, as guarantor, be liable for this balance. However, in conjunction with the credit agreement, RY-8 and RHI have entered into an Indemnity Agreement and a Pledge of Interest and Security Agreement in the Company's favor. These agreements provide that if the Company is required to perform its obligation as guarantor pursuant to the credit agreement, then RY-8 and RHI will indemnify it against all losses, claims, damages or liabilities which arise out of or are based upon its guarantee of the credit agreement. RY-8's and RHI's obligations under these agreements are collateralized by a first priority lien upon and a continuing security interest in any and all of RY-8's interests in the joint venture.

During the three months ended March 31, 2009, the Company recorded a loss related to this guarantee of \$24,500,000 in its Consolidated Statement of Operations based on its determination that a long-term contingent obligation was probable under SFAS No. 5, "Accounting for Contingencies." As a result of the amendment of the line of credit and extension of the Company's guarantee obligation on April 1, 2009, the Company reconsidered its relationship with RY-8 in accordance with FIN 46R during the second quarter of 2009. The Company determined that RY-8 is a variable interest entity for which the Company is the primary beneficiary (see Note 16). Therefore, the Company began consolidating RY-8 effective April 1, 2009 and reclassified the \$24,500,000 contingent obligation to guaranteed debt, which is included in the line item "Guaranteed debt of consolidated joint venture partner" in its Consolidated Balance Sheet at June 30, 2009. No other assets or liabilities have been recorded as a result of consolidating RY-8.

11. Comprehensive Loss and Foreign Currency Translation and Transactions

Comprehensive loss includes net loss and foreign currency translation adjustments. Total comprehensive loss for the three months ended June 30, 2009 and 2008 was (\$82,278,000), and (\$180,346,000), respectively, which included the effect of gains and (losses) from translation adjustments of approximately \$5,777,000 and (\$2,942,000), respectively.

Total comprehensive loss for the six months ended June 30, 2009 and 2008 was (\$2,465,000) and (\$193,013,000), respectively, which included the effect of gains and (losses) from translation adjustments of approximately \$2,178,000 and (\$6,771,000), respectively.

Accumulated other comprehensive loss contained only foreign currency translation adjustments as of June 30, 2009 and December 31, 2008.

Foreign currency transaction gains and losses are recorded in "Other income (expense), net" in the Company's Consolidated Statements of Operations and was a net gain (loss) of \$2,466,000 and (\$3,194,000) for the three and six months ended June 30, 2009, respectively, and a net loss of \$3,805,000 for the three and six months ended June 30, 2008.

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OSI Restaurant Partners, LLC
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12. Income Taxes

As of June 30, 2009 and December 31, 2008, the Company had \$18,079,000 and \$16,537,000, respectively, of unrecognized tax benefits (\$10,414,000 and \$10,412,000, respectively, in "Other long-term liabilities" and \$7,665,000 and \$6,125,000, respectively, in "Accrued expenses"). Of these amounts, \$16,877,000 and \$14,710,000, 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. The Company's liability for unrecognized tax benefits increased by \$1,542,000 during the six months ended June 30, 2009 as a result of an increase for tax positions taken during a prior period.

In many cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by the 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 \$6,700,000 to \$7,400,000 within the next twelve months after June 30, 2009.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2005 through 2008. The Company and its subsidiaries' state income tax returns and foreign income tax returns also are open to audit under the statute of limitations for the years ended December 31, 1999 through 2008.

As of June 30, 2009 and December 31, 2008, the Company accrued \$6,929,000 and \$5,162,000, respectively, of interest and penalties related to uncertain tax positions. The Company accounts for interest and penalties related to uncertain tax positions as part of its Benefit from income taxes and recognized related expense of \$969,000 and \$1,188,000 for the three and six months ended June 30, 2009, respectively, and expense of \$423,000 and \$550,000 for the three and six months ended June 30, 2008, respectively. The Company's policy on classification of interest and penalties did not change as a result of the adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), and it has not changed since the adoption of FIN 48.

The effective income tax rate for the three months ended June 30, 2009 was 38.9% compared to 7.7% for the three months ended June 30, 2008. The net increase of 31.2% in the effective income tax rate was primarily due to a \$150,511,000 decrease in Goodwill impairment for the three months ended June 30, 2009 as compared to the same period in 2008. This goodwill impairment charge is not deductible for tax purposes, as the goodwill is related to KHI's acquisition of OSI Restaurant Partners Inc.'s stock.

The effective income tax rate for the six months ended June 30, 2009 was 74.1% compared to 14.5% for the six months ended June 30, 2008. The effective income tax rate for the six months ended June 30, 2009 was significantly higher 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 being such a large percentage of projected annual pretax loss. The net increase of 59.6% in the effective income tax rate during the six months ended June 30, 2009 from the rate in the same period in 2008 was primarily due to a \$150,511,000 decrease in Goodwill impairment for the six months ended June 30, 2009 as compared to the same period in 2008. This goodwill impairment charge is not deductible for tax

purposes, as the goodwill is related to KHI's acquisition of OSI Restaurant Partners, Inc's stock. This increase was partially offset by applying the combined federal and state statutory tax rate of 38.9% to the \$158,061,000 gain on extinguishment of debt realized during the six months ended June 30, 2009. This gain is a discrete item for which deferred taxes are provided for at the combined statutory federal and state income tax rates.

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OSI Restaurant Partners, LLC
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13. Supplemental Guarantor Condensed Consolidating Financial Statements

The Company's senior notes, a current aggregate outstanding principal amount of \$248,075,000, are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis by the Guarantors, or each of its current and future domestic 100% owned restricted subsidiaries in its Outback Steakhouse, Carrabba's Italian Grill and Cheeseburger in Paradise concepts and certain non-restaurant subsidiaries (see Note 10). All other concepts and certain non-restaurant subsidiaries of the Company do not guarantee the senior notes ("Non-Guarantors").

The following condensed consolidating financial statements present the financial position, results of operations and cash flows for the periods indicated of OSI Restaurant Partners, LLC - Parent only ("OSI Parent"), OSI Co-Issuer, which is a wholly-owned subsidiary and exists solely for the purpose of serving as a co-issuer of the senior notes, the Guarantors, the Non-Guarantors and the elimination entries necessary to consolidate the Company. Investments in subsidiaries are accounted for using the equity method for purposes of the consolidated presentation. The principal elimination entries relate to senior notes presented as an obligation of both OSI Parent and OSI Co-Issuer, investments in subsidiaries, and intercompany balances and transactions.

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2009

| | OSI | | | | | | |
|---------------------------------------------------------------|------------|-----------|------------|----------------|--------------|--------------|------------|
| | OSI Parent | Co-Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated | |
| ASSETS | | | | | | | |
| Current Assets | | | | | | | |
| Cash and cash equivalents | \$ 60,339 | \$ - | \$ 35,232 | \$ 16,810 | \$ - | \$ - | \$ 112,381 |
| Current portion of restricted cash | 686 | - | 3,638 | - | - | - | 4,324 |
| Inventories | 17,005 | - | 30,322 | 15,772 | - | - | 63,099 |
| Deferred income tax assets | 35,834 | - | 1,823 | (45) | - | - | 37,612 |
| Other current assets | 43,716 | - | 29,663 | 22,846 | - | - | 96,225 |
| Total current assets | 157,580 | - | 100,678 | 55,383 | - | - | 313,641 |
| Property, fixtures and equipment, net | 25,936 | - | 563,193 | 352,303 | - | - | 941,432 |
| Investments in and advances to unconsolidated affiliates, net | 920 | - | - | 22,303 | - | - | 23,223 |
| Investments in subsidiaries | | | | | | | |