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

FORM 10-K

(Mark One)

[X]	Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended: December 31, 2010 Or
[ ]	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ______ to ______

Commission File Number: 1-15935

OSI RESTAURANT PARTNERS, LLC
(Exact name of registrant as specified in its charter)

DELAWARE	59-3061413
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2202 North West Shore Boulevard, Suite 500, Tampa, Florida 33607
(Address of principal executive offices) (Zip Code)

(813) 282-1225
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: NONE
Securities registered pursuant to Section 12(g) of the Act: NONE
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer o Non-accelerated filer x (Do not check if smaller reporting company) Smaller reporting company o

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

As of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, there was no established public trading market for the registrant's equity securities.

As of March 31, 2011, the registrant has 100 Common Units, no par value, outstanding (all of which are owned by OSI HoldCo, Inc., the registrant's direct owner), and none are publicly traded.

DOCUMENTS INCORPORATED BY REFERENCE – NONE.

Table of Contents

OSI RESTAURANT PARTNERS, LLC

INDEX TO ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2010

TABLE OF CONTENTS

Table of Contents

OSI Restaurant Partners, LLC

PART I

Cautionary Statement

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent OSI Restaurant Partners, LLC's expectations or beliefs concerning future events, including the following: any statements regarding future sales, costs and expenses and gross profit percentages, any statements regarding the continuation of historical trends, any statements regarding the expected number of future restaurant openings and expected capital expenditures and any statements regarding the sufficiency of our cash balances and cash generated from operating and financing activities for future liquidity and capital resource needs. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "could," "may," "would," "if," "estimates" and similar expressions are intended to identify forward-looking statements.

Our actual results could differ materially from those stated or implied in the forward-looking statements included elsewhere in this report and in our other filings with the Securities and Exchange Commission (the "SEC"), press releases and verbal statements made by or with the approval of one of our authorized officers. We can provide no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements contained in this report are subject to the risks and uncertainties described in this Form 10-K in Item 1A, Risk Factors. Any forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update such statements for any reason to reflect the occurrence of anticipated or unanticipated events.

Item 1. Business

GENERAL

We are one of the largest casual dining restaurant companies in the world, with five restaurant concepts, more than 1,400 system-wide restaurants and 2010 Total revenues exceeding $3.6 billion. As of December 31, 2010, we operate in 49 states and in 23 countries internationally, predominantly through Company-owned restaurants, but we also operate under a variety of partnerships and franchises. Our concepts are Outback Steakhouse ("Outback"), Carrabba's Italian Grill ("Carrabba's), Bonefish Grill ("Bonefish"), Fleming's Prime Steakhouse and Wine Bar ("Flemings") and Roy's. Our plan is to exit our Roy's concept, but we have not established a timeframe to do so.

We were incorporated in August 1987 as Multi-Venture Partners, Inc., a Florida corporation, and in January 1990 we changed our name to Outback Steakhouse, Inc. ("Outback Florida"). Outback Steakhouse, Inc., a Delaware corporation ("Outback Delaware"), was formed in April 1991 as part of a corporate reorganization completed in June 1991 in connection with our initial public offering, at which time Outback Delaware became a holding company for Outback Florida. Between 1993 and 2002, we acquired or developed our other restaurant concepts and began expanding the Outback concept internationally. On April 25, 2006, we changed our name from Outback Steakhouse, Inc. to OSI Restaurant Partners, Inc.

On June 14, 2007, OSI Restaurant Partners, Inc. 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 (our "Founders") and certain members of our management for aggregate consideration of approximately $3.1 billion. Immediately following consummation of the merger and related transactions (the "Merger") on June 14, 2007, we converted into a Delaware limited liability company named OSI Restaurant Partners, LLC, and our shares of common stock were no longer listed on the New York Stock Exchange.

Table of Contents

OSI Restaurant Partners, LLC

Item 1. Business (continued)

GENERAL (continued)

In December 2008, we sold our interest in the Lee Roy Selmon's ("Selmon's) concept, which included six restaurants, to MVP LRS, LLC, an entity owned primarily by our Founders (two of whom are also members of our Board and of KHI's Board), one of our named executive officers and a former employee. In the third quarter of 2009, the named executive officer transferred his ownership interest in Selmon's to two of our Founders (who are also members of our Board and of KHI's Board) at his initial investment cost. In September 2009, we sold our Cheeseburger in Paradise concept, which included 34 restaurants, to Paradise Restaurant Group, LLC ("PRG"), an entity formed and controlled by the president of the concept.

As of December 31, 2010, we own 89.62% of the Outback/Fleming's LLC, which is a consolidated entity that develops and operates Fleming's Prime Steakhouse and Wine Bar. We do not have an economic interest in nine Roy's as of December 31, 2010: six in Hawaii and one each in the continental United States, Japan and Guam.

The selected consolidated financial data included in Item 6 in this Form 10-K is presented for two periods: Predecessor and Successor, which relate to the period preceding the Merger and the period succeeding the Merger, respectively. The operations of OSI Restaurant Partners, Inc. and its subsidiaries are referred to for the Predecessor period and the operations of OSI Restaurant Partners, LLC and its subsidiaries are referred to for the Successor period. Unless the context otherwise indicates, as used in this report, the term the "Company," "we," "us," "our" and other similar terms mean: (a) prior to the Merger, OSI Restaurant Partners, Inc. and its subsidiaries and (b) after the Merger, OSI Restaurant Partners, LLC and its subsidiaries.

CONCEPTS AND STRATEGIES

Our restaurant system includes full-service restaurants with several types of ownership structures. At December 31, 2010, the system included restaurant formats and ownership structures as listed in the following table:

	Outback Steakhouse (domestic)	Outback Steakhouse (international)	Carrabba's Italian Grill	Bonefish Grill	Fleming's Prime Steakhouse and Wine Bar	Roy's	Total
Company-owned	670	120	232	145	64	22	1,253
Development joint venture	-	29	-	-	-	-	29
Franchise	108	41	1	7	-	-	157
Total	778	190	233	152	64	22	1,439

Outback Steakhouse restaurants generally serve dinner only on weeknights; however, many locations also serve an "early dinner" (opening as early as noon, but using the same dinner menu) on one or both days of the weekend. Outback Steakhouse features a limited menu of high quality, uniquely seasoned steaks, prime rib, pork, ribs, chicken, seafood and pasta and also offers specialty appetizers, including the signature "Bloomin' Onion," desserts and full liquor service. Carrabba's Italian Grill restaurants generally serve lunch and dinner on Sundays and dinner only the rest of the week. Carrabba's Italian Grill features a limited menu of high quality Italian cuisine including a variety of pastas, chicken, seafood, veal and wood-fired pizza. It also offers specialty appetizers, desserts and full liquor service. Bonefish Grill restaurants typically serve dinner only and feature a variety of fresh grilled fish complemented by a variety of sauces. Bonefish Grill also offers specialty appetizers, desserts and full liquor service. Fleming's Prime Steakhouse and Wine Bar restaurants serve dinner only and feature a limited menu of prime cuts of beef, fresh seafood, veal and chicken entrees. Fleming's Prime Steakhouse and Wine Bar also offers several specialty appetizers and desserts and a full service bar, including a selection of over 100 quality wines available by the glass. The majority of Roy's restaurants serve dinner only and feature a limited menu of "Hawaiian Fusion" cuisine that includes a blend of flavorful sauces and Asian spices with a variety of seafood, beef, short ribs, pork, lamb and chicken. Roy's also offers several specialty appetizers, desserts and full liquor service.

Table of Contents

OSI Restaurant Partners, LLC

Item 1. Business (continued)

CONCEPTS AND STRATEGIES (continued)

We believe that we differentiate our Outback Steakhouse, Carrabba’s Italian Grill, Bonefish Grill, Fleming’s Prime Steakhouse and Wine Bar and Roy’s restaurants by:

- emphasizing consistently high quality ingredients and preparation of a limited number of menu items that appeal to a broad array of tastes;

- attracting a diverse mix of customers through casual and upscale dining atmospheres emphasizing highly attentive service;

- hiring and retaining experienced restaurant management by providing managing partners an attractive compensation package that includes monthly payments based on a percentage of the monthly cash flows of the restaurants they manage; and

- limiting service to dinner only for the majority of our locations (generally from 4:30 p.m. to 11:00 p.m.), which reduces the hours of restaurant management and the number of employees.

OUTBACK STEAKHOUSE:

Menu. The Outback Steakhouse menu includes several cuts of freshly prepared, uniquely seasoned and seared steaks, plus prime rib, barbecued ribs, pork, chicken, seafood, pasta and seasonal specials. The menu is designed to have a limited number of selections to permit the greatest attention to quality while offering sufficient breadth to appeal to all taste preferences. We test new menu items to replace slower-selling items and regularly upgrade ingredients and cooking methods to improve the quality and consistency of our food offerings. The menu also includes several specialty appetizers and desserts, together with full bar service featuring Australian wine and Australian beer. Alcoholic beverages account for approximately 12% of domestic Outback Steakhouse’s restaurant sales. Including regional variances, the price range of appetizers is $4.95 to $10.95 and the price range of entrees is $7.50 to $33.95. The average check per person was approximately $19.00 to $20.00 during 2010. The prices that we charge in individual locations vary depending upon the demographics of the surrounding area. Outback Steakhouse also offers a low-priced children’s menu.

Casual Atmosphere. Outback Steakhouse features a contemporary, casual dining atmosphere with decor suggestive of Australia. The decor includes blond woods, large booths and tables and Australian artwork.

OUTBACK STEAKHOUSE INTERNATIONAL:

Menu. Outback Steakhouse’s international restaurants have substantially the same core menu items as domestic Outback locations, although certain side items and other menu items are local in nature. Local menus are designed to have the same limited quantity of items and attention to quality as those in the United States. The prices that we charge in individual locations vary significantly depending on local demographics and related local costs involved in procuring product.

Casual Atmosphere. Outback Steakhouse's international locations look very much like their domestic counterparts, although there is more diversity in certain restaurant layouts and sizes.

Table of Contents

Item 1. Business (continued)

CARRABBA'S ITALIAN GRILL:

Menu. The Carrabba's Italian Grill menu includes several types of uniquely prepared Italian dishes including pastas, chicken, seafood, and wood-fired pizza. The menu is designed to have a limited number of selections to permit the greatest attention to quality while offering sufficient breadth to appeal to all taste preferences. We test new menu items to replace slower-selling items and regularly upgrade ingredients and cooking methods to improve quality and consistency of our food offerings. The menu also includes several specialty appetizers, desserts and coffees, together with full bar service featuring Italian wines and specialty drinks. Alcoholic beverages account for approximately 17% of Carrabba's restaurant sales. The price range of appetizers is $5.00 to $12.00 and the price of entrees is $9.00 to $25.00 with nightly specials from $10.00 to $29.00. The average check per person was approximately $20.50 to $21.50 during 2010. The prices that we charge in individual locations vary depending upon the demographics of the surrounding area.

Casual Atmosphere. Carrabba's Italian Grill features a casual dining atmosphere with a traditional Italian exhibition kitchen where customers can watch their meals being prepared. The decor includes dark woods, large booths and tables and Italian memorabilia featuring Carrabba family photos, authentic Italian pottery and cooking utensils.

BONEFISH GRILL:

Menu. The Bonefish Grill menu offers fresh grilled fish and other seafood uniquely prepared with a variety of freshly prepared sauces. In addition to seafood, the menu also includes beef, pork and chicken entrees, several specialty appetizers and desserts. In addition to full bar service, Bonefish offers a specialty martini list. Alcoholic beverages account for approximately 25% of Bonefish's restaurant sales. The price range of appetizers is $3.90 to $15.90 and the price of entrees is $8.90 to $27.00 with nightly specials from $8.90 to $25.90. The average check per person was approximately $22.50 to $23.50 during 2010.

Casual Atmosphere. Bonefish Grill offers a casual dining experience in an upbeat, refined setting. The warm, inviting dining room has hardwood floors, large booths and tables and distinctive artwork inspired by regional coastal settings.

FLEMING'S PRIME STEAKHOUSE AND WINE BAR:

Menu. The Fleming's Prime Steakhouse and Wine Bar menu features prime cuts of beef, fresh seafood, as well as pork, veal and chicken entrees. Accompanying the entrees is an extensive assortment of freshly prepared salads and side dishes available a la carte. The menu also includes several specialty appetizers and desserts. In addition to full bar service, Fleming's offers a selection of over 100 quality wines available by the glass. Alcoholic beverages account for approximately 31% of Fleming's restaurant sales. The price range of entrees is $22.95 to $45.50. Appetizers generally range from $8.95 to $24.50 and side dishes range from $6.95 to $9.50. The average check per person was approximately $64.00 to $65.00 during 2010.

Upscale Casual Atmosphere. Fleming's Prime Steakhouse and Wine Bar offers an upscale dining experience in an upbeat, casual setting. The décor features an open dining room built around an exhibition kitchen and expansive bar. The refined and casually elegant setting features lighter woods and colors with rich cherry wood accents and high ceilings. Private dining rooms are available for private gatherings or corporate functions.

Table of Contents

OSI Restaurant Partners, LLC

Item 1. Business (continued)

ROY'S:

Menu. The Roy's menu offers Chef Roy Yamaguchi's "Hawaiian Fusion" cuisine, a blend of flavorful sauces and Asian spices and features a variety of fish and seafood, beef, short ribs, pork, lamb and chicken. The menu also includes several specialty appetizers and desserts. Alcoholic beverages account for approximately 28% of Roy's restaurant sales. In addition to full bar service, Roy's offers a large selection of quality wines. The price range of entrees is $19.95 to $39.95. Appetizers range from $6.95 to $26.95. The average check per person was approximately $54.50 to $55.50 during 2010.

Upscale Casual Atmosphere. Roy's offers an upscale casual dining experience, including spacious dining rooms, an expansive lounge area, an outdoor dining patio in certain locations and Roy's signature exhibition kitchen. Private dining rooms are available for private gatherings or corporate functions.

RESTAURANT DEVELOPMENT

The following table includes our restaurant openings and closings for the year ended December 31, 2010:

	DECEMBER 31, 2009	OPENINGS	RESTAURANT CLOSINGS	OTHER	DECEMBER 31, 2010
Number of restaurants:					
Outback Steakhouse					
Company-owned - domestic	680	-	(10)	-	670
Company-owned - international	119	4	(3)	-	120
Franchised - domestic	108	-	-	-	108
Franchised and development joint venture - international	63	8	(1)	-	70
Total	970	12	(14)	-	968
Carrabba's Italian Grill					
Company-owned	232	-	-	-	232
Franchised	1	-	-	-	1
Total	233	-	-		233
Bonefish Grill					
Company-owned	145	1	(1)	-	145
Franchised	7	-	-	-	7
Total	152	1	(1)		152
Fleming's Prime Steakhouse and Wine Bar					
Company-owned	64	-	-	-	64
Other					
Company-owned (1)	58	-	(2)	(34)	22
System-wide total	1,477	13	(17)	(34)	1,439

(1)

In September 2009, we sold our Cheeseburger in Paradise concept, which included 34 restaurants, to PRG. Based on the terms of the purchase and sale agreement, we consolidated PRG after the sale transaction. Upon adoption of new accounting guidance for variable interest entities, we deconsolidated PRG on January 1, 2010. As a result, the current period includes only our Roy's concept.

Table of Contents

Item 1. Business (continued)

RESTAURANT DEVELOPMENT (continued)

Company-owned restaurants include restaurants owned by limited partnerships in which we are a general partner and joint ventures in which we are a member. Our legal ownership interests in the partnerships and joint ventures generally range from 50% to 90%. Prior to January 1, 2010, Company-owned restaurants also included Cheeseburger in Paradise restaurants that were sold in September 2009 but continued to be consolidated since we were considered the primary beneficiary of the entity under the then applicable accounting guidance. However, upon adoption of new accounting guidance for variable interest entities on January 1, 2010, we are no longer the primary beneficiary of PRG, and as a result, PRG is not included in our Consolidated Financial Statements as of and for the year ended December 31, 2010. The adoption of the new accounting guidance for variable interest entities was not material to our Consolidated Financial Statements.

Company-owned restaurants also include restaurants owned by our Roy's joint venture and our consolidated financial statements include the accounts and operations of our Roy's joint venture even though we have less than majority ownership. We determined we are the primary beneficiary of the joint venture since we have the power to direct or cause the direction of the activities that most significantly impact the entity on a day-to-day basis such as decisions regarding menu development, purchasing, restaurant expansion and closings and the management of employee-related processes. Additionally, we have the obligation to absorb losses or the right to receive benefits of Roy's joint venture that could potentially be significant to the Roy's joint venture. The majority of capital contributions made by our partner in the Roy's joint venture, RY-8, Inc. ("RY-8"), have been funded by loans to RY-8 from a third party where we provide a guarantee. The guarantee is secured by a collateral interest in RY-8's membership interest in the joint venture. The results of operations of Company-owned restaurants are included in our consolidated operating results. The portion of income or loss attributable to the other partners' interests is eliminated in the line item in our Consolidated Statements of Operations entitled "Net income (loss) attributable to noncontrolling interests."

Through a joint venture arrangement with PGS Participacoes Ltda., the Company holds a 50% ownership interest in PGS Consultoria e Serviços Ltda. (the "Brazilian Joint Venture"). The Brazilian Joint Venture was formed in 1998 for the purpose of operating Outback franchise restaurants in Brazil. The Company accounts for the Brazilian Joint Venture under the equity method of accounting. We are responsible for 50% of the costs of new restaurants operated by the Brazilian Joint Venture and our joint venture partner is responsible for the other 50%. Income and loss derived from the Brazilian Joint Venture is presented in the line item "Income from operations of unconsolidated affiliates" in our Consolidated Statements of Operations.

Table of Contents

OSI Restaurant Partners, LLC

Item 1. Business (continued)

COMPETITION

The restaurant industry is intensely competitive with a substantial number of restaurant operators that compete directly and indirectly with us in respect to price, service, location and food quality, and there are other well-established competitors with significant financial and other resources. Some of our competitors have been in existence for a substantially longer period than we have and may be better established in the markets where our restaurants are or may be located. There is also active competition for management personnel as well as attractive suitable real estate sites. Further, we face growing competition from the supermarket industry, with improved selections of prepared meals, and from quick service and fast casual restaurants, as a result of higher-quality food and beverage offerings. We believe our principal strategies, which include but are not limited to, the use of high quality ingredients, the variety of our menu and concepts, the quality and consistency of our food and service, the use of various promotions and the selection of appropriate locations for our restaurants, allow us to effectively and efficiently compete in the restaurant industry.

RESTAURANT SITES

We currently lease approximately 25% of our restaurant sites from our sister company, Private Restaurant Properties, LLC ("PRP"), which is an indirect subsidiary of our direct owner, OSI HoldCo, Inc. ("OSI HoldCo"), and the remaining 75% of our restaurant sites from other third parties. In the future, we intend to either convert existing third-party leased retail space or construct new restaurants through leases in the majority of circumstances. We generally construct freestanding buildings on leased properties; although, our leased sites are also located in strip shopping centers. We consider the location of a restaurant to be critical to its long-term success and devote significant effort to the investigation and evaluation of potential sites. The site selection process focuses on trade area demographics, site visibility, accessibility, parking availability and traffic volume. We also review potential competition and the profitability of national chain restaurants operating in the area. Construction of a new restaurant takes approximately 90 to 180 days from the date the location is leased or under contract and fully permitted.

We design the interior of our restaurants in-house and utilize outside architects when necessary. A typical Outback Steakhouse is approximately 6,200 square feet and features a dining room and an island, full-service liquor bar. The dining area of a typical Outback Steakhouse consists of 45 to 48 tables and seats approximately 220 people. The bar area consists of approximately ten tables and has seating capacity for approximately 54 people. Appetizers and complete dinners are served in the bar area.

International Outback Steakhouse restaurants range in size from 3,500 to 10,000 square feet and may be basement or above ground floor locations. Some are multiple stories, and some have customer parking underneath the restaurant.

A typical Carrabba's Italian Grill is approximately 6,500 square feet and features a dining room, pasta bar and a full service liquor bar. The dining area of a typical Carrabba's Italian Grill consists of 40 to 45 tables and seats approximately 230 people. The liquor bar area includes six tables and seating capacity for approximately 60 people, and the pasta bar has seating capacity for approximately ten people. Appetizers and complete dinners are served in both the pasta bar and liquor bar.

A typical Bonefish Grill is approximately 5,500 square feet and features a dining room and full service liquor bar. The dining area of a typical Bonefish Grill consists of approximately 38 tables and seats approximately 145 people. The bar area includes ten tables and bar seating with a capacity for approximately 72 people.

Table of Contents

OSI Restaurant Partners, LLC

Item 1. Business (continued)

RESTAURANT SITES (continued)

A typical Fleming's Prime Steakhouse and Wine Bar is approximately 7,100 square feet and features a dining room, a private dining area, an exhibition kitchen and full service liquor bar. The main dining area of a typical Fleming's consists of approximately 35 tables and seats approximately 170 people while the private dining area seats an additional 30 people. The bar area includes six tables and bar seating with a capacity for approximately 35 people.

A typical Roy's is approximately 7,100 square feet and features a dining room, a private dining area, an exhibition kitchen and full service liquor bar. The main dining area of a typical Roy's consists of approximately 41 tables and seats approximately 155 people while the private dining area seats an additional 50 people. The bar area includes tables and bar seating with a capacity for approximately 35 people.

RESTAURANT LOCATIONS

As of December 31, 2010, we had 1,439 system-wide restaurants in 49 states and 23 international countries as follows:

			Company-Owned				
Alabama	22	Kansas	10	New Hampshire	3	Utah	6
Arizona	31	Kentucky	17	New Jersey	39	Vermont	1
Arkansas	11	Louisiana	21	New Mexico	5	Virginia	58
California	20	Maine	1	New York	44	West Virginia	8
Colorado	28	Maryland	40	North Carolina	61	Wisconsin	11
Connecticut	12	Massachusetts	19	Ohio	48	Wyoming	2
Delaware	2	Michigan	35	Oklahoma	11		
Florida	211	Minnesota	9	Pennsylvania	40	Hong Kong	7
Georgia	48	Mississippi	2	Rhode Island	3	Japan	9
Hawaii	7	Missouri	16	South Carolina	37	South Korea	103
Illinois	27	Montana	1	South Dakota	2	Puerto Rico	1
Indiana	23	Nebraska	7	Tennessee	36		
Iowa	8	Nevada	16	Texas	74		

			Franchise and Development Joint Venture				
Alabama	1	Oregon	8	Costa Rica	1	Singapore	1
Alaska	1	South Carolina	1	Dominican Republic	1	Taiwan	4
California	63	Tennessee	3	Egypt	1	Thailand	1
Florida	3	Washington	20	Guam	1	United Arab Emirates	2
Idaho	6			Indonesia	2	United Kingdom	3
Mississippi	6	Australia	6	Malaysia	2	Venezuela	1
Montana	2	Brazil	29	Mexico	5		
North Carolina	1	Canada	4	Philippines	3		
Ohio	1	China	2	Saudia Arabia	1		

Financial information about geographic areas is included in this Form 10-K in Item 8, Note 21 of Notes to Consolidated Financial Statements.

Item 1. Business (continued)

RESTAURANT OPERATIONS

Management and Employees. The management staff of a typical Outback Steakhouse, Carrabba's Italian Grill or Bonefish Grill consists of one managing partner, one assistant manager and one kitchen manager. The management staff of a typical Fleming's or Roy's consists of one managing partner, a chef partner and two assistant managers. Each restaurant also employs approximately 55 to 75 hourly employees, many of whom work part-time. The managing partner of each restaurant has primary responsibility for the day-to-day operation of his or her restaurant and is required to abide by Company-established operating standards. Area operating partners are responsible for overseeing the operations of several restaurants and managing partners in a specific region.

Purchasing. Our management negotiates directly with suppliers for most food and beverage products to ensure uniform quality and adequate supplies and to obtain competitive prices. We and our franchisees purchase substantially all food and beverage products from authorized local or national suppliers, and we periodically make advance purchases of various inventory items to ensure adequate supply or to obtain favorable pricing. In 2010, we purchased approximately 90% of our beef raw materials from four beef suppliers who represented approximately 76% of the total beef marketplace in the United States. In 2011, we expect to purchase approximately 80% of our beef raw materials from four beef suppliers who represent approximately 76% of the total beef marketplace in the United States.

Supervision and Training. We require our area operating partners and restaurant managing partners to have significant experience in the full-service restaurant industry. In addition, all operating partners and managing partners are required to complete a comprehensive 12-week training course that emphasizes our operating strategy, procedures and standards. Our senior management meets quarterly with our operating partners to discuss business-related issues and share ideas. In addition, members of senior management visit restaurants regularly to ensure that our concept, strategy and standards of quality are being adhered to in all aspects of restaurant operations.

The restaurant managing and area operating partners, together with our Presidents, Regional Vice Presidents, Senior Vice Presidents of Training and Directors of Training, are responsible for selecting and training the employees for each new restaurant. The training period for new non-management employees lasts approximately one week and is characterized by on-the-job supervision by an experienced employee. Ongoing employee training remains the responsibility of the restaurant manager. Written tests and observation in the work place are used to evaluate each employee's performance. Special emphasis is placed on the consistency and quality of food preparation and service which is monitored through monthly meetings between kitchen managers and management.

Advertising and Marketing. We promote our Outback Steakhouse and Carrabba's Italian Grill restaurants through national and spot television and/or radio media and Bonefish through radio advertising. We advertise on television in selected markets when our brands achieve sufficient penetration to make a meaningful broadcast schedule affordable. For all of our brands, we rely on word-of-mouth customer experience, site visibility, grassroots marketing in local venues, direct mail, on-line/digital advertising, billboards and public relations. This method of advertising promotes and maintains brand image and generates consumer awareness of new menu offerings, such as new items added to appeal to value-conscious consumers. We also strive to increase sales through excellence in execution. Our marketing strategy of enticing customers to visit frequently and also recommending our restaurants to others complements what we believe are the fundamental elements of success: convenient sites, service-oriented employees and flawless execution in a well-managed restaurant. Additionally, we engage in a variety of promotional activities, such as contributing goods, time and money to charitable, civic and cultural programs, in order to give back to the communities we serve and increase public awareness of our restaurants.

MANAGING, CHEF AND AREA OPERATING PARTNER PROGRAMS

We believe our compensation structure for our managing, chef and area operating partners encourages high quality restaurant operations, fosters long-term employee commitment and generally results in profitable restaurants. Historically, the managing partner of each Company-owned domestic restaurant and the chef partner of each Fleming's and Roy's restaurant was required, as a condition of employment, to sign a five-year employment agreement and to purchase a non-transferable ownership interest in a partnership ("Management Partnership") that provided management and supervisory services to his or her restaurant. The purchase price for a managing partner's ownership interest was fixed at $25,000, and the purchase price for a chef partner's ownership interest ranged from $10,000 to $15,000. Managing and chef partners had the right to receive distributions from the Management Partnership based on a percentage of their restaurant's monthly cash flows for the duration of the agreement, which varied by concept from 6% to 10% for managing partners and 2% to 5% for chef partners. Further, managing and chef partners were eligible to participate in the Partner Equity Plan ("PEP"), a deferred compensation program, upon completion of their five-year employment terms. We are in the process of developing modifications to our managing and chef partner compensation structure.

Many of our international Outback Steakhouse restaurant managing partners enter into employment agreements and purchase participation interests in the cash distributions from the restaurants they manage. The amount and terms vary by country. This interest gives the managing partner the right to receive a percentage of his or her restaurant's annual cash flows for the duration of the agreement. Additionally, each new unaffiliated franchisee is required to provide the same opportunity to the managing partner of each new restaurant opened by that franchisee.

By offering these types of compensation arrangements and by providing the managing and chef partners with a significant interest in the success of the restaurant, we believe we are able to attract and retain experienced and highly-motivated managing and chef partners. In addition, since many of our restaurants are generally open for dinner only, we believe that we have an advantage in attracting and retaining servers, food preparers and other employees who find the shorter hours an attractive life-style alternative to restaurants serving both lunch and dinner.

Area operating partners are currently required, as a condition of employment, to make an initial investment of $50,000 in the Management Partnership that provides supervisory services to the restaurants that the area operating partner oversees. This interest gives the area operating partner the right to distributions from the Management Partnership based on a percentage of his or her restaurants' monthly cash flows for the duration of the agreement, typically ranging from 4% to 9%. We have the option to purchase an area operating partner's interest in the Management Partnership after the restaurant has been open for a five-year period on the terms specified in the agreement.

SEASONALITY AND QUARTERLY RESULTS

Our business is subject to seasonal fluctuations. Historically, customer spending patterns for our established restaurants are generally highest in the first quarter of the year and lowest in the third quarter of the year. Additionally, holidays, severe winter weather, hurricanes, thunderstorms and similar conditions may affect sales volumes seasonally in some of our markets. Quarterly results have been and will continue to be significantly affected by general economic conditions, the timing of new restaurant openings and their associated pre-opening costs, restaurant closures and exit-related costs and impairments of goodwill and property, fixtures and equipment. As a result of these and other factors, our financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

Table of Contents

OSI Restaurant Partners, LLC

Item 1. Business (continued)

UNAFFILIATED FRANCHISE PROGRAM

At December 31, 2010, there were 108 domestic franchised Outback Steakhouses and 41 international franchised Outback Steakhouses. Each unaffiliated domestic franchisee paid an initial franchise fee of $40,000 for each restaurant and pays a continuing monthly royalty of 3.0% of gross restaurant sales and a monthly marketing administration fee of 0.5% of gross restaurant sales. Initial fees and royalties for international franchisees vary by market. Generally, each unaffiliated international franchisee paid an initial franchise fee of $40,000 to $200,000 for each restaurant and pays a continuing monthly royalty of 2.0% to 4.0% of gross restaurant sales. Certain international franchisees enter into an international development agreement that requires them to pay a development fee in exchange for the right and obligation to develop and operate up to five restaurants within a defined development territory pursuant to separate franchise agreements. All domestic unaffiliated franchisees are required to expend an annually adjusted percentage of gross restaurant sales, up to a maximum of 3.5%, for national advertising on a monthly basis (3.5% in 2010).

At December 31, 2010, there was one domestic franchised Carrabba's Italian Grill. The unaffiliated domestic franchisee paid an initial franchise fee of $40,000 and pays a continuing monthly royalty of 5.75% of gross restaurant sales.

At December 31, 2010, there were seven domestic franchised Bonefish Grills. Four of the unaffiliated domestic franchisees paid an initial franchise fee of $50,000 for each restaurant and pay a continuing monthly royalty of 4.0% of gross restaurant sales. Three of the unaffiliated domestic franchised locations pay royalties up to 4.0%, depending on sales volumes. Under the terms of the franchise agreement, all domestic unaffiliated franchisees are required to expend, on a monthly basis, a minimum of 2.5% of gross restaurant sales on local advertising and pay a monthly marketing administration fee of 0.5% of gross restaurant sales.

There were no unaffiliated franchises of any of our other restaurant concepts at December 31, 2010.

All unaffiliated franchisees are required to operate their restaurants in compliance with each concept's methods, standards and specifications regarding such matters as menu items, ingredients, materials, supplies, services, fixtures, furnishings, decor and signs, although the franchisee has full discretion to determine menu prices. In addition, all franchisees are required to purchase all food, ingredients, supplies and materials from approved suppliers.

Table of Contents

OSI Restaurant Partners, LLC

Item 1. Business (continued)

EMPLOYEES

As of December 31, 2010, we employed approximately 96,000 persons, approximately 775 of whom are corporate personnel employed by OSI Restaurant Partners, LLC. Approximately 4,900 are restaurant management personnel and the remainder are hourly restaurant personnel. Of the approximately 775 corporate employees, approximately 140 are in management and 635 are administrative or office employees. None of our employees are covered by a collective bargaining agreement.

TRADEMARKS

We regard our "Outback Steakhouse," "Carrabba's Italian Grill," "Bonefish Grill" and "Fleming's Prime Steakhouse and Win Bar" service marks and our "Bloomin' Onion" trademark as having significant value and as being important factors in the marketing of our restaurants. We have also obtained a trademark for several of our other menu items and for various advertising slogans. We are aware of names and marks similar to the service marks of ours used by other persons in certain geographic areas in which we have restaurants. However, we believe such uses will not adversely affect us. Our policy is to pursue registration of our marks whenever possible and to oppose vigorously any infringement of our marks.

GOVERNMENT REGULATION

Our restaurants are subject to various federal, state, local and international laws affecting our business as more fully described in this Form 10-K in Item 1A, Risk Factors.

AVAILABLE INFORMATION

Our website at www.osirestaurantpartners.com contains a link (under the Investor Relations section) to our SEC filings, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports. All of these filings are available free of charge as soon as reasonably practicable after they are filed with or furnished to the SEC.

Table of Contents

OSI Restaurant Partners, LLC

Item 1A. Risk Factors

The risk factors set forth below should be carefully considered. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition or results of operations. Any of the following risks could materially and adversely affect our business, financial condition or results of operations.

Risks Related to Our Indebtedness and Certain Other Obligations

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable-rate debt and prevent us from meeting our obligations under the senior notes.

We are highly leveraged. The following chart shows our level of indebtedness as of December 31, 2010 (in thousands):

		DECEMBER 31, 2010
Senior secured term loan facility	$	1,035,000
Senior secured pre-funded revolving credit facility		78,072
Senior notes		248,075
Guaranteed debt, sale-leaseback and capital lease obligations and other notes payable		35,680
Total indebtedness	$	1,396,827

As of December 31, 2010, we also had approximately $79,728,000 in available unused borrowing capacity under our working capital revolving credit facility (after giving effect to undrawn letters of credit of approximately $70,272,000) and $21,928,000 in available unused borrowing capacity under our pre-funded revolving credit facility that provides financing for capital expenditures only.

Our high degree of leverage could have important consequences, including:

- making it more difficult for us to make payments on indebtedness;
- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates as certain of our borrowings under our senior secured credit facilities are at variable rates of interest;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, restaurant development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who may be less highly leveraged.

We and our subsidiaries may incur substantial additional indebtedness in the future, subject to the restrictions contained in our senior secured credit facilities and the indenture governing the senior notes. If new indebtedness is added to our current debt levels, the related risks that we now face could increase.

As of December 31, 2010, we had $1,113,072,000 of debt outstanding under our senior secured credit facilities, which bear interest based on a floating rate index. An increase in these floating rates could cause a material increase in our interest expense.

Item 1A. Risk Factors (continued)

Risks Related to Our Indebtedness and Certain Other Obligations (continued)

Our debt agreements contain restrictions that limit our flexibility in operating our business.

Our senior secured credit facilities and the indenture governing the senior notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our and our restricted subsidiaries' ability to, among other things, incur or guarantee additional indebtedness, pay dividends on, redeem or repurchase our capital stock, make certain acquisitions or investments, incur or permit to exist certain liens, enter into transactions with affiliates or sell our assets to, merge or consolidate with or into, another company. In addition, our senior secured credit facilities require us to satisfy certain financial tests and ratios and limit our ability to make capital expenditures. Our ability to satisfy such tests and ratios may be affected by events outside of our control.

Upon the occurrence of an event of default under the senior secured credit facilities, the lenders could elect to declare all amounts outstanding under the senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. If we are unable to repay those amounts, the lenders under the senior secured credit facilities could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under the senior secured credit facilities. If the lenders under the senior secured credit facilities accelerate the repayment of borrowings, we cannot be certain that we will have sufficient assets to repay the senior secured credit facilities, as well as our unsecured indebtedness, including the senior notes.

We may not be able to generate sufficient cash to service all of our indebtedness, including the senior notes, and operating lease obligations, and we may be forced to take other actions to satisfy our obligations under our indebtedness and operating lease obligations, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations and to satisfy our operating lease obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot be certain that we will maintain a level of cash flow from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the senior notes, or to pay our operating lease obligations. If our cash flow and capital resources are insufficient to fund our debt service obligations and operating lease obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness, including the senior notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of sufficient operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations, or take other actions, to meet our debt service and other obligations. Our senior secured credit facilities and the indenture governing the senior notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could otherwise realize from such dispositions and any such proceeds that are realized may not be adequate to meet any debt service obligations then due. The failure to meet our debt service obligations or the failure to remain in compliance with the financial covenants under our senior secured credit facilities would constitute an event of default under those facilities and the lenders could elect to declare all amounts outstanding under the senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit.

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Indebtedness and Certain Other Obligations (continued)

If our revenue and resulting cash flow were to decline to levels that cannot be offset by reductions in costs, efficiency programs and improvements in working capital management, we may not remain in compliance with certain covenants in our senior secured credit facilities agreement or be able to fund debt service requirements, operating lease obligations, capital expenditures and working capital obligations.

If our revenue and resulting cash flow were to decline to levels that cannot be offset by reductions in costs, efficiency programs and improvements in working capital management, we may not remain in compliance with the leverage ratio and free cash flow covenants in our senior secured credit facilities agreement and furthermore, we may not be able to fund debt service requirements, operating lease obligations, capital expenditures and working capital obligations. If this occurs, we intend to take such actions available to us as we determine to be appropriate at such time, which may include, but are not limited to, engaging in a permitted equity issuance, seeking a waiver from our lenders, amending the terms of such facilities, including the covenants described above, refinancing all or a portion of our senior secured credit facilities under modified terms, reducing or delaying capital expenditures, selling assets or seeking additional capital. There can be no assurance that we will be able to effect any such actions on terms acceptable to us or at all or that such actions will be successful in maintaining our debt service or covenant compliance or meeting other obligations. The failure to meet our debt service obligations or the failure to remain in compliance with the financial covenants under our senior secured credit facilities would constitute an event of default under those facilities and the lenders could elect to declare all amounts outstanding under the senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit.

Approximately 25% of our domestic company-owned restaurants are subject to a master lease with our sister company, Private Restaurant Properties, LLC. An event of default under this lease could result in our loss of use of some or all of these restaurant properties.

In connection with the Merger, the fee owned real estate and certain related assets associated with approximately 25% of our domestic company-owned restaurants were sold to PRP and then leased to us and our subsidiaries through a master lease and a series of underlying subleases. The master lease contains customary representations and warranties, affirmative and negative covenants and events of default. The master lease requires an aggregate monthly rental payment with respect to all leased restaurants, without any grace period for late payment. If a default occurs under the master lease, PRP is entitled to take various actions to enforce its rights, including, in certain circumstances, termination of the master lease. In addition, if PRP were to default under its real estate credit facility, the lenders would be entitled to take various actions to enforce their rights, including, in certain circumstances, foreclosing on the restaurant properties. PRP’s primary source of revenue (and consequently its primary source of funds available to service its own debt under its real estate credit facility) is the monthly rental payments we make under the master lease. If we fail to make payments or otherwise default under the master lease, PRP could default under its real estate credit facility. If the master lease were to be terminated in connection with any default by us or if the lenders under PRP’s real estate credit facility were to foreclose on the restaurant properties as a result of a PRP default under its real estate credit facility, we could, subject to the terms of a subordination and nondisturbance agreement, lose the use of some or all of the properties that we lease under the master lease. Any such loss of the use of such restaurant properties would have a material adverse effect on our business.

17

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Indebtedness and Certain Other Obligations (continued)

Any right to receive payments on the senior notes is effectively junior to those lenders who have a security interest in our assets.

Our obligations under the senior notes and our guarantors' obligations under their guarantees of the senior notes are unsecured, but our obligations under our senior secured credit facilities and each guarantor's obligations under their respective guarantees of the senior secured credit facilities are secured by a security interest in substantially all of our tangible and intangible assets, including the stock and the assets of certain of our current and future wholly-owned U.S. subsidiaries and a portion of the stock of certain of our non-U.S. subsidiaries. Our obligations under the senior notes are also structurally subordinated to our sale-leaseback. As of December 31, 2010, we had $1,396,827,000 in outstanding debt on our Consolidated Balance Sheet, of which approximately $1,113,072,000 was secured. We also had $79,728,000 in available unused borrowing capacity under our working capital revolving credit facility (after giving effect to undrawn letters of credit of approximately $70,272,000) and $21,928,000 in available unused borrowing capacity under our pre-funded revolving credit facility that provides financing for capital expenditures only.

If we are declared bankrupt or insolvent, or if we default under our senior secured credit facilities, the lenders could declare all of the funds borrowed thereunder, together with accrued interest, immediately due and payable. If we were unable to repay such indebtedness, the lenders could foreclose on the pledged assets to the exclusion of holders of the senior notes, even if an event of default exists under the indenture governing the senior notes at such time. Because of the structural subordination of the senior notes relative to our secured indebtedness, in the event of our bankruptcy, liquidation or dissolution, our assets will not be available to pay obligations under the senior notes until we have made all payments in cash on our secured indebtedness. We cannot be certain that sufficient assets will remain after all these payments have been made to make any payments on the senior notes, including payments of principal or interest when due.

Furthermore, if the lenders foreclose and sell the pledged equity interests in any subsidiary guarantor under the senior notes, then that guarantor will be released from its guarantee of the senior notes automatically and immediately upon such sale. In any such event, because the senior notes will not be secured by any of our assets or the equity interests in subsidiary guarantors, it is possible that there would be no assets remaining from which any claims could be satisfied or, if any assets remained, they might be insufficient to satisfy any claims fully.

The indenture governing the senior notes permits us and our restricted subsidiaries to incur substantial additional indebtedness in the future, including additional senior secured indebtedness.

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Indebtedness and Certain Other Obligations (continued)

Any claims to our assets by holders of senior notes will be structurally subordinated to all of the creditors of any non-guarantor subsidiaries.

Not all of our subsidiaries guarantee the senior notes. The senior notes are structurally subordinated to indebtedness (and other liabilities) of our subsidiaries that do not guarantee the senior notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor subsidiaries, the non-guarantor subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us for payment to our creditors, including holders of the senior notes.

The indenture requires that each of our domestic wholly-owned restricted subsidiaries that guarantees the obligations under the senior secured credit facilities or any of our other indebtedness also be a guarantor of the senior notes. Our other subsidiaries are not required to guarantee the senior notes under the indenture. The senior secured credit facilities require guarantees of the obligations thereunder from each of our current and future domestic wholly-owned restricted subsidiaries in our Outback Steakhouse and Carrabba’s Italian Grill concepts, which consequently are guarantors of the senior notes under the indenture. Additionally, the senior secured credit facilities will require us 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 and certain other adjustments as defined in the senior secured credit facilities) attributable to our non-guarantor domestic wholly-owned restricted subsidiaries (taken together as a group) would exceed 10% of our Consolidated EBITDA as determined on a Company-wide basis; at which time 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 (taken together as a group) to an amount not in excess of 10% of our Company-wide Consolidated EBITDA. Consequently, such additional domestic wholly-owned restricted subsidiaries will be required to be guarantors of the senior notes under the indenture. The terms of the senior secured credit facilities, including the provisions relating to which of our subsidiaries guarantee the obligations under the senior secured credit facilities, may be amended, modified or waived, and guarantees thereunder may be released, in each case at the lenders’ discretion and without the consent or approval of noteholders. Noteholders will not have a claim as a creditor against any subsidiary that is no longer a guarantor of the senior notes, and the indebtedness and other liabilities, including trade payables, whether secured or unsecured, of those subsidiaries will effectively be senior, in respect of the assets of such subsidiaries, to claims of noteholders.

See the Supplemental Guarantor Condensed Consolidating Financial Statements in Item 8, Note 16 of the Notes to Consolidated Financial Statements in this Form 10-K for presentation of the financial position, results of operations and cash flows of OSI Restaurant Partners, LLC - Parent only, OSI Co-Issuer, which is a wholly-owned subsidiary and exists solely for the purpose of serving as co-issuer of the senior notes, the guarantor subsidiaries, the non-guarantor subsidiaries and the elimination entries necessary to consolidate the Company.

Table of Contents

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Indebtedness and Certain Other Obligations (continued)

If we default on our obligations to pay our indebtedness, we may not be able to make payments on the senior notes.

Any default under the agreements governing our indebtedness, including a default under the senior secured credit facilities, that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness, could prevent us from paying principal, premium, if any, and interest on the senior notes and could substantially decrease the market value of the senior notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness (including covenants in our senior secured credit facilities and the indenture governing the senior notes), we could be in default under the terms of the agreements governing such indebtedness, including our senior secured credit facilities and the indenture governing the senior notes. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under our senior secured credit facilities could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to obtain waivers from the required lenders under our senior secured credit facilities to avoid being in default. If we breach our covenants under our senior secured credit facilities and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under our senior secured credit facilities, the lenders could exercise their rights, as described above, and we could be forced into bankruptcy or liquidation.

We may not be able to repurchase the senior notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we are required to offer to repurchase all outstanding senior notes at 101% of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the senior notes will be our available cash or cash generated from our subsidiaries' operations or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the senior notes upon a change of control because we may not have sufficient financial resources to purchase all of the senior notes that are tendered upon a change of control. Further, we are contractually restricted under the terms of our senior secured credit facilities from repurchasing all of the senior notes tendered by holders upon a change of control. Accordingly, we may not be able to satisfy our obligations to purchase the senior notes unless we are able to refinance or obtain waivers under our senior secured credit facilities. Our failure to repurchase the senior notes upon a change of control would cause a default under the indenture governing the senior notes and a cross-default under the senior secured credit facilities. The senior secured credit facilities also provide that a change of control will be a default that permits lenders to accelerate the maturity of borrowings thereunder. Any of our future debt agreements may contain similar provisions.

Table of Contents

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Indebtedness and Certain Other Obligations (continued)

Federal and state fraudulent transfer laws may permit a court to void the senior notes or the guarantees, and, if that occurs, we may not be able to make any payments on the senior notes.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the senior notes and the incurrence of the guarantees. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the senior notes or guarantees could be voided as a fraudulent transfer or conveyance if (1) we or any of the guarantors, as applicable, issued the senior notes or incurred the guarantees with the intent of hindering, delaying or defrauding creditors or (2) we or any of the guarantors, as applicable, received less than reasonably equivalent value or fair consideration in return for either issuing the senior notes or incurring the guarantees and, in the case of (2) only, one of the following is also true at the time thereof:

- we or any of the guarantors, as applicable, were insolvent or rendered insolvent by reason of the issuance of the senior notes or the incurrence of the guarantees;
- the issuance of the senior notes or the incurrence of the guarantees left us or any of the guarantors, as applicable, with an unreasonably small amount of capital to carry on the business;
- we or any of the guarantors intended to, or believed that we or such guarantor would, incur debts beyond our or such guarantor’s ability to pay as they mature; or
- we or any of the guarantors were a defendant in an action for money damages, or had a judgment for money damages docketed against us or such guarantor if, in either case, after final judgment, the judgment is unsatisfied.

If a court were to find that the issuance of the senior notes or the incurrence of the guarantee was a fraudulent transfer or conveyance, the court could void the payment obligations under the senior notes or such guarantee or subordinate the senior notes or such guarantee to presently existing and future indebtedness of ours or of the related guarantor, or require the holders of the senior notes to repay any amounts received. In the event of a finding that a fraudulent transfer or conveyance occurred, we may not be able to make any payment on the senior notes. Further, the voidance of the senior notes could result in an event of default with respect to our and our subsidiaries’ other debt that could result in acceleration of such debt. As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or an antecedent debt is secured or satisfied. A debtor will generally not be considered to have received value in connection with a debt offering if the debtor uses the proceeds of that offering to make a dividend payment or otherwise retire or redeem equity securities issued by the debtor.

We cannot be certain as to the standards a court would use to determine whether or not we or the guarantors were solvent at the relevant time or, regardless of the standard that a court uses, that the senior notes or the guarantees would not be subordinated to our or any of our guarantors’ other debt.

Table of Contents

Item 1A. Risk Factors (continued)

Risks Related to Our Business

Competition for customers, real estate, employees, and supplies, and changes in certain conditions may affect our profit margins.

The restaurant industry is intensely competitive with a substantial number of restaurant operators that compete directly and indirectly with us in respect to price, service, location and food quality, and there are other well-established competitors with significant financial and other resources. Some of our competitors have been in existence for a substantially longer period than we have and may be better established in the markets where our restaurants are or may be located. There is also active competition for management personnel as well as attractive suitable real estate sites. Changes in local, regional, national or international economic conditions, demographic trends, consumers' discretionary purchasing power, consumer tastes, nutritional and dietary trends, traffic patterns and the type, number and location of competing restaurants often affect the restaurant business. In addition, factors such as inflation or deflation, increased food, labor and benefits costs, energy costs, consumer perceptions of food safety, financial stability of suppliers and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and our restaurants in particular. Our results can be impacted by changes in the level of consumer acceptance of our restaurant concepts (including consumer tolerance of our prices), the seasonality of our business, our ability to effectively respond in a timely manner to changes in traffic patterns and the cost of advertising and media. Further, we face growing competition from the supermarket industry, with the improvement of their "convenient meals" in the deli section, and from quick service and fast casual restaurants, as a result of higher-quality food and beverage offerings. If we are unable to continue to compete effectively, our business, financial condition and results of operations would be adversely affected.

Challenging economic conditions may continue to affect our business by adversely impacting consumer confidence and discretionary spending, availability and cost of credit, foreign currency exchange rates and other items.

As noted in our other risk factors, our high degree of leverage could increase our vulnerability to general economic and industry conditions and require that a substantial portion of cash flow from operations be dedicated to the payment of principal and interest on our indebtedness. Our cash flow from operations is dependent on consumer spending. Challenging economic conditions may continue to negatively impact consumer confidence and thus cause a decline in our cash flow from operations. Further, the availability of credit already arranged for under our revolving credit facilities and the cost and availability of future credit may be adversely impacted by the economic challenges. Foreign currency exchange rates for the countries in which we operate may decline, and we may experience interruptions in supplies and other services from our third-party vendors as a result of the market conditions. These disruptions in the economy are beyond our control, and there is no guarantee that any government response will restore consumer confidence, stabilize the economy or increase the availability of credit.

Our business is subject to seasonal fluctuations and past results are not indicative of future results.

Historically, customer spending patterns for our established restaurants are generally highest in the first quarter of the year and lowest in the third quarter of the year. Additionally, holidays, severe winter weather, hurricanes, thunderstorms and similar conditions may affect sales volumes seasonally in some of the markets where we operate. Our quarterly results have been and will continue to be affected by the timing of new restaurant openings and their associated pre-opening costs, as well as, restaurant closures and exit-related costs and impairments of goodwill and property, fixtures and equipment. As a result of these and other factors, our financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

Table of Contents

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Business (continued)

Significant adverse weather conditions and other disasters could negatively impact our results of operations.

Adverse weather conditions and acts of God, such as regional winter storms, floods, major hurricanes and earthquakes, and other disasters, such as oil spills, could negatively impact our results of operations. Temporary and prolonged restaurant closures may occur and customer traffic may decline due to the actual or perceived effects from these events.

Loss of key personnel or our inability to attract and retain new qualified personnel could hurt our business and inhibit our ability to operate and grow successfully.

Our success will continue to depend, to a significant extent, on our leadership team and other key management personnel. If we are unable to attract and retain sufficiently experienced and capable management personnel, our business and financial results may suffer. Our success also will continue to depend on our ability to attract and retain qualified personnel to operate our restaurants. When talented employees leave, we may have difficulty replacing them, and our business may suffer. There can be no assurance that we will be able to successfully attract and retain the personnel that we need.

Risks associated with our expansion plans may have adverse consequences on our ability to increase revenues.

We continue to pursue a disciplined growth strategy by expanding our restaurant base at a substantially reduced pace relative to recent history. Current development schedules call for the construction of eight to ten new restaurants in 2011, across all concepts. A variety of factors could cause the actual results and outcome of those expansion plans to differ from the anticipated results. Our development schedule for new restaurant openings is subject to a number of risks that could cause actual results to differ, including among other things:

- availability of attractive sites for new restaurants and the ability to obtain appropriate real estate sites at acceptable prices;
- the ability to obtain all required governmental permits, including zoning approvals and liquor licenses, on a timely basis;
- impact of moratoriums or approval processes of state, local or foreign governments, which could result in significant delays;
- the ability to obtain all necessary contractors and sub-contractors;
- union activities such as picketing and hand billing, which could delay construction;
- the ability to negotiate suitable lease terms;
- the ability to generate and borrow funds;
- the ability to recruit and train skilled management and restaurant employees;
- the ability to receive the premises from the landlord’s developer without any delays; and
- weather, acts of God and disasters beyond our control resulting in construction delays.

Some of our new restaurants may take several months to reach planned operating levels due to inefficiencies typically associated with new restaurants, including lack of market awareness and other factors. There is also the possibility that new restaurants may attract customers of existing restaurants we own, thereby reducing the revenues of such existing restaurants.

Development rates for each concept may differ significantly. The development of each concept may not be as successful as our experience in the development of the Outback concept. It is difficult to estimate the performance of newly opened restaurants. Earnings achieved to date by restaurants open for less than two years may not be indicative of future operating results. Should enough of these new restaurants not meet targeted performance, it could have a material adverse effect on our operating results.

Our ability to comply with government regulation, and the costs of compliance, could affect our business.

Our restaurants are subject to various federal, state, local and international laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities, which may include, among others, alcoholic beverage control, health and safety, nutritional menu labeling, health care, environmental and fire agencies in the state, municipality or country in which the restaurant is located. Difficulty in obtaining or failing to obtain the required licenses or approvals could delay or prevent the development of a new restaurant in a particular area. Additionally, difficulties or inabilities to retain or renew licenses, or increased compliance costs due to changed regulations, could adversely affect operations at existing restaurants.

Approximately 15% of our consolidated restaurant sales are attributable to the sale of alcoholic beverages. Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county or municipal authorities for a license or permit to sell alcoholic beverages on the premises and to provide service for extended hours and on Sundays. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of our restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling and storage and dispensing of alcoholic beverages. The failure of a restaurant to obtain or retain liquor or food service licenses would adversely affect the restaurant’s operations. Additionally, we may be subject in certain states to “dramshop” statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance, but cannot guarantee that this insurance will be adequate in the event we are found liable.

Our restaurant operations are also subject to federal and state labor laws, including the Fair Labor Standards Act, governing such matters as minimum wages, overtime, tip credits and worker conditions. Our employees who receive tips as part of their compensation, such as servers, are paid at a minimum wage rate, after giving effect to applicable tip credits. Our other personnel, such as our kitchen staff, are typically paid in excess of minimum wage. As significant numbers of our food service and preparation personnel are paid at rates related to the applicable minimum wage, further increases in the minimum wage or other changes in these laws could increase our labor costs. Our ability to respond to minimum wage increases by increasing menu prices will depend on the responses of our competitors and customers. Government regulations could affect and change the items we procure for resale such as commodities. Other governmental initiatives such as mandated health insurance, if implemented, could adversely affect us and the restaurant industry in general. We are currently evaluating the potential impact of the health care reform law, as it could cause an increase in our labor costs. We are subject to the Americans With Disabilities Act, or the ADA, which, among other things, requires our restaurants to meet federally mandated requirements for the disabled. The ADA prohibits discrimination in employment and public accommodations on the basis of disability. Under the ADA, we could be required to expend funds to modify our restaurants to provide service to, or make reasonable accommodations for the employment of, disabled persons. In addition, our employment practices are subject to the requirements of the Immigration and Naturalization Service relating to citizenship and residency. We may also become subject to legislation or regulation seeking to tax and/or regulate high-fat and high-sodium foods, particularly in the United States, which could be costly to comply with. Our results can be impacted by tax legislation and regulation in the jurisdictions in which we operate and by accounting standards or pronouncements.

Table of Contents

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Business (continued)

We face a variety of risks associated with doing business in foreign markets.

We have a significant number of franchised and Company-owned Outback Steakhouse restaurants outside the United States, and we intend to continue our efforts to grow internationally. Although we believe we have developed the support structure for international operations and growth, there is no assurance that international operations will be profitable or international growth will continue.

Our foreign operations are subject to all of the same risks as our domestic restaurants, as well as a number of additional risks. These additional risks include, among others, international economic and political conditions and the possibility of instability and unrest, differing cultures and consumer preferences, diverse government regulations and tax systems, the ability to source high-quality ingredients and other commodities in a cost-effective manner, uncertain or differing interpretations of rights and obligations in connection with international franchise agreements and the collection of ongoing royalties from international franchisees, the availability and cost of land and construction costs, and the availability of experienced management, appropriate franchisees and area operating partners.

Currency regulations and fluctuations in exchange rates could also affect our performance. We have direct investments in restaurants in South Korea, Japan, Hong Kong and Brazil, as well as international franchises, in a total of 23 countries. As a result, we may experience losses from foreign currency translation, and such losses could adversely affect our overall sales and earnings.

Additionally, we are subject to governmental regulation throughout the world, including antitrust and tax requirements, anti-boycott regulations, import/export/customs regulations and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Any new regulatory or trade initiatives could impact our operations in certain countries. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business, results of operations and financial condition.

Increased commodity, energy and other costs could adversely affect our business.

The performance of our restaurants depends on our ability to anticipate and react to changes in the price and availability of food commodities, including among other things beef, chicken, seafood, butter, cheese and produce. Prices may be affected due to market changes, the general risk of inflation, shortages or interruptions in supply due to weather, disease or other conditions beyond our control, or other reasons. Increased prices or shortages could affect the cost and quality of the items we buy. These events, combined with other more general economic and demographic conditions, could impact our pricing and negatively affect our profit margins.

The performance of our restaurants is also adversely affected by increases in the price of utilities, such as natural gas, whether as a result of inflation, shortages or interruptions in supply, or otherwise. We use derivative instruments to mitigate some of our overall exposure to material increases in natural gas prices. We do not apply hedge accounting to these instruments, and any changes in the fair value of the derivative instruments are marked-to-market through earnings in the period of change. To date, effects of these derivative instruments have been immaterial to our financial statements for all periods presented.

Our business also incurs significant costs for insurance, labor, marketing, taxes, real estate, borrowing and litigation, all of which could increase due to inflation, changes in laws, competition or other events beyond our control.

Our ability to respond to increased costs by increasing menu prices or by implementing alternative processes or products will depend on our ability to anticipate and react to such increases and other more general economic and demographic conditions, as well as the responses of our competitors and customers. All of these things may be difficult to predict and beyond our control. In this manner, increased costs could adversely affect our performance.

Table of Contents

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Business (continued)

Infringement of our intellectual property could harm our business.

We regard our service marks, including “Outback Steakhouse,” “Carrabba’s Italian Grill,” “Bonefish Grill” and “Fleming’ Prime Steakhouse and Wine Bar,” and our “Bloomin’ Onion” trademark as having significant value and as being important factors in the marketing of our restaurants. We have also obtained trademarks for several of our other menu items and for various advertising slogans. In addition, the overall layout, appearance and designs of our restaurants are valuable assets. We believe that these and other intellectual property are valuable assets that are critical to our success. We rely on a combination of protections provided by contracts, copyrights, patents, trademarks, and other common law rights, such as trade secret and unfair competition laws, to protect our restaurants and services from infringement. We have registered certain trademarks and service marks and have other registration applications pending in the United States and foreign jurisdictions. However, not all of the trademarks or service marks that we currently use have been registered in all of the countries in which we do business and they may never be registered in all of these countries. There may not be adequate protection for certain intellectual property such as the overall appearance of our restaurants. We are aware of names and marks similar to our service marks being used by other persons in certain geographic areas in which we have restaurants. Although we believe such uses will not adversely affect us, further or currently unknown unauthorized uses or other misappropriation of our trademarks or service marks could diminish the value of our brands and restaurant concepts and may adversely affect our business. We may be unable to detect such unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Effective intellectual property protection may not be available in every country in which we have or intend to open or franchise a restaurant. Failure to adequately protect our intellectual property rights could damage or even destroy our brands and impair our ability to compete effectively. Even where we have effectively secured statutory protection for intellectual property, our competitors may misappropriate our intellectual property and our employees, consultants and suppliers may breach their obligations not to reveal our confidential information, including trade secrets. Although we have taken appropriate measures to protect our intellectual property, there can be no assurance that these protections will be adequate or that our competitors will not independently develop products or concepts that are substantially similar to our restaurants and services. Despite our efforts, it may be possible for third-parties to reverse-engineer, otherwise obtain, copy, and use information that we regard as proprietary. Furthermore, defending or enforcing our trademark rights, branding practices and other intellectual property, and seeking injunction and/or compensation for misappropriation of confidential information, could result in the expenditure of significant resources.

The interests of our controlling stockholders may conflict with the interests of any holder of the senior notes.

Affiliates of Bain Capital Partners, LLC and Catterton Partners, together with certain co-investors, indirectly own approximately 79% of our equity securities. Their interests as equity holders may conflict with those of the noteholders. They may have an incentive to increase the value of their investment or cause us to distribute funds at the expense of our financial condition and affect our ability to make payments on the senior notes. In addition, they will have the power to elect a majority of our Board of Managers, which operates similarly to a Board of Directors (“Board of Directors”), and appoint new officers and management and, therefore, effectively control many significant operational decisions.

Litigation could adversely affect our business.

Our business is subject to the risk of litigation by employees, consumers, suppliers, shareholders or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action and regulatory actions, is difficult to assess or quantify. Plaintiffs may seek recovery of large amounts and the magnitude of potential loss may remain unknown for substantial periods of time. The cost to defend future litigation may be significant. Adverse publicity resulting from litigation, regardless of the validity of any allegations, may adversely affect our business. See Item 3 in Part I of this Form 10-K for a description of certain litigation involving the Company.

Conflict or terrorism could negatively affect our business.

We cannot predict the effects of actual or threatened armed conflicts or terrorist attacks, efforts to combat terrorism, military action against any foreign state or group located in a foreign state or heightened security requirements on local, regional, national, or international economies or consumer confidence.

Advertising and marketing programs and related costs could adversely affect our results of operations.

If our competitors either increase their spending on marketing and advertising programs, or develop more effective campaigns, we could experience a negative effect on our results of operations. In addition, we are conducting ongoing brand awareness and customer loyalty programs. If these programs are not successful they may result in excess expenses incurred without the benefit of higher revenues.

Unfavorable publicity could harm our business.

Our business could be negatively affected by publicity resulting from complaints or litigation, either against us or other restaurant companies, alleging poor food quality, food-borne illness, personal injury, adverse health effects (including obesity) or other concerns. Regardless of the validity of any such allegations, unfavorable publicity relating to any number of restaurants or even a single restaurant could adversely affect public perception of the entire brand.

Additionally, unfavorable publicity towards a food product generally could negatively impact our business. For example, publicity regarding health concerns or outbreaks of disease in a food product, such as bovine spongiform encephalopathy (also known as “mad cow” disease), could reduce demand for our menu offerings. These factors could have a material adverse affect on our business.

Consumer reaction to public health issues, such as an outbreak of flu viruses or other diseases, could have an adverse effect on our business.

Our business could be harmed if the United States and/or other international countries in which we operate experience an outbreak of flu viruses or other diseases. If a virus is transmitted by human contact, our employees or guests could become infected or could choose or be advised to avoid gathering in public places. This could adversely affect our restaurant traffic, our ability to adequately staff our restaurants, our ability to receive deliveries on a timely basis or our ability to perform functions at the corporate level. Our business could also be negatively affected if mandatory closures, voluntary closures or restrictions on operations are imposed in the jurisdictions in which we operate. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or significant health risk may have a material adverse affect on our business.

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Business (continued)

The food service industry is affected by consumer preferences and perceptions. Changes in these preferences and perceptions may lessen the demand for our products, which would reduce sales and harm our business.

Food service businesses are affected by changes in consumer tastes, national, regional and local economic conditions, and demographic trends. For instance, if prevailing health or dietary preferences cause consumers to avoid steak and other products we offer in favor of foods that are perceived as more healthy, our business and operating results would be harmed. Additionally, if consumers' perception of the economy deteriorates, consumers may change spending patterns to reduce discretionary spending, including dining at restaurants.

We have long-term agreements and contracts with select suppliers. If our suppliers are unable to fulfill their obligations under their contracts, we could encounter supply shortages and incur higher costs.

We have a limited number of suppliers for our major products, such as beef. Domestically, in 2011, we expect to purchase approximately 80% of our beef raw materials from four beef suppliers who represent approximately 76% of the total beef marketplace in the United States. Although we have not experienced significant problems with our suppliers, if our suppliers are unable to fulfill their obligations under their contracts, we could encounter supply shortages and incur higher costs.

Shortages or interruptions in the supply or delivery of fresh food products could adversely affect our operating results.

We are dependent on frequent deliveries of fresh food products that meet our specifications. Shortages or interruptions in the supply of fresh food products caused by unanticipated demand, problems in production or distribution, inclement weather or other conditions could adversely affect the availability, quality and cost of ingredients, which would adversely affect our operating results.

We have begun to outsource certain accounting processes to a third-party vendor, which subjects us to many unforeseen risks.

In early 2011, we began to outsource certain accounting processes to a third-party vendor, which could adversely affect our business. The third-party vendor may not be able to handle the volume of activity or perform the quality of service that we have currently achieved at a cost-effective rate. Although we believe we will be able to attain certain cost savings initiatives, there may be certain unidentified intangible costs and legal and regulatory matters adversely affecting our results of operations or financial condition. In addition, the transition of certain business processes to outsourcing could negatively impact our internal control processes. We will continuously evaluate the operation and transition of outsourced business processes and make a diligent effort to ensure that outsourcing continues to meet our business objectives.

We rely heavily on information technology in our operations and any material failure, weakness, interruption or breach of security could prevent us from effectively operating our business.

We rely heavily on information systems across our operations including for point-of-sale processing in our restaurants, management of our supply chain, payment of obligations, collection of cash and other various processes and procedures. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, or a breach in security of these systems could result delays in customer service and reduce efficiency in our operations. Remediation of such problems could result in significant unplanned capital investments.

Table of Contents

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Business (continued)

An impairment in the carrying value of our goodwill or other intangible assets could adversely affect our financial condition and results of operations.

We test goodwill for impairment annually in the second quarter of each fiscal year and whenever events or changes in circumstances indicate that impairment may have occurred. We compare the carrying value of a reporting unit, including goodwill, to the fair value of the reporting unit. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit. If the carrying value is less than the fair value, no impairment exists. If the carrying value is higher than the fair value, there is an indication of impairment. A significant amount of judgment is involved in determining if an indication of impairment exists. Factors may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors would have a significant impact on the recoverability of these assets and negatively affect our financial condition and results of operations. We compute the amount of impairment by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. We are required to record a non-cash impairment charge if the testing performed indicates that goodwill has been impaired.

We evaluate the useful lives of our other intangible assets, primarily the Outback Steakhouse (Domestic and International), Carrabba’s Italian Grill, Bonefish Grill, Flemings Prime Steakhouse and Wine Bar and Roy’s trademarks or trade names, to determine if they are definite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

As with goodwill, we test our indefinite-lived intangible assets for impairment annually in the second quarter of each fiscal year and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We estimate the fair value of these indefinite-lived intangible assets based on an income valuation model using the relief from royalty method, which requires assumptions related to projected revenues from our annual long-range plan, assumed royalty rates that could be payable if we did not own the assets and a discount rate.

During the year ended December 31, 2010, we did not record any goodwill or material intangible asset impairment charges. During the year ended December 31, 2009, we recorded goodwill and intangible asset impairment charges of $11,078,000 and $43,741,000, respectively. During the year ended December 31, 2008, we recorded goodwill and intangible asset impairment charges of $604,071,000 and $46,420,000, respectively. We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become further impaired, there could be an adverse effect on our financial condition and results of operations.

Changes to estimates related to our property and equipment, or operating results that are lower than our current estimates at certain restaurant locations, may cause us to incur impairment charges on certain long-lived assets.

In accordance with accounting guidance as it relates to the impairment of long-lived assets, we make certain estimates and projections with regards to individual restaurant operations, as well as our overall performance in connection with our impairment analyses for long-lived assets. When impairment triggers are deemed to exist for any given location, the estimated undiscounted future cash flows are compared to its carrying value. If the carrying value exceeds the undiscounted cash flows, an impairment charge equal to the difference between the carrying value and the sum of the discounted cash flows is recorded. The projection of future cash flows used in these analyses require the use of judgment and a number of estimates and projections of future operating results. If actual results differ from our estimates, additional charges for asset impairments may be required in the future. If impairment charges are significant, our results of operations could be adversely affected.

Table of Contents

OSI Restaurant Partners, LLC

Item 1A. Risk Factors (continued)

Risks Related to Our Business (continued)

The possibility of future misstatement exists due to inherent limitations in our control systems.

We cannot be certain that our internal control over financial reporting and disclosure controls and procedures will prevent all possible error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of error or fraud, if any, in our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

In connection with the Merger, we caused our wholly-owned subsidiaries to sell substantially all of our domestic restaurant properties to our sister company, PRP, for approximately $987,700,000. PRP then leased the properties to Private Restaurant Master Lessee, LLC, our wholly-owned subsidiary, under a 15-year master lease. The sale of substantially all of our domestic wholly-owned restaurant properties to PRP and entry into the master lease and the underlying subleases resulted in operating leases.

We currently lease approximately 25% of our restaurant sites from PRP and the remaining 75% of our restaurant sites from other third parties. In the future, we intend to either convert existing third-party leased retail space or construct new restaurants through leases in the majority of circumstances. Initial lease expirations primarily range from five to ten years, with the majority of the leases providing for an option to renew for two or more additional terms. All of our leases provide for a minimum annual rent, and many leases call for additional rent based on sales volume at the particular location over specified minimum levels. Generally, the leases are net leases that require us to pay our share of the costs of insurance, taxes and common area operating costs. See Item 1 for a listing of restaurant locations.

As of December 31, 2010, we lease approximately 128,000 square feet of office space in Tampa, Florida under a lease expiring in 2014 (except as noted below). We exercised termination options contained in the lease to release 28,800 square feet as of March 31, 2010. Additional space of approximately 4,500 square feet was leased in June 2010 and expires in January 2012.

Table of Contents

OSI Restaurant Partners, LLC

Item 3. Legal Proceedings

We are subject to legal proceedings, claims and liabilities, such as liquor liability, sexual harassment and slip and fall cases, which arise in the ordinary course of business and are generally covered by insurance. In the opinion of management, the amount of ultimate liability with respect to those actions will not have a material adverse impact on our financial position or results of operations and cash flows. We accrue for loss contingencies that are probable and reasonably estimable. We generally do not accrue for legal costs expected to be incurred with a loss contingency until those services are provided.

We are subject to the following legal proceedings and actions, which depending on the outcomes that are mostly uncertain at this time, could have a material adverse effect on our financial condition:

In March 2008, one of our subsidiaries received a notice of proposed assessment of employment taxes from the Internal Revenue Service ("IRS") for calendar years 2004 through 2006 in the amount of $68,396,000. The IRS asserts that certain cash distributions paid to our managing, chef and area operating partners who hold partnership interests in limited partnerships with our affiliates should have been treated as wages and subjected to employment taxes. We believe that we have complied and continue to comply with the law pertaining to the proper federal tax treatment of partner distributions. We appealed the proposed assessment to the IRS Office of Appeals. We believe the amounts reasonably likely to be incurred upon final settlement of the issues are not material.

On December 29, 2008, American Restaurants, Inc. ("American Restaurants") filed a Petition with the United States District Court for the Southern District of Florida, captioned American Restaurants, Inc. v. Outback Steakhouse International, L.P., seeking confirmation of a purported November 24, 2008 arbitration award against Outback Steakhouse International, L.P. ("Outback International"), our indirect wholly-owned subsidiary, in the amount of $97,997,000, plus interest from August 7, 2006. The award purportedly resolved a dispute involving Outback International's alleged wrongful termination in 1998 of a Restaurant Franchise Agreement entered into in 1996 concerning one restaurant in Argentina. On February 20, 2009, Outback International filed its opposition to the petition to confirm and raised five separate and independent defenses to confirmation under Article 5 of the Inter-American Convention on International Commercial Arbitration. On July 28, 2009, the U.S. District Court for the Southern District of Florida stayed all further proceedings and closed the case administratively, pending final resolution of Outback International's appeal before the Argentine Commercial Court of Appeals ("Argentine Court of Appeals") seeking annulment of the purported award.

On December 9, 2008, in accordance with a procedure provided under Argentine law, Outback International filed with the arbitrator a motion seeking leave to file an appeal to nullify the purported award. On February 27, 2009, the arbitrator denied Outback International's motion. On March 16, 2009, Outback International filed a direct appeal with the Argentine Court of Appeals seeking to annul the purported award. On June 26, 2009, the Argentine Court of Appeals accepted Outback International's appeal and expressly suspended enforcement of the purported award in Argentina pending the outcome of Outback International's appeal seeking nullification. On May 14, 2010, the Argentine Court of Appeals granted Outback International's petition and declared the purported award null and void. The Argentine Court of Appeals also levied all costs against American Restaurants. On July 7, 2010, American Restaurants filed an extraordinary appeal with the Argentine Court of Appeals arguing that its May 14, 2010 nullification decision was in error and should be reviewed by the Argentine Supreme Court. The Argentine Court of Appeals rejected American Restaurant's extraordinary appeal on August 20, 2010. On September 3, 2010, American Restaurants filed a direct appeal to the Argentine Supreme Court. On November 23, 2010, the Argentine Supreme Court rejected American Restaurant's appeal. Accordingly, the May 14, 2010 decision of the Argentine Court of

Appeals nullifying the purported award and levying costs against American Restaurants is final.

Table of Contents

OSI Restaurant Partners, LLC

Item 3. Legal Proceedings (continued)

On February 19, 2009, we filed an action in the Circuit Court for the Thirteenth Judicial District of Florida in Hillsborough County against T-Bird Nevada, LLC ("T-Bird") and its affiliates. T-Bird is a limited liability company affiliated with our California franchisees of Outback Steakhouse restaurants. The action seeks payment on a promissory note made by T-Bird that we purchased from T-Bird's former lender, among other remedies. The principal balance on the promissory note, plus accrued and unpaid interest, was approximately $33,000,000 at the time it was purchased. On July 31, 2009, the Hillsborough County Circuit Court denied T-Bird's motions to dismiss for lack of personal jurisdiction and improper venue. On September 11, 2009, T-Bird and certain of its affiliates filed an answer and counterclaims against us and certain of our officers and affiliates. The answer generally denied T-Bird's liability on the loan, and the counterclaims restated the same claims made by T-Bird in its California action (as described below). We have filed motions to dismiss all counterclaims for failure to state a claim. We believe the counterclaims are without merit.

On February 20, 2009, T-Bird and certain of its affiliates filed suit against us and certain of our officers and affiliates in the Superior Court of the State of California, County of Los Angeles. We filed motions to dismiss T-Bird's complaint on the grounds that a binding agreement related to the loan at issue in the Florida litigation requires that T-Bird litigate its claims in Florida, rather than in California. On September 11, 2009, the motion to dismiss was granted and the case was dismissed. T-Bird appealed the dismissal and on May 17, 2010, the California Court of Appeal reversed the trial court decision and ordered T-Bird's complaint reinstated. On September 1, 2010, the California Supreme Court denied without opinion our petition seeking further review of the California Court of Appeal's decision and the case was returned to the Los Angeles Superior Court. T-Bird filed an amended complaint on November 29, 2010. Like the original complaint, T-Bird's amended complaint claims, among other things, that we made various misrepresentations and breached certain oral promises allegedly made by us and certain of our officers to T-Bird and its affiliates that we would acquire the restaurants owned by T-Bird and its affiliates and until that time we would maintain financing for the restaurants that would be nonrecourse to T-Bird and its affiliates. The amended complaint seeks damages in excess of $100,000,000, exemplary or punitive damages, and other remedies. We have moved to dismiss the complaint. We and the other defendants believe the suit is without merit.

Item 4. [Removed and Reserved]

Table of Contents

OSI Restaurant Partners, LLC

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION

There is no public trading market for our common units.

HOLDERS

As of March 31, 2011, OSI HoldCo, Inc. (our direct owner and an indirect, wholly-owned subsidiary of our Ultimate Parent) was the only owner of record of our common units.

DIVIDENDS

Payment of dividends is prohibited under our credit agreements, except for certain limited circumstances. We have not paid any cash dividends since the Merger.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

As of December 31, 2010, none of our common units were authorized for issuance under any equity compensation plan. See Item 12 in Part III of this Form 10-K. Our Ultimate Parent has authorized and issued stock options under an equity compensation plan after the Merger. See Item 8, Note 3 of Notes to Consolidated Financial Statements for additional information.

RECENT SALES OF UNREGISTERED SECURITIES; USE OF PROCEEDS FROM REGISTERED SECURITIES

None.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

CORPORATE HEADQUARTERS

OSI Restaurant Partners, LLC, 2202 North West Shore Boulevard, Suite 500, Tampa, Florida 33607.

COMPANY NEWS

For Company information, visit our website at www.osirestaurantpartners.com.

Table of Contents

OSI Restaurant Partners, LLC

Item 6. Selected Financial Data

This section should be read in conjunction with the Consolidated Financial Statements and Notes thereto, included in Item 8 of this report, and Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this report. The following table sets forth selected consolidated financial data for the years ended December 31, 2010, 2009 and 2008, the period from June 15 to December 31, 2007, the period from January 1 to June 14, 2007 and the year ended December 31, 2006 and selected consolidated financial data at each of the five fiscal years in the period from December 31, 2006 to December 31, 2010 (in thousands):

	SUCCESSOR (1)				PREDECESSOR	
	YEARS ENDED DECEMBER 31,			PERIOD FROM JUNE 15 to DECEMBER 31,	PERIOD FROM JANUARY 1 to JUNE 14,	YEAR ENDED DECEMBER 31,
	2010	2009	2008	2007	2007	2006
Statements of Operations Data:						
Revenues						
Restaurant sales	$ 3,594,681	$ 3,573,761	$ 3,939,436	$ 2,227,926	$ 1,916,689	$ 3,919,776
Other revenues	33,785	28,066	23,421	12,098	9,948	21,183
Total revenues	3,628,466	3,601,827	3,962,857	2,240,024	1,926,637	3,940,959
Costs and expenses						
Cost of sales	1,151,951	1,184,301	1,389,392	790,592	681,455	1,415,459
Labor and other related	1,034,308	1,023,990	1,095,057	623,159	540,281	1,087,258
Other restaurant operating	939,352	926,343	1,012,724	557,459	440,545	885,562
Depreciation and amortization	135,396	162,731	185,786	102,263	74,846	151,600
General and administrative	251,273	250,097	263,204	138,376	158,147	234,642
Loss on contingent debt guarantee	-	24,500	-	-	-	-
Goodwill impairment	-	11,078	604,071	-	-	-
Provision for impaired assets and restaurant closings	6,875	138,212	112,430	21,766	8,530	14,154
Allowance for notes receivable for affiliated entity	-	-	33,150	-	-	-
(Income) loss from operations of						
	(5,488)	(2,196)	(2,343)	(1,261)	692	(5)

unconsolidated affiliates						
Total costs and expenses	3,513,667	3,719,056	4,693,471	2,232,354	1,904,496	3,788,670
Income (loss) from operations	114,799	(117,229)	(730,614)	7,670	22,141	152,289
Gain on extinguishment of debt (2)	-	158,061	48,409	-	-	-
Other income (expense), net	2,993	(198)	(11,122)	-	-	7,950
Interest expense, net (2)	(69,870)	(93,006)	(154,428)	(93,997)	(4,651)	(11,492)
Income (loss) before provision (benefit) for income taxes	47,922	(52,372)	(847,755)	(86,327)	17,490	148,747
Provision (benefit) for income taxes	20,078	2,034	(105,305)	(47,143)	(1,656)	41,812
Net income (loss)	27,844	(54,406)	(742,450)	(39,184)	19,146	106,935
Less: net income (loss) attributable to noncontrolling interests	6,208	(380)	(3,041)	871	1,685	6,775
Net income (loss) attributable to OSI Restaurant Partners, LLC	$ 21,636	$ (54,026)	$ (739,409)	$ (40,055)	$ 17,461	$ 100,160

(CONTINUED...)

Table of Contents

OSI Restaurant Partners, LLC

Item 6. Selected Financial Data (continued)

	SUCCESSOR (1)				PREDECESSOR
	DECEMBER 31,				DECEMBER 31,
	2010	2009	2008	2007	2006
Balance Sheets Data:					
Working capital deficit	$(187,087)	$(228,219)	$(204,528)	$(222,428)	$ (248,991)
Cash and cash equivalents	300,111	289,162	271,470	171,104	94,856
Total assets	2,479,123	2,585,029	2,857,895	3,703,459	2,258,587
Long-term obligations (2) (3)	1,301,543	1,393,819	1,721,179	1,810,970	209,575
Noncontrolling interests	13,323	18,972	26,707	34,862	36,929

(1) On June 14, 2007, OSI Restaurant Partners, Inc. was acquired by an investor group. Immediately following consummation of the Merger on June 14, 2007, OSI Restaurant Partners, Inc. converted into a Delaware limited liability company named OSI Restaurant Partners, LLC. Therefore, the selected consolidated financial data is presented for two periods: Predecessor and Successor, which relate to the period preceding the Merger and the period succeeding the Merger, respectively. As a result of the Merger, there are several factors that affect the comparability of the selected financial data for the two periods. At the time of the Merger, our assets and liabilities were assigned values that were part carryover basis and part fair value, similar to a step acquisition, pursuant to generally accepted accounting principles in the United States. Consequently, retained earnings and accumulated depreciation were zero after the allocation was completed. Other factors impacting comparability include, but are not limited to: (i) depreciation and amortization are higher in the Successor periods through 2009 due to these fair value assessments, (ii) annual interest expense increased substantially in the Successor period in connection with our financing agreements, (iii) certain professional service costs incurred in connection with the Merger and the management services provided by our management company are included in General and administrative expenses in our Consolidated Statements of Operations in the Successor period and (iv) annual rent expense increased substantially in the Successor period in connection with the PRP sale-leaseback transaction, in which we sold substantially all of our domestic wholly-owned restaurant properties to our sister company, PRP, and then leased them back under a 15-year master lease.

(2) In November 2008 and March 2009, the Company repurchased $61,780,000 and $240,145,000, respectively, of outstanding senior notes for $11,711,000 and $73,000,000, respectively. This resulted in gains on extinguishment of debt, after the pro-rata reduction of unamortized deferred financing fees and other related costs, of $48,409,000 in 2008 and $158,061,000 in 2009. Annualized interest expense savings from these debt extinguishments approximates $30,193,000 per year.

(3) Long-term obligations include our long-term debt and long-term guaranteed debt.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related Notes.

Overview

We are one of the largest casual dining restaurant companies in the world, with five restaurant concepts, more than 1,400 system-wide restaurants and 2010 Total revenues exceeding $3.6 billion. As of December 31, 2010, we operate in 49 states and in 23 countries internationally, predominantly through Company-owned restaurants, but we also operate under a variety of partnerships and franchises. Our operating concepts consist of Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill, Fleming's Prime Steakhouse and Wine Bar and Roy's. Our plan is to exit our Roy's concept, but we have not established a timeframe to do so.

Our primary focus is to provide a quality product together with quality service across all of our brands. This goal entails offering consumers of different demographic backgrounds an array of dining alternatives suited for differing needs. We generate our sales primarily from a diverse customer base, which includes people eating in our restaurants as regular patrons who return for meals several times a week, those celebrating special occasions such as birthday parties, individuals holding private events and those conducting business. Secondarily, we generate revenues through sales of franchise rights and ongoing royalties.

The restaurant industry is a highly competitive and fragmented business, which is subject to sensitivity from changes in the economy, trends in lifestyles, seasonality (customer spending patterns at restaurants are generally highest in the first quarter of the year and lowest in the third quarter of the year) and fluctuating costs. Operating margins for restaurants can vary due to competitive pricing strategies and fluctuations in prices of commodities, which include among other things, beef, chicken, seafood, butter, cheese, produce and other necessities to operate a restaurant, such as natural gas or other energy supplies. Additionally, the restaurant industry is characterized by a high initial capital investment, coupled with high labor costs. The combination of these factors underscores our initiative to drive increased sales at existing restaurants in order to raise margins and profits, because the incremental contribution to profits from every additional dollar of sales above the minimum costs required to open, staff and operate a restaurant is relatively high. Historically, we have not been a company focused on growth in the number of restaurants just to generate additional sales. Our expansion and operating strategies have balanced investment costs and the economic factors of operations, in order to generate reasonable, sustainable margins and achieve acceptable returns on investment from our restaurant concepts.

We have developed a multi-year plan to refresh and update our Outback Steakhouse restaurants. The new look delivers a more contemporary expression of Australia in our restaurants using updated colors, fabrics, textures, art, lighting, props and murals.

Key factors we use in evaluating our restaurants and assessing our business include the following:

- Average restaurant unit volumes - average sales per restaurant to measure changes in consumer traffic, pricing and development of the brand;
-

Operating margins - restaurant revenues after deduction of the main restaurant-level operating costs (including cost of sales, other restaurant operating expenses, and labor and other related costs);

- System-wide sales - total restaurant sales volume for all Company-owned, franchise and unconsolidated joint venture restaurants, regardless of ownership, to interpret the overall health of our brands; and
- Same-store or comparable-store sales - year-over-year comparison of sales volumes for restaurants that are open 18 months or more in order to remove the impact of new restaurant openings in comparing the operations of existing restaurants.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview (continued)

Our 2010 financial results compared to 2009 include:

- Increase in consolidated revenues of 0.7% to $3.6 billion, driven primarily by a $90.0 million increase in comparable-store sales at our existing restaurants and partially offset by a $75.6 million decrease in restaurant sales from the sale and January 1, 2010 de-consolidation of 34 Cheeseburger in Paradise locations;
- 13 system-wide restaurant openings compared to 17 system-wide restaurant closings, across most brands;
- Exceeding our 2010 efficiency improvement goal by achieving $67.0 million in savings;
- Generation of Income from operations of $114.8 million in 2010 compared to (Loss) from operations of ($117.2) million in 2009, partially attributable to a $142.4 million decrease in total impairment charges and a $27.3 million decrease in depreciation and amortization expense;
- Decline in net interest expense of 24.9% primarily driven by a net $14.1 million decrease in interest expense mainly due to mark to market adjustments on our interest rate collar that matured effective September 30, 2010 and an approximately $5.2 million reduction of interest expense as a result of the $240.1 million decrease in principal outstanding on senior notes from our completion of a cash tender offer during March of 2009.

During 2010, we had the following four key objectives:

- Revitalize top line growth;
- Elevate organizational effectiveness;
- Accelerate continuous productivity improvement to fund growth; and
- Deliver our 2010 financial plan to maintain stable cash flow while making necessary investments to drive sustainable, long-term growth.

We made progress on our top line revitalization efforts during 2010, as we generated positive comparable-store sales and gained traffic share compared to the restaurant segment across our major concepts throughout the year. We increased the overall level of marketing spending to drive sustainable traffic improvement and developed unique promotions throughout our concepts that fit our brand positioning, looked beyond price and leveraged consumer touch points. We also accelerated certain innovation opportunities in our menu, service and operations at each of our concepts. Examples include the launch of signature pasta meals starting at $10 and smaller portion options at Carrabba's Italian Grill, weekday promotions at Bonefish Grill and new salad, appetizer and seafood items at Outback Steakhouse.

Our key area of focus in elevating organizational effectiveness was in building the appropriate talent and infrastructure to accelerate innovation and drive sustainable top line growth and productivity. We made progress in this area during 2010 by increasing our resources in consumer insights, research and development, productivity and human resources. We also invested in our infrastructure, as we improved our data warehousing capability and made progress towards establishing a consistent technology platform across our concepts.

In the area of productivity improvement, we created a team that is responsible for building a sustainable model for continuous improvement that will be identifying best practices and improving productivity resource allocation and utilization. Our 2010 efficiency savings were $67,000,000.

During 2010, we successfully balanced our investments in infrastructure and long-term brand growth with the benefits of efficiency plans and traffic share gains to enable growth in cash flow over 2009 while creating a platform for sustainable growth in the future.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview (continued)

As we look towards 2011, global economic conditions appear to be improving, but at a slower pace in the United States. The casual dining segment experienced negative comparable-store traffic in 2010 but is expected to stabilize in 2011 with the possibility of growth if economic conditions continue to improve. Competitive pressure for market share, inflation, foreign currency exchange rates and other market conditions could adversely impact our business.

In 2011, we will continue to balance near-term growth in share gains with investments to achieve sustainable growth. Our key objectives for 2011 include:

- Continue share growth by enhancing brand competitiveness in a challenging environment;
- Effectively manage costs by mitigating commodity risk and accelerating continuous productivity improvement;
- Elevate organizational effectiveness and build infrastructure for sustainable growth;
- Increase brand investment pace, including renovations and new unit development; and
- Deliver our 2011 financial plan to maintain stable cash flow while investing for long-term growth.

In order to continue to drive share gains, we plan to build on our successful marketing and brand position improvements in 2010 by continuing our strategy of developing unique promotions throughout our concepts that fit our brand positioning, focus on delivering superior brand experience and leverage consumer touch points. We will also continue to identify opportunities to increase innovation in our menu, service and operations across all our concepts.

Our productivity improvement goal in 2011 is $50 million in savings, and we will combine productivity improvement with modest pricing action to offset commodity inflation.

We will continue to increase our organizational effectiveness by continuing to build the growth-enabling functions via infrastructure investments in areas such as information technology and human resources.

Our brand investments will be focused on increasing unit development in higher return, high-growth concepts with focus on Bonefish Grill, accelerating Outback Steakhouse renovations and building our infrastructure.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview (continued)

At December 31, 2010, the OSI Restaurant Partners, LLC restaurant system included the following:

	Outback Steakhouse (domestic)	Outback Steakhouse (international)	Carrabba's Italian Grill	Bonefish Grill	Fleming's Prime Steakhouse and Wine Bar	Roy's	Total
Company-owned	670	120	232	145	64	22	1,253
Development joint venture	-	29	-	-	-	-	29
Franchise	108	41	1	7	-	-	157
Total	778	190	233	152	64	22	1,439

Company-owned restaurants include restaurants owned by limited partnerships in which we are a general partner and joint ventures in which we are a member. Our legal ownership interests in the partnerships and joint ventures generally range from 50% to 90%. Company-owned restaurants also include restaurants owned by our Roy's joint venture and our consolidated financial statements include the accounts and operations of our Roy's joint venture even though we have less than majority ownership (See Item 8, Note 20 of Notes to Consolidated Financial Statements for additional information).

Through a joint venture arrangement with PGS Participacoes Ltda., the Company holds a 50% ownership interest in PGS Consultoria e Serviços Ltda. (the "Brazilian Joint Venture"). The Brazilian Joint Venture was formed in 1998 for the purpose of operating Outback franchise restaurants in Brazil. The Company accounts for the Brazilian Joint Venture under the equity method of accounting. We are responsible for 50% of the costs of new restaurants operated by the Brazilian Joint Venture and our joint venture partner is responsible for the other 50%. Income and loss derived from the Brazilian Joint Venture is presented in the line item "Income from operations of unconsolidated affiliates" in our Consolidated Statements of Operations.

We derive no direct income from operations of franchised restaurants other than initial and developmental franchise fees and ongoing royalties, which are included in "Other revenues" in our Consolidated Statements of Operations.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

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

	YEARS ENDED DECEMBER 31,					
	2010		2009		2008	
Revenues						
Restaurant sales	99.1	%	99.2	%	99.4	%
Other revenues	0.9		0.8		0.6	
Total revenues	100.0		100.0		100.0	
Costs and expenses						
Cost of sales (1)	32.0		33.1		35.3	
Labor and other related (1)	28.8		28.7		27.8	
Other restaurant operating (1)	26.1		25.9		25.7	
Depreciation and amortization	3.7		4.5		4.7	
General and administrative	6.9		6.9		6.6	
Loss on contingent debt guarantee	-		0.7		-	
Goodwill impairment	-		0.3		15.2	
Provision for impaired assets and restaurant closings	0.2		3.8		2.8	
Allowance for notes receivable for affiliated entity	-		-		0.8	
Income from operations of unconsolidated affiliates	(0.2	)	(0.1	)	(0.1	)
Total costs and expenses	96.8		103.3		118.4	
Income (loss) from operations	3.2		(3.3	)	(18.4	)
Gain on extinguishment of debt	-		4.4		1.2	
Other income (expense), net	0.1		(*	)	(0.3	)
Interest expense, net	(1.9	)	(2.6	)	(3.9	)
Income (loss) before provision (benefit) for income taxes	1.4		(1.5	)	(21.4	)
Provision (benefit) for income taxes	0.6		*		(2.6	)
Net income (loss)	0.8		(1.5	)	(18.8	)
Less: net income (loss) attributable to noncontrolling interests	0.2		(*	)	(0.1	)
Net income (loss) attributable to OSI Restaurant Partners, LLC	0.6	%	(1.5	)%	(18.7	)%

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

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

The table below presents the number of our restaurants in operation at the end of the periods indicated:

	DECEMBER 31,		
	2010	2009	2008
Number of restaurants (at end of the period):			
Outback Steakhouse			
Company-owned - domestic	670	680	689
Company-owned - international	120	119	129
Franchised - domestic	108	108	107
Franchised and development joint venture - international	70	63	53
Total	968	970	978
Carrabba's Italian Grill			
Company-owned	232	232	237
Franchised	1	1	1
Total	233	233	238
Bonefish Grill			
Company-owned	145	145	142
Franchised	7	7	7
Total	152	152	149
Fleming’s Prime Steakhouse and Wine Bar			
Company-owned	64	64	61
Other			
Company-owned (1)	22	58	65
System-wide total	1,439	1,477	1,491

(1) In September 2009, we sold our Cheeseburger in Paradise concept, which included 34 restaurants, to PRG. Based on the terms of the purchase and sale agreement, we consolidated PRG after the sale transaction. Upon adoption of new accounting guidance for variable interest entities, we deconsolidated PRG on January 1, 2010. As a result, the current period includes only our Roy’s concept.

Our restaurant concepts operate as one reportable segment, as the brands have similar economic characteristics, resulting in similar long-term expected financial performance, as well as nature of products and services, class of customer and distribution methods.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

System-wide sales increased 2.2% in 2010 and declined 8.6% in 2009. System-wide sales is a non-GAAP financial measure that includes sales of all restaurants operating under our brand names, whether we own them or not. System-wide sales is comprised of sales of Company-owned restaurants of OSI Restaurant Partners, LLC and sales of franchised and unconsolidated development joint venture restaurants. The table below presents the first component of system-wide sales, which is sales of Company-owned restaurants:

	YEARS ENDED DECEMBER 31,		
	2010	2009	2008
COMPANY-OWNED RESTAURANT SALES (in millions):			
Outback Steakhouse			
Domestic	$1,960	$1,954	$2,153
International	281	260	298
Total	2,241	2,214	2,451
Carrabba's Italian Grill	653	633	681
Bonefish Grill	403	375	384
Fleming's Prime Steakhouse and Wine Bar	223	199	216
Other (1)	75	153	207
Total Company-owned restaurant sales	$3,595	$3,574	$3,939

(1) In September 2009, we sold our Cheeseburger in Paradise concept, which included 34 restaurants, to PRG. Based on the terms of the purchase and sale agreement, we consolidated PRG after the sale transaction. Upon adoption of new accounting guidance for variable interest entities, we deconsolidated PRG on January 1, 2010. As a result, the current period includes primarily our Roy's concept.

The following information presents the second component of system-wide sales, which are sales of franchised and unconsolidated development joint venture restaurants. These are restaurants that are not consolidated and from which we only receive a franchise royalty or a portion of their total income. Management believes that franchise and unconsolidated development joint venture sales information is useful in analyzing our revenues because franchisees and affiliates pay royalties and/or service fees that generally are based on a percentage of sales. Management also uses this information to make decisions about future plans for the development of additional restaurants and new concepts as well as evaluation of current operations.

These sales do not represent sales of OSI Restaurant Partners, LLC, and are presented only as an indicator of changes in the restaurant system, which management believes is important information regarding the health of our restaurant brands.

	YEARS ENDED DECEMBER 31,		
	2010	2009	2008
FRANCHISE AND UNCONSOLIDATED DEVELOPMENT JOINT VENTURE SALES (in millions) (1):			
Outback Steakhouse			

Domestic	$296	$294	$325
International	234	170	159
Total	530	464	484
Carrabba's Italian Grill	4	3	-
Bonefish Grill	16	16	16
Total franchise and unconsolidated development joint venture sales (1)	$550	$483	$500
Income from franchise and unconsolidated development joint ventures (2)	$31	$26	$23

(1) Franchise and unconsolidated development joint venture sales are not included in revenues in the Consolidated Statements of Operations.

(2) Represents the franchise royalty and the portion of total income related to restaurant operations included in the Consolidated Statements of Operations in the line items "Other revenues" or "Income from operations of unconsolidated affiliates."

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

REVENUES

Restaurant sales

(dollars in thousands):	YEARS ENDED DECEMBER 31, 2010	2009	$ Change	% Change	YEARS ENDED DECEMBER 31, 2009	2008	$ Change	% Change
Restaurant sales	$3,594,681	$3,573,761	$20,920	0.6 %	$3,573,761	$3,939,436	$(365,675)	(9.3)%

The increase in restaurant sales in 2010 as compared to 2009 was primarily attributable to a $90,023,000 increase in comparable-store sales at our existing restaurants and a $23,128,000 increase in sales from 32 restaurants not included in our comparable-store sales base. This increase was partially offset by a $75,558,000 decrease from the sale and de-consolidation of 34 Cheeseburger in Paradise locations and a $16,673,000 decrease from the closing of 16 restaurants during 2010.

The decrease in restaurant sales in 2009 as compared to 2008 was primarily attributable to the following: (i) a $356,297,000 decrease in comparable-store sales at our existing restaurants, (ii) a $44,751,000 decrease from the closing of 34 restaurants during 2009 and (iii) a $19,099,000 decrease from the sale of six Lee Roy Selmon’s locations at December 31, 2008 and was partially offset by a $54,472,000 increase in sales from 73 restaurants not included in our comparable-store sales base.

The following table includes additional information about changes in restaurant sales at domestic Company-owned restaurants for our significant brands:

	YEARS ENDED DECEMBER 31, 2010	2009	2008
Average restaurant unit volumes (in thousands):			
Outback Steakhouse	$2,906	$2,857	$3,130
Carrabba's Italian Grill	$2,816	$2,737	$2,865
Bonefish Grill	$2,781	$2,606	$2,726
Fleming's Prime Steakhouse and Wine Bar	$3,476	$3,148	$3,797
Operating weeks:			
Outback Steakhouse	35,200	35,720	35,984
Carrabba's Italian Grill	12,097	12,065	12,394
Bonefish Grill	7,553	7,491	7,366
Fleming's Prime Steakhouse and Wine Bar	3,337	3,292	2,962
Year over year percentage change:			
Menu price (decreases) increases: (1)			
Outback Steakhouse	-0.1 %	1.3 %	3.2 %
Carrabba's Italian Grill	0.4 %	1.6 %	1.7 %
Bonefish Grill	0.2 %	1.5 %	1.6 %

Fleming's Prime Steakhouse and Wine Bar	0.5	%	0.6	%	3.3	%
Comparable-store sales (stores open 18 months or more):						
Outback Steakhouse	1.5	%	-8.8	%	-6.1	%
Carrabba's Italian Grill	2.9	%	-6.1	%	-4.2	%
Bonefish Grill	6.5	%	-5.9	%	-8.5	%
Fleming's Prime Steakhouse and Wine Bar	10.4	%	-16.4	%	-11.4	%

(1) The stated menu price changes exclude the impact of product mix shifts to new menu offerings.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

REVENUES (continued)

Other revenues

	YEARS ENDED DECEMBER 31,			YEARS ENDED DECEMBER 31,		
(in thousands):	2010	2009	Change	2009	2008	Change
Other revenues	$33,785	$28,066	$5,719	$28,066	$23,421	$4,645

Other revenues, consisting primarily of initial franchise fees, royalties and sublease revenue, increased in 2010 as compared to 2009. This increase was primarily attributable to $2,400,000 of increased development and franchise royalties from international Outback Steakhouse restaurants and $800,000 of increased sublease revenue primarily generated from PRG as a result of the sale of our Cheeseburger in Paradise concept in September 2009.

The increase in 2009 as compared to 2008 was primarily attributable to $3,100,000 of increased development and franchise royalties from international Outback Steakhouse restaurants and increased sublease revenue of $2,500,000 and was partially offset by a $1,300,000 decline in domestic franchise royalties.

COSTS AND EXPENSES

Cost of sales

	YEARS ENDED DECEMBER 31,			YEARS ENDED DECEMBER 31,		
(dollars in thousands):	2010	2009	Change	2009	2008	Change
Cost of sales	$1,151,951	$1,184,301		$1,184,301	$1,389,392	
% of Restaurant sales	32.0 %	33.1 %	(1.1)%	33.1 %	35.3 %	(2.2)%

Cost of sales, consisting of food and beverage costs, decreased as a percentage of restaurant sales in 2010 as compared to 2009. The decrease as a percentage of restaurant sales was primarily 1.1% from the impact of certain cost savings initiatives and 0.7% from decreases in beef costs. The decrease was partially offset by increases as a percentage of restaurant sales of the following: (i) 0.3% from increases in produce, dairy and other commodity costs, (ii) 0.2% due to changes in our product mix and (iii) 0.2% from changes in our limited time offers and other promotions.

The decrease as a percentage of restaurant sales in 2009 as compared to 2008 was primarily due to the following: (i) 1.2% from the impact of certain cost savings initiatives, (ii) 0.7% from decreases in beef and dairy costs and (iii) 0.3% from general menu price increases.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

COSTS AND EXPENSES (continued)

Labor and other related expenses

	YEARS ENDED DECEMBER 31,					YEARS ENDED DECEMBER 31,						
(dollars in thousands):	2010		2009		Change		2009		2008		Change	
Labor and other related	$1,034,308		$1,023,990				$1,023,990		$1,095,057			
% of Restaurant sales	28.8	%	28.7	%	0.1	%	28.7	%	27.8	%	0.9	%

Labor and other related expenses include all direct and indirect labor costs incurred in operations, including distribution expense to managing partners, costs related to the PEP and other stock-based and incentive compensation expenses. Labor and other related expenses increased as a percentage of restaurant sales in 2010 as compared with 2009. The increase as a percentage of restaurant sales was primarily due to the following: (i) 0.4% from higher kitchen, service and management labor costs, (ii) 0.2% from an increase in health insurance expense and (iii) 0.2% from higher distribution expense to managing partners. The increase was partially offset by decreases as a percentage of restaurant sales of 0.5% from the impact of certain cost savings initiatives and 0.2% from higher average unit volumes at our restaurants.

The increase as a percentage of restaurant sales in 2009 as compared to 2008 was primarily due to the following: (i) 1.5% from declines in average unit volumes, (ii) 0.6% from higher kitchen, service and management labor costs, including payroll tax and health insurance expense and (iii) 0.5% from an increase in expenses incurred as a result of gains on participants' PEP and other deferred compensation investment accounts. The increase was partially offset by decreases as a percentage of restaurant sales of approximately 1.5% from certain cost savings initiatives and 0.2% from reduced workers' compensation insurance costs.

Other restaurant operating expenses

	YEARS ENDED DECEMBER 31,					YEARS ENDED DECEMBER 31,						
(dollars in thousands):	2010		2009		Change		2009		2008		Change	
Other restaurant operating	$939,352		$926,343				$926,343		$1,012,724			
% of Restaurant sales	26.1	%	25.9	%	0.2	%	25.9	%	25.7	%	0.2	%

Other restaurant operating expenses include certain unit-level operating costs such as operating supplies, rent, repairs and maintenance, advertising expenses, utilities, pre-opening costs and other occupancy costs. A substantial portion of these expenses is fixed or indirectly variable. The increase as a percentage of restaurant sales in 2010 as compared to 2009 was primarily due to the following: (i) 0.4% from increases in advertising costs, (ii) 0.2% from increases in the recognition of deferred gift card fees, (iii) 0.2% from increases in repairs and maintenance costs, occupancy costs and operating supplies expense and (iv) 0.2% from higher general liability insurance expense. The increase was partially offset by decreases as a percentage of restaurant sales of 0.5% from higher average unit volumes at our restaurants and 0.2% from certain cost savings initiatives.

The increase as a percentage of restaurant sales in 2009 as compared to 2008 was primarily 1.4% from declines in average unit volumes. The increase was partially offset by decreases as a percentage of restaurant sales of 0.4% from certain cost savings initiatives, 0.3% from decreases in utilities costs, 0.3% from reduced general liability insurance expenses and 0.2% from reduced pre-opening costs.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

COSTS AND EXPENSES (continued)

Depreciation and amortization

(dollars in thousands):	YEARS ENDED DECEMBER 31, 2010	YEARS ENDED DECEMBER 31, 2009	Change	YEARS ENDED DECEMBER 31, 2009	YEARS ENDED DECEMBER 31, 2008	Change
Depreciation and amortization	$135,396	$162,731		$162,731	$185,786	
% of Total revenues	3.7 %	4.5 %	(0.8)%	4.5 %	4.7 %	(0.2)%

Depreciation and amortization expense decreased as a percentage of total revenues in 2010 as compared to 2009. This decrease as a percentage of total revenues was primarily 0.7% from certain assets being fully depreciated as of June 2009 and June 2010.

The decrease as a percentage of total revenues in 2009 as compared to 2008 was primarily 0.5% from certain assets being fully depreciated as of June 2009 and 0.2% from a reduction in our depreciable asset base primarily due to significant property, fixtures and equipment impairment charges during 2009 and 2008. The decrease as a percentage of total revenues was partially offset by 0.5% from declines in average unit volumes.

General and administrative

(in thousands):	YEARS ENDED DECEMBER 31, 2010	YEARS ENDED DECEMBER 31, 2009	Change	YEARS ENDED DECEMBER 31, 2009	YEARS ENDED DECEMBER 31, 2008	Change
General and administrative	$251,273	$250,097	$1,176	$250,097	$263,204	$(13,107)

General and administrative costs increased in 2010 as compared to 2009 primarily due to the following: (i) $10,200,000 of increased general and administrative costs associated with field support, managers-in-training and distribution expense, (ii) $10,000,000 of additional consulting and legal fees primarily related to our productivity improvement and brand growth strategies, (iii) $4,400,000 of additional corporate compensation expense as a result of increasing our resources in consumer insights, research and development, productivity and human resources and (iv) a $4,100,000 reduction in the gain on the cash surrender value of life insurance investments. This increase was partially offset by the following: (i) a $14,000,000 decrease in restricted stock, deferred compensation and partner buyout expenses that was mostly due to the accelerated vesting of restricted stock for certain executive officers in 2009, (ii) a $7,100,000 reduction of bonus and severance expenses, (iii) a $3,800,000 decrease from certain cost savings initiatives and (iv) a $1,300,000 decrease in ongoing operating costs at closed locations.

The decrease in 2009 as compared to 2008 was primarily attributable to the following: (i) an $8,501,000 gain on the cash surrender value of life insurance investments in 2009 as opposed to a $15,471,000 loss in 2008, (ii) $13,600,000 of certain professional fees and other cost savings initiatives, (iii) $9,900,000 of decreased general and administrative costs associated with field support and managers-in-training, (iv) $4,600,000 of reduced general and administrative costs in 2009 as a result of the sale of our Selmon's concept effective December 31, 2008 and (v) $5,700,000 of decreased legal, government relations, accounting and advertising costs. This decrease was partially offset by $27,700,000 of incremental bonus and severance expenses and $9,500,000 of incremental deferred compensation and stock option expenses in 2009 as compared to 2008 and a $6,662,000 gain from the sale of land in Las Vegas, Nevada that occurred in 2008.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

COSTS AND EXPENSES (continued)

Loss on contingent debt guarantee

We are the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of $24,500,000 for our joint venture partner, RY-8, in the development of Roy's restaurants (see “Debt Guarantees” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”). We recorded a $24,500,000 loss associated with this guarantee in the year ended December 31, 2009.

Goodwill impairment

We did not record a goodwill impairment charge during the year ended December 31, 2010. We recorded an aggregate goodwill impairment charge of $11,078,000 for the domestic Outback Steakhouse, Bonefish Grill and Fleming’s Prime Steakhouse and Wine Bar concepts during the second quarter of 2009 in connection with our annual impairment test. During 2008, we recorded an aggregate goodwill impairment charge of $604,071,000 for the domestic and international Outback Steakhouse, Bonefish Grill and Fleming’s Prime Steakhouse and Wine Bar concepts.

Our 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 their carrying values. These goodwill impairment charges occurred due to poor overall economic conditions, declining sales at our restaurants, reductions in our projected results for future periods and a challenging environment for the restaurant industry (see “Critical Accounting Policies and Estimates” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”).

Provision for impaired assets and restaurant closings

	YEARS ENDED DECEMBER 31,			YEARS ENDED DECEMBER 31,		
(in thousands):	2010	2009	Change	2009	2008	Change
Provision for impaired assets and restaurant closings	$6,875	$138,212	$(131,337)	$138,212	$112,430	$25,782

During 2010, we recorded a provision for impaired assets and restaurant closings of $6,875,000. During 2009, we recorded a provision for impaired assets and restaurant closings of $138,212,000 which primarily included $45,962,000 of impairment charges to reduce the carrying value of the assets of Cheeseburger in Paradise to their estimated fair market value due to the concept’s third quarter of 2009 sale, $51,494,000 of impairment charges and restaurant closing expense for certain of our other restaurants and $36,000,000 of impairment charges for the domestic Outback Steakhouse and Carrabba’s Italian Grill trade names. During 2008, we recorded a provision for impaired assets and restaurant closings of $112,430,000 which included $42,958,000 of impairment charges for the domestic and international Outback Steakhouse and Carrabba’s Italian Grill trade names, $3,462,000 of impairment charges for the Blue Coral Seafood and Spirits trademark and $65,767,000 of impairment charges for certain of our restaurants.

We used the discounted cash flow method to determine the fair value of our intangible assets. The trade name impairment charges occurred due to poor overall economic conditions, declining sales at our restaurants, reductions in our projected results for future periods and a challenging environment for the restaurant industry. Restaurant impairment charges primarily resulted from the carrying value of a restaurant's assets exceeding its estimated fair market value, primarily due to anticipated closures or declining future cash flows from lower projected future sales on existing locations (see "Critical Accounting Policies and Estimates" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations").

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

COSTS AND EXPENSES (continued)

Allowance for notes receivable for affiliated entity

T-Bird, a limited liability company affiliated with our California franchisees of Outback Steakhouse restaurants, defaulted on a line of credit (that we had guaranteed) by failing to pay the outstanding balance of $33,283,000 due on the December 31, 2008 maturity date. In anticipation of receiving a notice of default subsequent to the end of the year, we recorded a $33,150,000 allowance for notes receivable held by T-Bird in 2008.

Income from operations of unconsolidated affiliates

(in thousands):	YEARS ENDED DECEMBER 31, 2010	2009	Change	YEARS ENDED DECEMBER 31, 2009	2008	Change
Income from operations of unconsolidated affiliates	$5,488	$2,196	$3,292	$2,196	$2,343	$(147)

Income from operations of unconsolidated affiliates primarily represents our portion of net income from restaurants operated as development joint ventures. It increased in 2010 as compared to 2009 primarily as a result of a 26% increase in restaurant sales for our Brazilian Joint Venture.

Gain on extinguishment of debt

During the first quarter of 2009, we purchased $240,145,000 in aggregate principal amount of our senior notes in a cash tender offer. We paid $72,998,000 for the senior notes purchased and $6,671,000 of accrued interest. We recorded a gain from the extinguishment of debt of $158,061,000 in 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 for fees related to the tender offer.

Between November 18, 2008 and November 21, 2008, we purchased on the open market and extinguished $61,780,000 in aggregate principal amount of our senior notes. We paid $11,711,000 for the senior notes purchased and $2,729,000 of accrued interest. We recorded a gain from the extinguishment of debt of $48,409,000 in 2008. The gain was reduced by $1,660,000 for the pro rata portion of unamortized deferred financing fees that related to the extinguished senior notes.

Other income (expense), net

(in thousands):	YEARS ENDED DECEMBER 31, 2010	2009	Change	YEARS ENDED DECEMBER 31, 2009	2008	Change
Other income (expense), net	$2,993	$(198)	$3,191	$(198)	$(11,122)	$10,924

Other income (expense), net represents foreign currency transaction gains (losses) resulting from fluctuations in foreign currency exchange rates on certain international intercompany loans. The income in 2010 was primarily due to an 11.6% decrease in the Japanese Yen. We did not experience significant foreign currency exchange rate fluctuations in 2009. The expense in 2008 was primarily due to a 35.2% increase in the Korean Won partially offset by a 19.6% decrease in the Japanese Yen.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

COSTS AND EXPENSES (continued)

Interest expense, net

	YEARS ENDED DECEMBER 31,			YEARS ENDED DECEMBER 31,		
(in thousands):	2010	2009	Change	2009	2008	Change
Interest expense, net	$69,870	$93,006	$(23,136)	$93,006	$154,428	$(61,422)

The decrease in net interest expense in 2010 as compared to 2009 was primarily due to a net $14,132,000 decrease in interest expense mainly due to mark to market adjustments on our interest rate collar that matured effective September 30, 2010 and a reduction of approximately $5,200,000 of interest expense as a result of the $240,145,000 decrease in principal outstanding on senior notes from our completion of a cash tender offer during March of 2009.

The decrease in 2009 as compared to 2008 resulted from (i) a $301,925,000 decrease in outstanding senior notes as a result of our cash tender offer during the first quarter of 2009 and our open market purchases during the fourth quarter of 2008, (ii) an overall decline in the variable interest rates on our senior secured term loan facility and other variable-rate debt in 2009 as compared with 2008 and (iii) a net $4,642,000 decrease of interest expense on our interest rate collar.

Provision (benefit) for income taxes

	YEARS ENDED DECEMBER 31,			YEARS ENDED DECEMBER 31,		
	2010	2009	Change	2009	2008	Change
Effective income tax rate	41.9%	(3.9)%	45.8%	(3.9)%	12.4%	(16.3)%

The net increase in the effective income tax rate in 2010 as compared to the previous year was primarily due to the effect of the change in the valuation allowance against deferred tax assets. The net decrease in the effective income tax rate in 2009 as compared to the previous year was primarily due to the increase in deferred tax asset valuation allowances in 2009. This decrease was partially offset by a $592,993,000 decrease in Goodwill impairment in 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 Kangaroo Holdings, Inc.'s acquisition of OSI Restaurant Partners, Inc's stock.

The effective income tax rate for the year ended December 31, 2010 was higher than the combined federal and state statutory rate of 38.9% due to an increase in the valuation allowance on deferred income tax assets and income taxes in states that only have limited deductions in computing the state current tax provision. The effective income tax rate for the year ended December 31, 2009 was significantly lower than the combined federal and state statutory rate of 38.9% due to an increase in deferred income tax asset valuation allowances, which was partially offset by the benefit of the tax credit for excess FICA tax on employee-reported tips being such a large percentage of pretax loss.

49

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

COSTS AND EXPENSES (continued)

Net income (loss) attributable to noncontrolling interests

(in thousands):	YEARS ENDED DECEMBER 31, 2010	2009	Change	YEARS ENDED DECEMBER 31, 2009	2008	Change
Net income (loss) attributable to noncontrolling interests	$6,208	$(380)	$6,588	$(380)	$(3,041)	$2,661

The allocation of net income (loss) attributable to noncontrolling interests represents the portion of income or loss from operations included in the consolidated operating results attributable to the noncontrolling ownership interests in certain restaurants that are not wholly-owned. The increase in 2010 as compared to 2009 was primarily due to improved operating results at Carrabba's Italian Grill, Bonefish Grill, Fleming's Prime Steakhouse and Wine Bar and Roy's, and the increase in 2009 as compared to 2008 was primarily due to improved operating results at Carrabba's Italian Grill, Bonefish Grill and Roy's.

Financial Condition

Other current assets, net declined to $73,957,000 at December 31, 2010 as compared with $95,494,000 at December 31, 2009, primarily due to a $19,000,000 decrease in insurance receivable as a result of a settlement payment for a class action lawsuit (also decreased Accrued and other current liabilities below).

Working capital (deficit) totaled ($187,087,000) and ($228,219,000) at December 31, 2010 and 2009, respectively, and included Unearned revenue from unredeemed gift cards of $269,058,000 and $237,580,000 at December 31, 2010 and 2009, respectively. Unearned revenue is a liability that does not require cash settlement.

Current liabilities declined to $651,961,000 at December 31, 2010 as compared with $712,731,000 at December 31, 2009 with the decrease primarily due to a reduction in the Current portion of long-term debt of $39,049,000, a decrease in Accounts payable of $30,228,000 and a decrease in Accrued and other current liabilities of $21,861,000. See "Credit Facilities and Other Indebtedness" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on our debt. The decrease in Accounts payable was due to an acceleration of certain payments prior to the end of 2010. The decrease in Accrued and other current liabilities was partially due to a $19,000,000 reduction in accrued insurance as a result of a settlement payment for a class action lawsuit and to an $18,458,000 decline in our interest rate collar liability as a result of the maturity of the interest rate collar on September 30, 2010. The decrease in Current liabilities was partially offset by a $31,478,000 increase in Unearned revenue from an increase in the sale of gift cards.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

CURRENT ECONOMIC ENVIRONMENT AND POTENTIAL IMPACTS OF MARKET CONDITIONS

We require capital primarily for principal and interest payments on our debt, prepayment requirements under our term loan facility (see “Credit Facilities and Other Indebtedness” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”), obligations related to our deferred compensation plans, the development of new restaurants, remodeling older restaurants, investments in technology and acquisitions of franchisees and joint venture partners.

The challenging economic conditions since 2008 have created a difficult environment for us and for the restaurant industry, and these conditions have limited and may continue to limit our liquidity. During 2009 and 2008, we experienced declining revenues, comparable-store sales and operating cash flows and incurred operating losses each year. However, during 2010, we experienced a strengthening of trends in consumer traffic, increases in comparable-store sales and operating cash flows and generated operating income. Notwithstanding these 2010 improvements, the industry continues to be challenged and uncertainty exists as to the sustainability of these favorable trends.

In 2010, we continued to implement various cost-saving initiatives, including food cost decreases through waste reduction and supply chain efficiency and labor efficiency initiatives. We developed new menu items to appeal to value-conscious consumers and used marketing campaigns to promote these items. Based on our knowledge of economic and industry trends and our historical restaurant sales combined with the results of our cost savings initiatives, we believe that the implemented initiatives noted above will allow us to appropriately manage our liquidity and meet our debt service requirements. However, if the 2010 improvements do not continue or if industry conditions deteriorate our liquidity and financial position could be adversely impacted.

As of December 31, 2010, we had approximately $79,728,000 in available unused borrowing capacity under our working capital revolving credit facility (after giving effect to undrawn letters of credit of approximately $70,272,000) and $21,928,000 in available unused borrowing capacity under our pre-funded revolving credit facility that provides financing for capital expenditures only (see “Credit Facilities and Other Indebtedness” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”).

We believe that expected cash flow from operations, planned borrowing capacity, short-term investments and restricted cash balances are adequate to fund debt service requirements, operating lease obligations, capital expenditures and working capital obligations for the next twelve months. At December 31, 2010, we were in compliance with our covenants (see “Credit Facilities and Other Indebtedness” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”). However, our ability to continue to meet these requirements and obligations will depend, among other things, on our ability to achieve anticipated levels of revenue and cash flow and our ability to successfully manage costs and working capital.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

CAPITAL EXPENDITURES

Capital expenditures totaled approximately $60,476,000, $57,528,000 and $123,889,000 for the years ended December 31, 2010, 2009 and 2008, respectively. We estimate that our capital expenditures will total approximately $125,000,000 to $150,000,000 in 2011.

The amount of actual capital expenditures may be affected by general economic, financial, competitive, legislative and regulatory factors, among other things, including restrictions imposed by our borrowing arrangements. We expect to continue to review the level of capital expenditures throughout 2011.

SUMMARY OF CASH FLOWS

The following table presents a summary of our cash flows provided by (used in) operating, investing and financing activities for the periods indicated (in thousands):

	YEARS ENDED DECEMBER 31,		
	2010	2009	2008
Net cash provided by operating activities	$225,534	$143,121	$213,731
Net cash used in investing activities	(61,521)	(43,368)	(63,099)
Net cash used in financing activities	(151,560)	(83,013)	(50,266)
Effect of exchange rate changes on cash and cash equivalents	(1,504)	952	-
Net increase in cash and cash equivalents	$10,949	$17,692	$100,366

Operating activities

Net cash provided by operating activities increased in 2010 as compared to 2009 primarily as a result of the following: (i) an increase in cash generated from restaurant operations due to comparable-store sales increases and certain food, labor and other cost savings initiatives of approximately $67,000,000, (ii) a delay in Accounts payable and other related payments at December 31, 2008, (iii) a decrease in cash paid for interest, which was $80,783,000 for the year ended December 31, 2010 compared to $91,938,000 for the year ended December 31, 2009 and (iv) a decrease in cash paid for income taxes, which was $9,523,000 for the year ended December 31, 2010 compared to $20,739,000 for the year ended December 31, 2009. The increase was partially offset by (i) a significant decline in inventory during the year ended December 31, 2009 as a result of utilization of inventory on hand, (ii) a significant increase in bonuses paid during 2010 as compared to 2009 and (iii) an acceleration of certain Accounts payable and other related payments prior to the end of 2010. The decrease in 2009 as compared to 2008 was primarily attributable to the following: (i) cash paid for income taxes of $20,739,000 during 2009 as opposed to cash tax refunds received in 2008 of $14,600,000, (ii) a decline in Accounts payable due to a reduction in purchasing volume, price savings realized from certain costs savings initiatives and a delay in Accounts payable payments at December 31, 2008 and (iii) a decline in accrued advertising due to the acceleration of payment processing. The decrease is offset by $126,200,000 in food, labor and other operational efficiencies and a decrease in cash paid for interest, which was $91,938,000 for the year ended December 31, 2009 compared to $130,025,000 for the year ended December 31, 2008.

52

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

SUMMARY OF CASH FLOWS (continued)

Investing activities

Net cash used in investing activities for the year ended December 31, 2010 was $61,521,000 compared to $43,368,000 and $63,099,000 for the years ended December 31, 2009 and 2008, respectively. Net cash used in investing activities during the year ended December 31, 2010 consisted primarily of capital expenditures of $60,476,000 and deconsolidated PRG cash of $4,398,000. This was partially offset by the $4,006,000 net difference between the proceeds from the sale and purchases of Company-owned life insurance. Net cash used in investing activities for the year ended December 31, 2009 was primarily attributable to capital expenditures of $57,528,000 and was partially offset by the $10,315,000 net difference between the proceeds from the sale and the purchases of Company-owned life insurance. Net cash used in investing activities for the year ended December 31, 2008 was primarily attributable to capital expenditures of $123,889,000 and was partially offset by (i) $10,501,000 in proceeds from the sale of property, fixtures and equipment, of which $9,800,000 related to the sale of a parcel of land in Las Vegas, Nevada and (ii) the $30,937,000 net difference between restricted cash received and restricted cash used, which was primarily related to the conversion of restricted cash designated for capital expenditures to cash.

Financing activities

Net cash used in financing activities for the year ended December 31, 2010 was $151,560,000 compared to $83,013,000 and $50,266,000 for the years ended December 31, 2009 and 2008, respectively. Net cash used in financing activities during the year ended December 31, 2010 was primarily attributable to the following: (i) repayments of borrowings on revolving credit facilities and long-term debt of $196,781,000, (ii) the net difference between repayment and receipt of partner deposit and accrued buyout contributions of $18,022,000 and (iii) distributions to noncontrolling interests of $11,596,000. This was partially offset by proceeds from borrowings on revolving credit facilities of $61,000,000 and a $15,000,000 contribution from OSI HoldCo, our direct owner. The proceeds from this contribution were used for general corporate purposes. Net cash used in financing activities for the year ended December 31, 2009 was primarily attributable to: (i) $75,967,000 of cash paid for the extinguishment of a portion of our senior notes and related fees, (ii) $33,283,000 of cash paid for the purchase of the note related to our guaranteed debt for T-Bird and (iii) repayments of borrowings on revolving credit facilities and long-term debt of $33,239,000. Net cash used in financing activities in 2009 was partially offset by a $47,000,000 contribution from OSI HoldCo to partially fund our extinguishment of a portion of our senior notes and $23,700,000 of proceeds from borrowings on revolving credit facilities. Net cash used by financing activities during the year ended December 31, 2008 was primarily attributable to $85,402,000 of repayments of long-term debt and $11,711,000 of cash paid for the extinguishment of a portion of our senior notes and was partially offset by $62,000,000 of proceeds from the issuance of revolving lines of credit.

If demand for our products and services were to decrease as a result of increased competition, changing consumer tastes, changes in local, regional, national and international economic conditions or changes in the level of consumer acceptance of our restaurant brands, our restaurant sales could decline significantly. The following table sets forth approximate amounts by which cash provided by restaurant operating activities may decline in the event of a decline in restaurant sales of 5%, 10% and 15% compared with total revenues for the year ended December 31, 2010 (in thousands):

	5%	10%	15%
Decrease in restaurant sales	$(179,734)	$(359,468)	$(539,202)
Decrease in cash provided by restaurant operating activities	(37,277)	(74,554)	(111,831)

Cash provided by restaurant operating activities decreases approximately $0.21 for every $1.00 decrease in restaurant sales. The table above is based on distributable cash flow assumptions, as adjusted for the associated income tax benefits of decreased income at the statutory rate. Estimates are limited to the effects of declines in consumer traffic and do not consider other measures we could implement if such decreases in restaurant sales occurred or other factors such as inflation, changes in menu prices or costs or any non-restaurant specific activities.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

CREDIT FACILITIES AND OTHER INDEBTEDNESS

On June 14, 2007, in connection the Merger, we 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, we have 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 December 31, 2010 and 2009). The Eurocurrency Rate option is the 30, 60, 90 or 180-day Eurocurrency Rate ("Eurocurrency Rate") (ranging from 0.31% to 0.50% and from 0.26% to 0.46% at December 31, 2010 and 2009, 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 our Moody's Applicable Corporate Rating then most recently published is B1 or higher (the rating was Caa1 at December 31, 2010 and 2009).

We are required to prepay outstanding term loans, subject to certain exceptions, with:

- 50% of our "annual excess cash flow" (with step-downs to 25% and 0% based upon our rent-adjusted leverage ratio), as defined in the credit agreement and subject to certain exceptions;
- 100% of our "annual minimum free cash flow," as defined in the credit agreement, not to exceed $75,000,000 for each fiscal year, if our 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, including the amendment to our credit agreement executed on January 28, 2010; and
- 100% of the net proceeds of any debt incurred, excluding permitted debt issuances.

Additionally, we are required, on an annual basis, 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 our "annual true cash flow," as defined in the credit agreement. In accordance with these requirements, in April 2011, we are required to repay $78,072,000 of our pre-funded revolving credit facility outstanding loan balance and fund $60,523,000 of our capital expenditure account using our "annual true cash flow." In April 2010, we repaid $5,928,000 of our pre-funded revolving credit facility outstanding loan balance.

Our 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 are reduced by the application of any prepayments, and any remaining balance will be paid at maturity. The outstanding balance on the term loans was $1,035,000,000 and $1,171,900,000 at December 31, 2010 and 2009, respectively. We made the remainder of our $75,000,000 prepayment required by the credit agreement for 2010, as described above, during the fourth quarter of 2010. We made the remainder of our $75,000,000 prepayment for 2009 during April 2010. We classified $13,100,000 and $75,000,000 of our term loans as current at December 31, 2010 and 2009, respectively, due to our prepayment and quarterly payment requirements.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

CREDIT FACILITIES AND OTHER INDEBTEDNESS (continued)

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 December 31, 2010, there were no loans outstanding under the revolving credit facility. The outstanding balance was $50,000,000 at December 31, 2009. This borrowing was recorded in “Current portion of long-term debt” in our Consolidated Balance Sheet at December 31, 2009, since it was repaid during the first quarter of 2010. In addition to outstanding borrowings, if any, at December 31, 2010 and 2009, $70,272,000 and $71,632,000, respectively, of the credit facility was not available for borrowing as: (i) $36,540,000 and $37,540,000, respectively, of the credit facility was committed for the issuance of letters of credit as required by insurance companies that underwrite our 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 our guarantee of an uncollateralized line of credit for our joint venture partner, RY-8, in the development of Roy's restaurants, (iii) $6,000,000 of the credit facility 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) $3,232,000 and $3,592,000, respectively, of the credit facility was committed for the issuance of other letters of credit. We may have to extend additional letters of credit in the future. If the need for letters of credit exceeds the $75,000,000 maximum permitted by our working capital revolving credit facility, we may have to use cash to fulfill our collateral requirements. As of the filing date of this report, we have total outstanding letters of credit of $68,872,000, which is $6,128,000 below the maximum permitted to be issued under our 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. As of December 31, 2010 and 2009, we had borrowed $78,072,000 and $23,000,000, respectively, from our pre-funded revolving credit facility. We recorded $78,072,000 in “Current portion of long-term debt” in our Consolidated Balance Sheet at December 31, 2010 and $5,928,000 in “Current portion of long-term debt” and $17,072,000 in “Long-term debt” in our Consolidated Balance Sheet at December 31, 2009, as we are required to repay any outstanding loans in April following each fiscal year using our “annual true cash flow,” as defined in the credit agreement. This facility matures June 14, 2013. At each rate adjustment, we have 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 our Moody’s Applicable Corporate Rating then most recently published is B1 or higher. Fees for the unused portion of the pre-funded revolving credit facility are 2.43%.

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

CREDIT FACILITIES AND OTHER INDEBTEDNESS (continued)

Our senior secured credit facilities require us 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 and certain other adjustments 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 (“RALR”), as defined, is greater than or equal to 5.25 to 1.00, our 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 our 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 credit agreement governing our senior secured credit facilities, as amended on January 28, 2010, also includes negative covenants that, subject to significant exceptions, limit our ability and the ability of our 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 our business, engage in certain transactions with affiliates, enter into agreements limiting subsidiary distributions and prepay, redeem or purchase certain indebtedness. Our senior secured credit facilities contain customary representations and warranties, affirmative covenants and events of default. At December 31, 2010 and 2009, we were in compliance with our debt covenants.

Our capital expenditures are limited by the credit agreement. Our annual capital expenditure limits range from $200,000,000 to $250,000,000 with various carry-forward and carry-back allowances. Our annual expenditure limits may increase after an acquisition. However, if (i) the RALR at the end of a fiscal year is greater than 5.25 to 1.00, (ii) the “annual true cash flow” is insufficient to repay fully our pre-funded revolving credit facility and (iii) the capital expenditure account has a zero balance, our 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 RALR is less than 5.25 to 1.00. In 2010, our capital expenditures were limited to $100,000,000 as a result of the conditions described above. In 2011, we are not subject to this limitation.

The obligations under our senior secured credit facilities are guaranteed by each of our current and future domestic 100% owned restricted subsidiaries in our Outback Steakhouse and Carrabba’s Italian Grill concepts and certain non-restaurant subsidiaries (the “Guarantors”) and by OSI HoldCo, our direct owner and an indirect, wholly-owned subsidiary of our Ultimate Parent. Subject to the conditions described below, the obligations are secured by a perfected security interest in substantially all of our assets and assets of the Guarantors and OSI HoldCo, in each case, now owned or later acquired, including a pledge of all of our capital stock, the capital stock of substantially all of our domestic wholly-owned subsidiaries and 65% of the capital stock of certain of our material foreign subsidiaries that are directly owned by us, OSI HoldCo, or a Guarantor. Also, we are 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 attributable to our non-guarantor domestic wholly-owned restricted subsidiaries as a group exceeds 10% of our 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 our Company-wide Consolidated EBITDA.

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

CREDIT FACILITIES AND OTHER INDEBTEDNESS (continued)

On June 14, 2007, we issued senior notes in an original aggregate principal amount of $550,000,000 under an indenture among us, as issuer, OSI Co-Issuer, Inc., as co-issuer (“Co-Issuer”), a third-party 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 principal balance of senior notes outstanding at December 31, 2010 and 2009 was $248,075,000.

The senior notes are guaranteed on a senior unsecured basis by each restricted subsidiary that guarantees the senior secured credit facility. The senior notes are general, unsecured senior obligations of us, 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 our, 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 our, Co-Issuer’s and the Guarantors’ existing and future subordinated indebtedness.

The indenture governing the senior notes limits, under certain circumstances, our ability and the ability of Co-Issuer and our 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 our 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, our restricted subsidiaries are also subject to restrictive covenants. Under certain circumstances, we are 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 January 1, 2009, all of our consolidated subsidiaries were restricted subsidiaries. In April 2009, one of our restricted subsidiaries that operated six restaurants in Canada was designated as an unrestricted subsidiary. Additionally, our consolidated financial statements contain the results of operations of certain subsidiaries in which we do not have an equity ownership. These subsidiaries are not considered restricted or unrestricted subsidiaries.

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.

We 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%

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

CREDIT FACILITIES AND OTHER INDEBTEDNESS (continued)

We 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 the date of redemption 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, we 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. If we were required to make this offer, we may not have sufficient financial resources to purchase all of the senior notes tendered and may be limited by our senior secured facilities from doing so. See Item 1A. "Risk Factors" in Part I of this Form 10-K for additional information.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases in the open market, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Between November 18, 2008 and November 21, 2008, we purchased on the open market and extinguished $61,780,000 in aggregate principal amount of our senior notes. We paid $11,711,000 for the senior notes purchased and $2,729,000 of accrued interest. We recorded a gain from the extinguishment of debt of $48,409,000 in the line item "Gain on extinguishment of debt" in our Consolidated Statement of Operations for the year ended December 31, 2008. The gain was reduced by $1,660,000 for the pro rata portion of unamortized deferred financing fees that related to the extinguished senior notes.

During the first quarter of 2009, we purchased $240,145,000 in aggregate principal amount of our senior notes in a cash tender offer. We paid $72,998,000 for the senior notes purchased and $6,671,000 of accrued interest. We recorded a gain from the extinguishment of debt of $158,061,000 in the line item "Gain on extinguishment of debt" in our Consolidated Statement of Operations for the year ended December 31, 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 for fees related to the tender offer. The purpose of the tender offer was to reduce the principal amount of debt outstanding, reduce the related debt service obligations and improve our financial covenant position under our senior secured credit facilities.

We funded the tender offer with cash on hand and proceeds from a contribution (the "2009 Contribution") of $47,000,000 from our direct owner, OSI HoldCo. The 2009 Contribution was funded through distributions to OSI HoldCo by one of its subsidiaries that owns (indirectly through subsidiaries) approximately 336 restaurant properties that are leased to us.

In June 2009, we renewed a one-year line of credit with a maximum borrowing amount of 10,000,000,000 Korean won, or $8,565,000 at December 31, 2009, to finance development of our restaurants in South Korea. The line bore interest at 2.75% over the Korean Stock Exchange three-month certificate of deposit rate (5.54% at December 31, 2009). There were no draws outstanding on this line of credit as of December 31, 2009. The line matured June 14, 2010 and was not renewed.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

CREDIT FACILITIES AND OTHER INDEBTEDNESS (continued)

In June 2009, we renewed a one-year overdraft line of credit with a maximum borrowing amount of 5,000,000,000 Korean won, or $4,282,000 at December 31, 2009. The line bore interest at 2.51% over the Korean Stock Exchange three-month certificate of deposit rate (5.30% at December 31, 2009). There were no draws outstanding on this line of credit as of December 31, 2009. The line matured June 14, 2010 and was not renewed.

As of December 31, 2010 and 2009, we had approximately $7,628,000 and $5,752,000, respectively, of notes payable at interest rates ranging from 1.07% to 7.00% and from 1.21% to 8.25%, respectively. These notes have been primarily issued for buyouts of managing and area operating partner interests in the cash flows of their restaurants and generally are payable over a period of two through five years.

DEBT GUARANTEES

We are the guarantor of an uncollateralized line of credit that permits borrowing of up to a maximum of $24,500,000 for our joint venture 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 December 31, 2010 and 2009, 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 us and Roy’s Holdings, Inc. (“RHI”). If an event of default occurs, as defined in the agreement, the total outstanding balance, including any accrued interest, is immediately due from the guarantors. At December 31, 2010 and 2009, $24,500,000 of our $150,000,000 working capital revolving credit facility was committed for the issuance of a letter of credit for this guarantee.

If an event of default occurs and RY-8 is unable to pay the outstanding balance owed, we would, as one of the two guarantors, 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 our favor. These agreements provide that if we are required to perform under our obligation as guarantor pursuant to the credit agreement, then RY-8 and RHI will indemnify us against all losses, claims, damages or liabilities which arise out of or are based upon our 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.

Pursuant to our joint venture agreement for the development of Roy’s restaurants, RY-8, our joint venture partner, has the right to require us to purchase up to 50% of its interest in the joint venture at any time after June 17, 2009. Our purchase price would be equal to the fair market value of the joint venture as of the date that RY-8 exercised its put option multiplied by the percentage purchased.

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

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

FAIR VALUE MEASUREMENTS

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date (exit price) and is a market-based measurement, not an entity-specific measurement. To measure fair value, we incorporate assumptions that market participants would use in pricing the asset or liability, and utilize market data to the maximum extent possible. Measurement of fair value incorporates nonperformance risk (i.e., the risk that an obligation will not be fulfilled). In measuring fair value, we reflect the impact of our own credit risk on our liabilities, as well as any collateral. We also consider the credit standing of our counterparties in measuring the fair value of our assets.

We are highly leveraged and exposed to interest rate risk to the extent of our variable-rate debt. In September 2007, we entered into an interest rate collar with a notional amount of $1,000,000,000 as a method to limit the variability of our senior secured credit facilities. The collar consisted of a London Interbank Offered Rate ("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 expired at the end of each calendar quarter beginning March 31, 2008 and ending September 30, 2010. The quarterly expiration dates corresponded to the scheduled amortization payments of our term loan. Our interest rate collar matured on September 30, 2010, and we are not currently party to another derivative financial instrument to manage interest rate risk on our variable-rate debt. We expensed $19,894,000, $21,395,000 and $1,282,000 of interest for the years ended December 31, 2010, 2009 and 2008, respectively, as a result of the quarterly expiration of the collar's option pairs. We recorded mark-to-market changes in the fair value of the derivative instrument in earnings in the period of change. We included $18,458,000 in the line item "Accrued and other current liabilities" in our Consolidated Balance Sheet as of December 31, 2009 and included $18,458,000 and $5,827,000 of net interest income and $18,928,000 of net interest expense for the years ended December 31, 2010, 2009 and 2008, respectively, in the line item "Interest expense" in our Consolidated Statements of Operations for the mark-to-market effects of this derivative instrument.

The valuation of our interest rate collar was based on a discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflected the contractual terms of the collar, including the period to maturity, and used observable market-based inputs, including interest rate curves. Interest rate curves were used to determine forward LIBOR rates on each quarter's interest rate reset date. Since the interest rate collar matured on September 30, 2010, its final interest rate reset date was June 28, 2010.

Although we determined that the majority of the inputs used to value our interest rate collar fell within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with this derivative instrument utilized Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our interest rate collar derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of this derivative. As a result, we determined that our interest rate collar derivative valuations in their entirety should be classified in Level 2 of the fair value hierarchy.

We invested $11,234,000 of our excess cash in money market funds classified as Cash and cash equivalents or restricted cash in our Consolidated Balance Sheet at December 31, 2010 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 quoted prices for identical assets in an active market. As a result, we have determined that the majority of the inputs used to value this investment fall within Level 1 of the fair value hierarchy.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

FAIR VALUE MEASUREMENTS (continued)

We did not have any material impairment charges as a result of fair value measurements on a nonrecurring basis during 2010. Sales declines at our restaurants, unplanned increases in health insurance, commodity or labor costs, deterioration in overall economic conditions and challenges in the restaurant industry may result in future impairment charges. It is possible that changes in circumstances or changes in our judgments, assumptions and estimates, could result in a future impairment charge of a portion or all of our goodwill, other intangible assets or long-lived assets held and used.

In 2009, fair value measurements for long-lived assets held and used, goodwill and indefinite-lived intangible assets fell within level 3 of the fair value hierarchy and approximated 28.5% of our total assets.

We recorded $85,154,000 of impairment charges as a result of the fair value measurement on a nonrecurring basis of our long-lived assets held and used during the year ended December 31, 2009. Due to the third quarter of 2009 sale of our Cheeseburger in Paradise concept, we recorded a $45,962,000 impairment charge (included in the total above) during the second quarter of 2009 to reduce the carrying value of this concept’s long-lived assets to their estimated fair market value. We used a weighted-average probability analysis and estimates of expected future cash flows to determine the fair value of this concept. We used a discounted cash flow model to estimate the fair value of the remaining impaired long-lived assets held and used. 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, we determined that the majority of the inputs used to value our long-lived assets held and used are unobservable inputs that fall within Level 3 of the fair value hierarchy.

We recorded goodwill impairment charges of $11,078,000 and indefinite-lived intangible asset impairment charges of $36,000,000 during the year ended December 31, 2009 as a result of our annual impairment test. We test both our goodwill and our 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 our assumptions could materially impact our fair value estimates. Assumptions critical to our 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, we determined that the majority of the inputs used to value our goodwill and indefinite-lived intangible assets are unobservable inputs that fall within Level 3 of the fair value hierarchy.

The following table presents the range of assumptions we used to derive our fair value estimates among our reporting units, which vary between goodwill and trade names, during the annual 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 %

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

STOCK-BASED AND DEFERRED COMPENSATION PLANS

Managing and Chef Partners

Historically, managing and chef partners purchased non-transferable ownership interests in a Management Partnership that provided management and supervisory services to his or her restaurant and received distributions based on a percentage of his or her restaurant’s monthly cash flows. Further, managing and chef partners were eligible to participate in the PEP, a deferred compensation program, upon completion of their five-year employment terms. We are in the process of developing modifications to our managing and chef partner compensation structure. As of December 31, 2010, we estimate the PEP funding requirements for completed contracts will range from $15,000,000 to $20,000,000 in each of the next two years. Actual funding of the current PEP obligation and future funding requirements may vary significantly depending on timing of partner contracts, forfeiture rates and numbers of partner participants and may differ materially from estimates.

Upon the closing of the Merger, certain stock options that had been granted to managing and chef partners under a pre-merger managing partner stock plan (the “MP Stock Plan”) upon completion of a previous employment contract and at the beginning of an employment agreement were converted into the right to receive cash in the form of a “Supplemental PEP” contribution and a “Supplemental Cash” payment, respectively. Additionally, all outstanding, unvested partner employment grants of restricted stock under the MP Stock Plan were converted into the right to receive cash on a deferred basis. Additionally, certain members of management were given the option to either convert some or all of their restricted stock granted under the pre-merger stock plan in the same manner as managing partners or convert some or all of it into KHI restricted stock. Grants of restricted stock under the pre-merger stock plan that converted into the right to receive cash are referred to as “Restricted Stock Contributions.”

As of December 31, 2010, our total liability with respect to obligations primarily under the PEP, Supplemental PEP and Restricted Stock Contributions was approximately $101,424,000, of which $13,956,000 and $87,468,000 was included in the line items “Accrued and other current liabilities” and “Other long-term liabilities,” respectively, in our Consolidated Balance Sheet. As of December 31, 2009, our total liability with respect to obligations primarily under the PEP, Supplemental PEP, Supplemental Cash and Restricted Stock Contributions was approximately $94,564,000, of which $15,082,000 and $79,482,000 was included in the line items “Accrued and other current liabilities” and “Other long-term liabilities,” respectively, in our Consolidated Balance Sheet. Partners and management may allocate the contributions into benchmark investment funds, and these amounts due to participants will fluctuate according to the performance of their allocated investments and may differ materially from the initial contribution and current obligation.

Prior to the Merger, certain partners participating in the PEP were to receive common stock (“Partner Shares”) upon completion of their employment contract. Upon closing of the Merger, these partners are entitled to receive a deferred payment of cash instead of common stock upon completion of their current employment term. Partners will not receive the deferred cash payment if they resign or are terminated for cause prior to completing their current employment terms. There will not be any future earnings or losses on these amounts prior to payment to the partners. The amount accrued for the Partner Shares obligation was approximately $6,604,000 as of December 31, 2010, of which $6,477,000 and $127,000 was included in the line items “Accrued and other current liabilities” and

"Other long-term liabilities," respectively, in our Consolidated Balance Sheet. The amount accrued for the Partner Shares obligation was approximately $5,679,000 as of December 31, 2009 and was included in the line item "Other long-term liabilities" in our Consolidated Balance Sheet.

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

STOCK-BASED AND DEFERRED COMPENSATION PLANS (continued)

Managing and Chef Partners (continued)

As of December 31, 2010 and 2009, we had approximately $57,978,000 and $59,521,000, respectively, in various corporate owned life insurance policies and another $1,026,000 and $1,109,000, respectively, of restricted cash, both of which are held within an irrevocable grantor or “rabbi” trust account for settlement of our obligations under the PEP, Supplemental PEP and Restricted Stock Contributions. We are the sole owner of any assets within the rabbi trust and participants are considered our general creditors with respect to assets within the rabbi trust.

As of December 31, 2010 and 2009, there were $49,024,000 and $39,613,000, respectively, of unfunded obligations related to the PEP, Supplemental PEP, Supplemental Cash, Restricted Stock Contributions and Partner Shares liabilities that may require the use of cash resources in the future.

Area Operating Partners

Area operating partners are required, as a condition of employment, to make an initial investment of $50,000 in the Management Partnership that provides supervisory services to the restaurants that the area operating partner oversees. This interest gives the area operating partner the right to distributions from the Management Partnership based on a percentage of his or her restaurants’ monthly cash flows for the duration of the agreement, typically ranging from 4% to 9%. We have the option to purchase an area operating partner’s interest in the Management Partnership after the restaurant has been open for a five-year period on the terms specified in the agreement.

For restaurants opened on or after January 1, 2007, the area operating partner’s percentage of cash distributions and buyout percentage is calculated based on the associated restaurant’s return on investment compared to our targeted return on investment and may range from 3.0% to 12.0%. This percentage is determined after the first five full calendar quarters from the date of the associated restaurant’s opening and is adjusted each quarter thereafter based on a trailing 12-month restaurant return on investment. The buy-out percentage is the area operating partner’s average distribution percentage for the 24 months immediately preceding the buy-out. Buyouts are paid in cash within 90 days or paid over a two-year period.

Highly-Compensated Employees

We provide a deferred compensation plan for our highly-compensated employees who are not eligible to participate in the OSI Restaurant Partners, LLC Salaried Employees 401(k) Plan and Trust. The deferred compensation plan allows these employees to contribute up to 90% of their income on a pre-tax basis to an investment account consisting of various investment fund options. We do not currently intend to provide any matching or profit-sharing contributions, and participants are fully vested in their deferrals and their related returns. Participants are considered unsecured general creditors in the event of our bankruptcy or insolvency.

DIVIDENDS

Payment of dividends is prohibited under our credit agreements, except for certain limited circumstances.

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

OTHER MATERIAL COMMITMENTS

Our contractual obligations, debt obligations, commitments and debt guarantees as of December 31, 2010 are summarized in the table below (in thousands):

		PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-term debt (including current portion) (1)	$1,372,327	$95,284	$153,609	$1,120,881	$2,553
Interest (2)	210,025	56,679	105,924	47,422	-
Operating leases (3)	1,419,517	178,583	340,888	278,758	621,288
Purchase obligations (4)	279,887	210,079	41,600	28,208	-
Partner deposit and accrued buyout liability (5)	123,907	14,001	30,988	52,630	26,288
Other long-term liabilities (6)	148,539	-	45,966	49,820	52,753
Other current liabilities (7)	64,266	64,266	-	-	-
Total contractual obligations	$3,618,468	$618,892	$718,975	$1,577,719	$702,882
DEBT GUARANTEES					
Maximum availability of debt guarantees	$25,975	$-	$-	$24,500	$1,475
Amount outstanding under debt guarantees	25,975	-	-	24,500	1,475
Carrying amount of liabilities	24,500	-	-	24,500	-

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(1) Timing of long-term debt payments assume that our rent-adjusted leverage ratio is greater than or equal to 5.25 to 1.00. Long-term debt excludes our potential obligations under debt guarantees (shown separately above).

(2) Includes interest on our senior notes with an outstanding balance of $248,075,000 and interest estimated on our senior secured term loan facility and senior secured pre-funded revolving credit facility with outstanding balances of $1,035,000,000 and $78,072,000, respectively, at December 31, 2010. Projected future interest payments for the variable-rate senior secured credit facilities are based on interest rates in effect at December 31, 2010. Interest obligations also include letter of credit and commitment fees for the used and unused portions of the senior secured working capital revolving credit facility, commitment fees for the used and unused portions of the pre-funded revolving credit facility and interest related to capital lease obligations. Interest on notes payable issued for the return of capital to managing and area operating partners and the buyouts of area operating partner interests has been excluded from the table. In addition, interest expense associated with deferred financing fees was excluded from the table as the expense is non-cash in nature.

(3) Total minimum lease payments have not been reduced by minimum sublease rentals of $8,806,000 due in future periods under non-cancelable subleases.

(4) We have minimum purchase commitments with various vendors through June 2015. Outstanding minimum purchase commitments consist primarily of beef, cheese, potatoes and other food and beverage products, as well as, commitments for advertising, marketing, sports sponsorships, printing and technology.

(5)

Timing of partner deposit and accrued buyout liability payments are estimates only and may vary significantly in amounts and timing of settlement based on employee turnover, return of deposits to us in accordance with employee agreements and changes to buyout values of employee partners.

(6) Other long-term liabilities include but are not limited to: long-term insurance accruals, long-term incentive plan compensation for certain officers, long-term portion of amounts owed to managing and chef partners and certain members of management for various compensation programs, long-term portion of operating leases for closed restaurants, long-term severance expenses and long-term split dollar arrangements on life insurance policies. The long-term portion of the liability for unrecognized tax benefits and the related accrued interest and penalties were $1,327,000 and $1,146,000, respectively, at December 31, 2010. These amounts were excluded from the table since it is not possible to estimate when these future payments will occur. In addition, net unfavorable leases and other miscellaneous items of approximately $67,153,000 at December 31, 2010 were excluded from the table as payments are not associated with these liabilities.

(7) Other current liabilities include the current portion of the liability for unrecognized tax benefits and the accrued interest and penalties related to uncertain tax positions, the current portion of insurance accruals, the current portion of operating leases for closed restaurants, the current portion of severance expenses and the current portion of amounts owed to managing and chef partners and certain members of management for various compensation programs.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these accompanying consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities during the reporting period. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements. We consider an accounting policy to be critical if it requires assumptions to be made that were uncertain at the time they were made and changes in these assumptions could have a material impact on our consolidated financial condition or results of operations. Our significant accounting policies are more fully described in Note 2 of the Notes to the Consolidated Financial Statements.

Property, Fixtures and Equipment

Property, fixtures and equipment are stated at cost, net of accumulated depreciation. At the time property, fixtures and equipment are retired, or otherwise disposed of, the asset and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in earnings. We expense repair and maintenance costs that maintain the appearance and functionality of the restaurant but do not extend the useful life of any restaurant asset. Improvements to leased properties are depreciated over the shorter of their useful life or the lease term, which includes cancelable renewal periods where failure to exercise such options would result in an economic penalty. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings and building improvements	20 to 30 years
Furniture and fixtures	5 to 7 years
Equipment	2 to 7 years
Leasehold improvements	5 to 20 years

Our accounting policies regarding property, fixtures and equipment include certain management judgments and projections regarding the estimated useful lives of these assets, the residual values to which the assets are depreciated or amortized, the determination of expected lease terms and the determination of what constitutes increasing the value and useful life of existing assets. These estimates, judgments and projections may produce materially different amounts of depreciation and amortization expense than would be reported if different assumptions were used.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates (continued)

Operating Leases

Rent expense for our operating leases, which generally have escalating rentals over the term of the lease and may include potential rent holidays, is recorded on a straight-line basis over the initial lease term and those renewal periods that are reasonably assured. The initial lease term includes the "build-out" period of our leases, which is typically before rent payments are due under the terms of the lease. The difference between rent expense and rent paid is recorded as deferred rent and is included in our Consolidated Balance Sheets. Payments received from landlords as incentives for leasehold improvements are recorded as deferred rent and are amortized on a straight-line basis over the term of the lease as a reduction of rent expense. Lease termination fees, if any, and future obligated lease payments for closed locations are recorded as an expense in the period that they are incurred. Exit-related lease obligations of $7,604,000 and $6,635,000 are recorded in "Accrued and other current liabilities" and $2,582,000 and $3,228,000 are recorded in "Other long-term liabilities" in our Consolidated Balance Sheets as of December 31, 2010 and 2009, respectively. Assets and liabilities resulting from the Merger relating to favorable and unfavorable lease amounts are amortized on a straight-line basis to rent expense over the remaining lease term.

Impairment or Disposal of Long-Lived Assets

We assess the potential impairment of amortizable intangibles, including trademarks, franchise agreements and net favorable leases, and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In evaluating long-lived restaurant assets for impairment, we consider a number of factors such as:

- A significant change in market price;
- A significant adverse change in the manner in which a long-lived asset is being used;
- New laws and government regulations or a significant adverse change in business climate that adversely affect the value of a long-lived asset;
- A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life; and
- A current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection that demonstrates continuing losses associated with the use of the underlying long-lived asset.

If the aforementioned factors indicate that we should review the carrying value of the restaurant's long-lived assets, we perform a two-step impairment analysis. Each of our restaurants is evaluated individually for impairment since that is the lowest level at which identifiable cash flows can be measured independently from cash flows of other asset groups. If the total future undiscounted cash flows expected to be generated by the assets are less than the carrying amount, as prescribed by step one testing, recoverability is measured in step two by comparing fair value of the asset to its carrying amount. Should the carrying amount exceed the asset's estimated fair value, an impairment loss is charged to earnings. Restaurant fair value is determined based on estimates of discounted future cash flows; and impairment charges primarily occur as a result of the carrying value of a restaurant's assets exceeding its estimated fair market value, primarily due to anticipated closures or declining future cash flows from lower projected future sales on existing locations. During the years ended December 31, 2010, 2009 and 2008, we recorded property, fixtures and equipment impairment charges and restaurant closing expense of $6,469,000, $90,301,000 (of which $39,169,000 relates to the property, fixtures and equipment impairment charges for Cheeseburger in Paradise) and $65,767,000, respectively.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates (continued)

Impairment or Disposal of Long-Lived Assets (continued)

Our judgments and estimates related to the expected useful lives of long-lived assets are affected by factors such as changes in economic conditions and changes in operating performance and expected use. As we assess the ongoing expected cash flows and carrying amounts of our long-lived assets, these factors could cause us to realize a material impairment charge. We use the straight-line method to amortize definite-lived intangible assets.

Restaurant sites and certain other assets to be sold are included in assets held for sale when certain criteria are met, including the requirement that the likelihood of selling the assets within one year is probable. For assets that meet the held for sale criteria, we separately evaluate whether the assets also meet the requirements to be reported as discontinued operations. If we no longer had any significant continuing involvement with respect to the operations of the assets and cash flows were discontinued, we would classify the assets and related results of operations as discontinued. Assets whose sale is not probable within one year remain in property, fixtures and equipment until their sale is probable within one year. We did not have any assets classified as held for sale as of December 31, 2010 and 2009.

Generally, restaurant closure costs are expensed as incurred. When it is probable that we will cease using the property rights under a non-cancellable operating lease, we record a liability for the net present value of any remaining lease obligations net of estimated sublease income that can reasonably be obtained for the property. The associated expense is recorded in “Provision for impaired assets and restaurant closings.” Any subsequent adjustments to the liability from changes in estimates are recorded in the period incurred.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the residual after allocation of the purchase price to the individual fair values and carryover basis of assets acquired. On an annual basis or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, we review the recoverability of goodwill and indefinite-lived intangible assets based upon an analysis of discounted cash flows of the related reporting unit as compared to the carrying value. If the carrying amount of the reporting unit’s goodwill and indefinite-lived intangible assets exceeds its estimated fair value, the amount of impairment loss is recognized in an amount equal to that excess. Generally, we perform our annual assessment for impairment for goodwill and indefinite-lived intangible assets during the second quarter of the fiscal year, unless facts and circumstances require differently. Our indefinite-lived intangible assets consist only of goodwill and our trade names.

Impairment indicators that may necessitate goodwill impairment testing in between our annual impairment tests include the following:

- A significant adverse change in legal factors or in the business climate;
- An adverse action or assessment by a regulator;
- Unanticipated competition;
- A loss of key personnel;
-

A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of; and

- The testing for recoverability of a significant asset group within a reporting unit.

Impairment indicators that may necessitate indefinite-lived intangible asset impairment testing in between our annual impairment tests are consistent with those of our long-lived assets.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates (continued)

Goodwill and Indefinite-Lived Intangible Assets (continued)

We perform our annual impairment test each year in the second quarter. At the end of the fourth quarter of 2008, as a result of poor overall economic conditions, declining sales at our restaurants, reductions in our projected results for future periods and a challenging environment for the restaurant industry, we concluded a triggering event had occurred indicating potential impairment and performed an additional impairment test of our goodwill and other intangible assets.

We test both our goodwill and our trade names for impairment by utilizing discounted cash flow models to estimate their fair values. These cash flow models involve several assumptions. Changes in our assumptions could materially impact our fair value estimates. Assumptions critical to our 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.

We performed our annual impairment test in the second quarter of 2010 and determined that none of our reporting units are at risk for material goodwill impairment. We did not record any goodwill or indefinite-lived intangible asset impairment charges during the year ended December 31, 2010. As a result of our annual impairment test in the second quarter of 2009, we recorded goodwill and indefinite-lived intangible asset impairment charges of $11,078,000 and $36,000,000, respectively. As a result of our annual impairment test in the second quarter of 2008 and our additional impairment test in the fourth quarter of 2008, we recorded goodwill and indefinite-lived intangible asset impairment charges of $604,071,000 and $42,958,000, respectively, during the year ended December 31, 2008.

At December 31, 2010, remaining goodwill by reporting unit is as follows (in thousands):

	DECEMBER 31, 2010	
Outback Steakhouse (domestic)	$	319,108
Outback Steakhouse (international)		59,740
Carrabba's Italian Grill		20,354
Bonefish Grill		49,520
	$	448,722

Sales declines at our restaurants, unplanned increases in health insurance, commodity or labor costs, deterioration in overall economic conditions and challenges in the restaurant industry may result in future impairment charges. It is possible that changes in circumstances or changes in our judgments, assumptions and estimates, could result in an impairment charge of a portion or all of our goodwill or other intangible assets.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates (continued)

Insurance Reserves

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

	2010	2011
Workers' Compensation	$ 1,500,000	$ 1,500,000
General Liability (1)	1,500,000	1,500,000
Health (2)	300,000	300,000
Property Coverage (3)	2,500,000 / 500,000	2,500,000 / 500,000
Employment Practices Liability	2,000,000	2,000,000
Directors' and Officers' Liability	250,000	250,000
Fiduciary Liability	25,000	25,000

(1) In 2010, for claims arising from liquor liability, there is an additional $1,000,000 deductible until a $2,000,000 aggregate has been met. At that time, any claims arising from liquor liability revert to the general liability deductible. In 2011, any claims arising from liquor liability will have only the general liability deductible.
(2) We are self-insured for all aggregate health benefits claims, limited to $300,000 per covered individual per year. In 2010 and 2011, we retained the first $375,000 and $400,000, respectively, of payable losses under the plan as an additional deductible. The insurer's liability is limited to $2,000,000 per individual per year.
(3) Effective January 1, 2008, we have a $2,500,000 deductible per occurrence for all locations other than those included in the PRP sale-leaseback transaction in which we sold substantially all of our domestic wholly-owned restaurant properties to our sister company, PRP, and then leased them back under a 15-year master lease ("PRP Sale-Leaseback Transaction"). In accordance with the terms of the master lease agreement, we are responsible for paying PRP's $500,000 deductible for those properties included in the PRP Sale-Leaseback Transaction. Property limits are $60,000,000 each occurrence, and there is no quota share of any loss above either deductible level.

We record a liability for all unresolved claims and for an estimate of incurred but not reported claims at the anticipated cost to us. In establishing our reserves, we consider certain actuarial assumptions and judgments regarding economic conditions, the frequency and severity of claims and claim development history and settlement practices. Unanticipated changes in these factors or future adjustments to these estimates may produce materially different amounts of expense that would be reported under these programs. When recovery for an insurance policy is considered probable, a receivable is recorded.

Revenue Recognition

We record food and beverage revenues upon sale. Initial and developmental franchise fees are recognized as income once we have substantially performed all of our material obligations under the franchise agreement, which is generally upon the opening of the franchised restaurant. Continuing royalties, which are a percentage of net sales of the franchisee, are recognized as income when earned. Franchise-related revenues are included in the line "Other revenues" in the Consolidated Statements of Operations.

We defer revenue for gift cards, which do not have expiration dates, until redemption by the customer. We also recognize gift card "breakage" revenue for gift cards when the likelihood of redemption by the customer is remote, which we determined are those gift cards issued on or before three years prior to the balance sheet date. We recorded breakage revenue of $11,048,000, $9,310,000 and $11,293,000 for the years ended December 31, 2010, 2009 and 2008, respectively. Breakage revenue is recorded as a component of "Restaurant sales" in the Consolidated Statements of Operations.

Table of Contents

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates (continued)

Revenue Recognition (continued)

Gift cards sold at a discount are recorded as revenue upon redemption of the associated gift cards at an amount net of the related discount. Gift card sales commissions paid to third-party providers are initially capitalized and subsequently recognized as “Other restaurant operating” expenses upon redemption of the associated gift card. Deferred expenses are $8,111,000 and $7,070,000 as of December 31, 2010 and 2009, respectively, and are reflected in “Other current assets” in our Consolidated Balance Sheets. Gift card sales that are accompanied by a bonus gift card to be used by the customer at a future visit result in a separate deferral of a portion of the original gift card sale. Revenue is recorded when the bonus card is redeemed at a value based on the estimated fair market value of the bonus card.

We collect and remit sales, food and beverage, alcoholic beverage and hospitality taxes on transactions with customers and report such amounts under the net method in our Consolidated Statements of Operations. Accordingly, these taxes are not included in gross revenue.

Employee Partner Distributions and Buyouts

The managing partner of each Company-owned domestic restaurant and the chef partner of each Fleming’s and Roy’s Company-owned domestic restaurant, as well as area operating partners, generally receive distributions from a Management Partnership that provides management and supervisory services to his or her restaurant based on a percentage of their associated restaurants’ monthly cash flows. The expense associated with the monthly distributions for managing and chef partners is included in “Labor and other related” expenses, and the expense associated with the monthly distributions or payments for area operating partners is included in “General and administrative” expenses in the Consolidated Statements of Operations.

Managing and chef partners that are eligible to participate in a deferred compensation program upon completion of their five-year employment term receive an unfunded, unsecured promise of a cash contribution. An area operating partner’s interest in the Management Partnership may be purchased, at our option, after the restaurant has been open for a five-year period based on the terms specified in the agreement. We estimate future purchases of area operating partners’ interests, as well as deferred compensation obligations to managing and chef partners, using current and historical information on restaurant performance and record the partner obligations in the line item “Partner deposit and accrued buyout liability” in our Consolidated Balance Sheets. In the period we purchase the area operating partner’s interests, an adjustment is recorded to recognize any remaining expense associated with the purchase and reduce the related accrued buyout liability. Deferred compensation expenses for managing and chef partners are included in “Labor and other related” expenses and buyout expenses for area operating partners are included in “General and administrative” expenses in the Consolidated Statements of Operations.

Stock-Based Compensation

The Kangaroo Holdings, Inc. 2007 Equity Incentive Plan (the “KHI Equity Plan”) permits the grant of stock options and restricted stock of KHI to our management and other key employees. We account for our stock-based employee compensation using a fair value based method of accounting.

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates (continued)

Stock-Based Compensation (continued)

Generally, stock options vest and become nominally exercisable in 20% increments over a period of five years contingent on continued employee service. The KHI Equity Plan contains a management call option that allows KHI to repurchase all shares purchased through exercise of stock options upon termination of employment at any time prior to the earlier of an initial public offering or a change of control. If an employee’s termination of employment is a result of death or disability, by us other than for cause or by the employee for good reason, KHI may repurchase exercised stock under this call option at fair market value. If an employee’s termination of employment is by us for cause or by the employee without good reason, KHI may repurchase the stock under this call provision for the lesser of the exercise price or fair market value. Additionally, the holder of shares acquired upon the exercise of stock options is prohibited from transferring the shares to any person, subject to narrow exceptions, and should a permitted transfer occur, the transferred shares remain subject to the management call option. As a result of the transfer restrictions and call option, we do not record compensation expense for stock options that contain the call option since employees cannot realize monetary benefit from the options or any shares acquired upon the exercise of the options unless the employee is employed at the time of an initial public offering or change of control. There have not been any exercises of stock options by any employee to date, and all stock options of terminated employees with a call provision have been forfeited.

We use the Black-Scholes option pricing model to estimate the weighted-average grant date fair value of stock options granted. Expected volatilities are based on historical volatility of our stock. We use historical data to estimate option exercise and employee forfeiture rate within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Results may vary depending on the assumptions applied within the model. The benefits of tax deductions in excess of recognized compensation cost, if any, are reported as a financing cash flow.

We recorded compensation expense of $1,119,000 for the year ended December 31, 2010 for vested stock options. As of December 31, 2010, there is $3,887,000 of total unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 3.8 years.

Compensation expense related to restricted stock awards for the year ended December 31, 2010 is $2,027,000 and unrecognized pre-tax compensation expense related to non-vested KHI restricted stock awards is approximately $2,482,000 at December 31, 2010 and will be recognized over a weighted-average period of 1.5 years.

Income Taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in the tax rate is recognized in income in the period that includes the enactment date of the rate change. We recorded a valuation allowance to reduce our deferred income tax assets to the amount that is more likely than not to be realized. We have considered future taxable income and ongoing feasible tax planning strategies in assessing the need for the valuation allowance. Judgments made regarding future taxable income may change due to changes in market conditions, changes in tax laws or other factors. If the assumptions and estimates change in the future, the valuation allowance established may be increased or decreased, resulting in a respective increase or decrease in income tax expense.

The noncontrolling interest in domestic affiliated entities includes no provision or liability for income taxes, as any tax liability related thereto is the responsibility of the holder of the noncontrolling interest.

OSI Restaurant Partners, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Recently Issued Financial Accounting Standards

On January 1, 2010, we adopted new accounting guidance related to the consolidation of variable interest entities which requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. These changes require an ongoing assessment and eliminate the quantitative approach previously required for determining whether an entity is the primary beneficiary. As a result of this guidance, we no longer consolidate PRG and T-Bird in our consolidated financial statements at and for the year ended December 31, 2010. Combined revenues and net loss included in our Consolidated Statement of Operations for these two entities for the year ended December 31, 2009 was $75,767,000 and $56,476,000, respectively, and combined assets and liabilities, excluding certain intercompany items, included in our Consolidated Balance Sheet at December 31, 2009 were $9,445,000 and $41,631,000, respectively. The adoption of this guidance resulted in a $6,078,000 and a $386,000 reduction to the January 1, 2010 balances of Accumulated deficit and Noncontrolling interests, respectively.

In October 2009, the Financial Accounting Standards Board (the "FASB") provided accounting and reporting guidance for arrangements consisting of multiple revenue-generating activities. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable. The amendments modify the criteria for separating deliverables, measuring, and allocating arrangement consideration to one or more units of accounting. Enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. This guidance is effective January 1, 2011, and we do not expect the adoption of this guidance to materially affect our consolidated financial statements.

In January 2010, the FASB amended the guidance related to fair value measurements and disclosures. Effective for interim and annual reporting periods beginning after December 15, 2009, disclosure of the amount and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements is required. Further, this guidance clarified that fair value measurement disclosures should be provided for each class of assets and liabilities. The amendment also clarified that for Level 2 and Level 3 fair value measurements, valuation techniques and inputs used for both recurring and nonrecurring fair value measurements are required to be disclosed. The adoption of this guidance on January 1, 2010 did not have a material impact on our consolidated financial statements. Additionally, effective for fiscal years beginning after December 15, 2010, a reporting entity should separately present information about purchases, sales, issuances and settlements on a gross basis in its reconciliation of Level 3 recurring fair value measurements. This accounting guidance is not expected to materially affect our consolidated financial statements.

In December 2010, the FASB amended the disclosure requirements for supplementary pro forma information related to business combinations. The provisions of this guidance require, if comparative financial statements are presented, the pro forma revenue and earnings be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The amendments also require enhanced disclosures including the description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination. This guidance is effective prospectively for 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, 2010, although early application is permitted. We will apply this guidance prospectively to any business combinations completed on or after January 1, 2011, and this guidance will impact the disclosures within our consolidated financial statements should we acquire any businesses on or after this date.

Impact of Inflation

In the last three years, we have not operated in a period of high general inflation; however, we have experienced material increases in specific commodity costs and utilities. Our restaurant operations are subject to federal and state minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of our food service and preparation personnel are paid at rates related to the federal and/or state minimum wage and, accordingly, increases in the minimum wage have increased our labor costs in the last three years. To the extent permitted by competition and the economy, we have mitigated increased costs by increasing menu prices and may continue to do so if deemed necessary in future years.

Table of Contents

OSI Restaurant Partners, LLC

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates on debt, changes in foreign currency exchange rates and changes in commodity prices.

Interest Rate Risk

At December 31, 2010 and 2009, our total debt, excluding consolidated guaranteed debt, was approximately $1,372,327,000 and $1,503,652,000, respectively. For fixed-rate debt, interest rate changes affect the fair value of debt. However, for variable-rate debt, interest rate changes generally impact our earnings and cash flows, assuming other factors are held constant. Our exposure to interest rate fluctuations includes our borrowings under our 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. We manage our interest rate risk by offsetting some of our variable-rate debt with fixed-rate debt, through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. From September 2007 to September 2010, we used an interest rate collar as part of our interest rate risk management strategy to manage our exposure to interest rate movements. Given the interest rate environment, we did not enter into another derivative financial instrument upon the maturity of our interest rate collar on September 30, 2010. We do not enter into financial instruments for trading or speculative purposes.

At December 31, 2010 and 2009, we had $248,075,000 of fixed-rate debt outstanding through our senior notes and $1,113,072,000 and $1,244,900,000, respectively, of variable-rate debt outstanding on our senior secured credit facilities. We also had $79,728,000 and $28,368,000, respectively, in available unused borrowing capacity under our working capital revolving credit facility (after giving effect to undrawn letters of credit of approximately $70,272,000 and $71,632,000, respectively), and $21,928,000 and $77,000,000, respectively, in available unused borrowing capacity under our pre-funded revolving credit facility that provides financing for capital expenditures only. Based on $1,113,072,000 of outstanding variable-rate debt at December 31, 2010, an increase of one percentage point on January 1, 2011, would cause an increase to cash interest expense of approximately $11,131,000 per year.

If a one percentage point increase in interest rates were to occur over the next four quarters, such an increase would result in the following additional interest expense, assuming the current borrowing level remains constant:

Variable-Rate Debt	Principal Outstanding at December 31, 2010	Additional Interest Expense Q1 2011	Q2 2011	Q3 2011	Q4 2011
Senior secured term loan facility	$1,035,000,000	$2,587,500	$2,587,500	$2,587,500	$2,587,500
Senior secured pre-funded revolving credit facility	78,072,000	195,180	195,180	195,180	195,180
Total	$1,113,072,000	$2,782,680	$2,782,680	$2,782,680	$2,782,680

At December 31, 2010 and 2009, the interest rate on our term loan facility was 2.63% and 2.56%, respectively. The interest rate on our pre-funded revolving credit facility was 2.56% at December 31, 2010 and 2009, and the interest rate on our working capital revolving credit facility was 2.56% at December 31, 2009.

A change in interest rates generally does not have an impact upon our future earnings and cash flow for fixed-rate debt instruments. As fixed-rate debt matures, however, and if additional debt is acquired to fund the debt repayment, future earnings and cash flow may be affected by changes in interest rates. This effect would be realized in the periods subsequent to the periods when the debt matures.

Table of Contents

OSI Restaurant Partners, LLC

Item 7A. Quantitative and Qualitative Disclosures about Market Risk (continued)

Foreign Currency Exchange Rate Risk

If foreign currency exchange rates depreciate in certain of the countries in which we operate, we may experience declines in our international operating results in 2011. Our foreign currency exchange risk has not materially changed from 2009 to 2010. We have foreign currency exchange transaction exposure for an intercompany loan with Japan that was entered into at the time of the Merger, as well as certain other international intercompany balances and royalty payments. A 10% change in the foreign currency exchange rate on the intercompany loan with Japan can impact our pretax earnings by approximately $2,400,000. This estimate assumes all variables remain constant in future periods. Our intercompany loan with South Korea was settled during 2010. All other foreign currency exchange exposure is not material to the consolidated financial statements. We currently do not use financial instruments to hedge foreign currency exchange rate changes.

Commodity Pricing Risk

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

Our restaurants are dependent upon energy to operate and are impacted by changes in energy prices, including natural gas. We utilize derivative instruments to mitigate some of our overall exposure to material increases in natural gas prices. Our third party distributor charges us for the diesel fuel used to deliver inventory to our restaurants. From time to time we may enter into forward contracts to procure certain amounts of this diesel fuel at set prices in order to mitigate our exposure to unpredictable fuel prices. We record mark-to-market changes in the fair value of these derivative instruments in earnings in the period of change. The effects of these derivative instruments were immaterial to our financial statements for all periods presented.

In addition to the market risks identified above and to the risks discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” we are subject to business risk as our beef supply is highly dependent upon a limited number of vendors. Domestically, in 2011, we expect to purchase approximately 80% of our beef raw materials from four beef suppliers who represent approximately 76% of the total beef marketplace in the United States. If these vendors were unable to fulfill their obligations under their contracts, we could encounter supply shortages and incur higher costs to secure adequate supplies.

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

Table of Contents

OSI Restaurant Partners, LLC

Item 8. Financial Statements and Supplementary Data

OSI Restaurant Partners, LLC
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT COMMON UNITS)

	DECEMBER 31,	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	$300,111	$289,162
Current portion of restricted cash	5,145	3,989
Inventories	58,974	57,223
Deferred income tax assets	26,687	38,644
Other current assets, net	73,957	95,494
Total current assets	464,874	484,512
Property, fixtures and equipment, net	815,998	888,738
Investments in and advances to unconsolidated affiliates, net	31,673	22,718
Goodwill	448,722	448,722
Intangible assets, net	578,066	592,293
Other assets, net	139,790	148,046
Total assets	2,479,123	2,585,029
LIABILITIES AND DEFICIT		
Current Liabilities		
Accounts payable	76,919	107,147
Accrued and other current liabilities	196,699	218,560
Current portion of accrued buyout liability	14,001	15,111
Unearned revenue	269,058	237,580
Current portion of long-term debt	95,284	134,333
Total current liabilities	651,961	712,731
Partner deposit and accrued buyout liability	109,906	108,926
Deferred rent	84,695	69,801
Deferred income tax liability	190,779	198,081
Long-term debt	1,277,043	1,369,319
Guaranteed debt	24,500	24,500
Other long-term liabilities, net	218,165	228,495
Total liabilities	2,557,049	2,711,853
Commitments and contingencies		
Deficit		
OSI Restaurant Partners, LLC Unitholder’s Deficit		
Common units, no par value, 100 units authorized, issued and outstanding as of December 31, 2010 and 2009, respectively	-	-
Additional paid-in capital	735,760	713,969
Accumulated deficit	(815,252)	(842,966)
Accumulated other comprehensive loss	(11,757)	(16,799)
Total OSI Restaurant Partners, LLC unitholder’s deficit	(91,249)	(145,796)

Noncontrolling interests	13,323	18,972
Total deficit	(77,926)	(126,824)
Total liabilities and deficit	$2,479,123	$2,585,029

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

Table of Contents

OSI Restaurant Partners, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEARS ENDED DECEMBER 31,		
	2010	2009	2008
Revenues			
Restaurant sales	$3,594,681	$3,573,761	$3,939,436
Other revenues	33,785	28,066	23,421
Total revenues	3,628,466	3,601,827	3,962,857
Costs and expenses			
Cost of sales	1,151,951	1,184,301	1,389,392
Labor and other related	1,034,308	1,023,990	1,095,057
Other restaurant operating	939,352	926,343	1,012,724
Depreciation and amortization	135,396	162,731	185,786
General and administrative	251,273	250,097	263,204
Loss on contingent debt guarantee	-	24,500	-
Goodwill impairment	-	11,078	604,071
Provision for impaired assets and restaurant closings	6,875	138,212	112,430
Allowance for notes receivable for affiliated entity	-	-	33,150
Income from operations of unconsolidated affiliates	(5,488)	(2,196)	(2,343)
Total costs and expenses	3,513,667	3,719,056	4,693,471
Income (loss) from operations	114,799	(117,229)	(730,614)
Gain on extinguishment of debt	-	158,061	48,409
Other income (expense), net	2,993	(198)	(11,122)
Interest expense, net	(69,870)	(93,006)	(154,428)
Income (loss) before provision (benefit) for income taxes	47,922	(52,372)	(847,755)
Provision (benefit) for income taxes	20,078	2,034	(105,305)
Net income (loss)	27,844	(54,406)	(742,450)
Less: net income (loss) attributable to noncontrolling interests	6,208	(380)	(3,041)
Net income (loss) attributable to OSI Restaurant Partners, LLC	$21,636	$(54,026)	$(739,409)

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

Table of Contents

OSI Restaurant Partners, LLC
CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDER'S/ STOCKHOLDERS' (DEFICIT) EQUITY
(IN THOUSANDS, EXCEPT COMMON UNITS)

	COMMON UNITS	COMMON UNITS AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	NON-CONTROLLING INTERESTS	TOTAL
Balance, December 31, 2007	100	$ -	$ 641,647	$ (40,055)	$ (2,200)	$ 34,862	$ 634,254
Cumulative effect from adoption of split dollar life insurance guidance	-	-	-	(9,476)	-	-	(9,476)
Stock-based compensation	-	-	7,069	-	-	-	7,069
Transaction fees	-	-	2,327	-	-	-	2,327
Net loss	-	-	-	(739,409)	-	(3,041)	(742,450)
Foreign currency translation adjustment	-	-	-	-	(22,657)	-	(22,657)
Total comprehensive loss	-	-	-	-	-	-	(765,107)
Distributions to noncontrolling interests	-	-	-	-	-	(7,322)	(7,322)
Contributions from noncontrolling interests	-	-	-	-	-	2,208	2,208
Balance, December 31, 2008	100	-	651,043	(788,940)	(24,857)	26,707	(136,047)
Stock-based compensation	-	-	15,926	-	-	-	15,926
Contribution from OSI HoldCo, Inc.	-	-	47,000	-	-	-	47,000
Net loss	-	-	-	(54,026)	-	(380)	(54,406)
Foreign currency translation adjustment	-	-	-	-	8,058	(19)	8,039
Total comprehensive loss	-	-	-	-	-	-	(46,367)

Distributions to noncontrolling interests	-	-	-	-	-	(9,083)	(9,083)
Contributions from noncontrolling interests	-	-	-	-	-	1,747	1,747
Balance, December 31, 2009	100	-	713,969	(842,966)	(16,799)	18,972	(126,824)
Cumulative effect from adoption of variable interest entity guidance	-	-	-	6,078	-	(386)	5,692
Stock-based compensation	-	-	6,791	-	-	-	6,791
Contribution from OSI HoldCo, Inc.	-	-	15,000	-	-	-	15,000
Net income	-	-	-	21,636	-	6,208	27,844
Foreign currency translation adjustment	-	-	-	-	5,042	-	5,042
Total comprehensive income	-	-	-	-	-	-	32,886
Distributions to noncontrolling interests	-	-	-	-	-	(11,596)	(11,596)
Contributions from noncontrolling interests	-	-	-	-	-	125	125
Balance, December 31, 2010	100	$ -	$ 735,760	$ (815,252)	$ (11,757)	$ 13,323	$ (77,926)

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

Table of Contents

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

	YEARS ENDED DECEMBER 31,		
	2010	2009	2008
Cash flows provided by operating activities:			
Net income (loss)	$27,844	$(54,406)	$(742,450)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	135,396	162,731	185,786
Amortization of deferred financing fees	8,018	8,661	11,003
Amortization of capitalized gift card sales commissions	15,046	10,884	-
Goodwill impairment	-	11,078	604,071
Provision for impaired assets and restaurant closings	6,875	138,212	112,430
Transaction fees	-	-	2,327
Stock-based and other non-cash compensation expense	39,512	47,604	21,107
Income from operations of unconsolidated affiliates	(5,488)	(2,196)	(2,343)
Change in deferred income taxes	5,168	(4,836)	(102,741)
Loss on disposal of property, fixtures and equipment	4,264	5,312	7,055
Unrealized (gain) loss on derivative financial instruments	(18,267)	(6,998)	20,100
(Gain) loss on life insurance and restricted cash investments	(2,784)	(8,516)	14,894
Loss on contingent debt guarantee	-	24,500	-
Gain on extinguishment of debt	-	(158,061)	(48,409)
(Gain) loss on disposal of subsidiary	-	(2,491)	2,812
Provision for bad debt expense	768	1,870	33,150
Change in assets and liabilities:			
(Increase) decrease in inventories	(2,599)	27,472	(3,724)
(Increase) decrease in other current assets	(12,883)	(12,695)	21,608
Decrease in other assets	10,709	8,459	21,180
Decrease in accrued interest payable	(192)	(1,873)	(688)
(Decrease) increase in accounts payable and accrued and other current liabilities	(28,332)	(65,838)	11,463
Increase in deferred rent	16,695	18,941	29,698
Increase in unearned revenue	31,964	24,847	16,379
Decrease in other long-term liabilities	(6,180)	(29,540)	(977)
Net cash provided by operating activities	225,534	143,121	213,731
Cash flows used in investing activities:			
Purchases of Company-owned life insurance	(2,405)	(6,571)	(25,563)
Proceeds from sale of Company-owned life insurance	6,411	16,886	31,004
De-consolidation of subsidiary	(4,398)	-	-
Acquisition of business	-	(450)	-
Proceeds from disposal of a subsidiary	-	1,653	4,200
Proceeds from sale of non-restaurant operations	-	-	2,900
Proceeds from sale-leaseback transaction	-	-	8,100
Capital expenditures	(60,476)	(57,528)	(123,889)
Proceeds from the sale of property, fixtures and equipment	462	961	10,501
Restricted cash received for capital expenditures, property			

taxes and certain deferred compensation plans	16,745	25,298	151,388
Restricted cash used to fund capital expenditures, property			
taxes and certain deferred compensation plans	(17,860)	(23,782)	(120,451)
Payments from unconsolidated affiliates	-	165	311
Investments in and advances to unconsolidated affiliates	-	-	(1,600)
Net cash used in investing activities	$(61,521)	$(43,368)	$(63,099)

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Table of Contents

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

	YEARS ENDED DECEMBER 31, 2010	2009	2008
Cash flows used in financing activities:			
Repayments of long-term debt	$(140,853)	$(20,539)	$(85,402)
Proceeds from borrowings on revolving credit facilities	61,000	23,700	62,000
Repayments of borrowings on revolving credit facilities	(55,928)	(12,700)	-
Extinguishment of senior notes	-	(75,967)	(11,711)
Deferred financing fees	(1,286)	(155)	-
Purchase of note related to guaranteed debt	-	(33,283)	-
Contributions from OSI HoldCo, Inc.	15,000	47,000	-
Contributions from noncontrolling interests	125	1,747	2,208
Distributions to noncontrolling interests	(11,596)	(9,083)	(7,322)
Repayments of partner deposit and accrued buyout contributions	(20,936)	(7,124)	(17,268)
Receipts of partner deposit and other contributions	2,914	3,391	7,229
Net cash used in financing activities	(151,560)	(83,013)	(50,266)
Effect of exchange rate changes on cash and cash equivalents	(1,504)	952	-
Net increase in cash and cash equivalents	10,949	17,692	100,366
Cash and cash equivalents at the beginning of the period	289,162	271,470	171,104
Cash and cash equivalents at the end of the period	$300,111	$289,162	$271,470
Supplemental disclosures of cash flow information:			
Cash paid for interest	$80,783	$91,938	$130,025
Cash paid for income taxes, net of refunds	9,523	20,739	(14,600)
Supplemental disclosures of non-cash investing and financing activities:			
Conversion of partner deposit and accrued buyout liability to notes payable	$5,685	$1,204	$5,237
Decrease in guaranteed debt and investments in unconsolidated affiliate	-	(24,500)	(2,495)
Acquisitions of property, fixtures and equipment through accounts payable or capital lease liabilities	2,506	5,021	7,061

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

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 11), proceeds from a sale-leaseback transaction with a related party, 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 Company owns and operates casual and upscale casual dining restaurants primarily in the United States. The Company’s restaurant portfolio consists of the Outback Steakhouse, Carrabba’s Italian Grill, Bonefish Grill, Fleming’s Prime Steakhouse and Wine Bar and Roy’s restaurant concepts. Additional Outback Steakhouse, Carrabba’s Italian Grill and Bonefish Grill restaurants in which the Company has no direct investment are operated under franchise agreements.

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.

On January 1, 2010, the Company adopted new accounting guidance related to the consolidation of variable interest entities which requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. These changes require an ongoing assessment and eliminate the quantitative approach previously required for determining whether an entity is the primary beneficiary. As a result of adopting this guidance, the Company no longer consolidates the following entities in its consolidated financial statements (see Note 20): Paradise Restaurant Group, LLC (“PRG”), the entity to whom the Company sold its Cheeseburger in Paradise concept in September 2009, and T-Bird Nevada, LLC (“T-Bird”), a limited liability company affiliated with the Company’s California franchisees of Outback Steakhouse restaurants. Combined revenues and net loss included in the Company’s Consolidated Statement of Operations for these two entities for the year ended December 31, 2009 were $75,767,000 and $56,476,000, respectively, and combined assets and liabilities, excluding certain intercompany items, included in the Company’s Consolidated Balance Sheet at December 31, 2009 were $9,445,000 and $41,631,000, respectively. The adoption of this guidance resulted in reductions of $6,078,000 and $386,000 in the January 1, 2010 balances of Accumulated deficit and Noncontrolling interests, respectively.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Company's consolidated financial statements include the accounts and operations of OSI Restaurant Partners, LLC, OSI Co-Issuer, Inc. and the Company's affiliated partnerships and limited liability companies in which it is a general partner or managing member and owns a controlling financial interest. OSI Co-Issuer, Inc., a wholly-owned subsidiary of OSI Restaurant Partners, LLC, was formed to facilitate the Merger and does not conduct ongoing business operations. The Company consolidates variable interest entities in which the Company is deemed to have a controlling financial interest as a result of the Company having (1) the power to direct the activities that most significantly impact the entity's economic performance and (2) the obligation to absorb the losses or the right to receive the benefits that could potentially be significant to the variable interest entity. If the Company has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the operations of the variable interest entity are included in the consolidated financial statements (see Note 20).

The Company is a franchisor of 157 restaurants as of December 31, 2010, but does not possess any ownership interests in its franchisees and generally does not provide financial support to franchisees in its typical franchise relationship. These franchise relationships are not deemed variable interest entities and are not consolidated.

The equity method of accounting is used for investments in affiliated companies in which the Company is not in control, the Company's interest is generally between 20% and 50% and the Company has the ability to exercise significant influence over the entity. The Company's share of earnings or losses of affiliated companies accounted for under the equity method is recorded in "Income from operations of unconsolidated affiliates" in its Consolidated Statements of Operations. Through a joint venture arrangement with PGS Participacoes Ltda., the Company holds a 50% ownership interest in PGS Consultoria e Serviços Ltda. (the "Brazilian Joint Venture"). The Brazilian Joint Venture was formed in 1998 for the purpose of operating Outback franchise restaurants in Brazil. The Company accounts for the Brazilian Joint Venture under the equity method of accounting (see Note 19).

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Cash and Cash Equivalents

Cash equivalents consist of investments that are readily convertible to cash with an original maturity date of three months or less. Cash and cash equivalents include $31,500,000 and $31,844,000 as of December 31, 2010 and 2009, respectively, for amounts in transit from credit card companies since settlement is reasonably assured.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents and restricted cash. The Company attempts to limit its credit risk by utilizing outside investment managers with major financial institutions that, in turn, invest in United States treasury security funds, certificates of deposit, money market funds, noninterest-bearing accounts and other highly rated investments and marketable securities. At times, cash balances may be in excess of FDIC insurance limits.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Financial Instruments

Disclosure of fair value information about financial instruments, whether or not recognized in the Consolidated Balance Sheet, is required for those instruments for which it is practical to estimate that value. Fair value is a market-based measurement.

The Company's non-derivative financial instruments at December 31, 2010 and 2009 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 December 31, 2010 and 2009 (in thousands):

	DECEMBER 31,			
	2010		2009	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Senior secured term loan facility	$1,035,000	$985,838	$1,171,900	$950,704
Senior secured working capital revolving credit facility	-	-	50,000	40,563
Senior secured pre-funded revolving credit facility	78,072	74,364	23,000	18,659
Senior notes	248,075	257,998	248,075	218,926

Derivatives

The Company is highly leveraged and exposed to interest rate risk to the extent of its variable-rate debt. 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. From September 2007 to September 2010, the Company used an interest rate collar as part of its interest rate risk management strategy to manage its exposure to interest rate movements. Given the interest rate environment, the Company did not enter into another derivative financial instrument upon the maturity of its interest rate collar on September 30, 2010. Additionally, the Company's restaurants are dependent upon energy to operate and are impacted 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 Company's third party distributor charges the Company for the diesel fuel used to deliver inventory to the Company's restaurants. From time to time, the Company may enter 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 Company records mark-to-market changes in the fair value of these derivative instruments in earnings in the period of change. The Company does not enter into financial instruments for trading or speculative purposes.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Inventories

Inventories consist of food and beverages, and are stated at the lower of cost (first-in, first-out) or market. The Company periodically makes advance purchases of various inventory items to ensure adequate supply or to obtain favorable pricing. At December 31, 2010 and 2009, inventories included advance purchases of approximately $10,699,000 and $7,723,000, respectively.

Consideration Received from Vendors

The Company receives consideration for a variety of vendor-sponsored programs, such as volume rebates, promotions and advertising allowances. Vendor consideration is recorded as a reduction of Cost of sales or Other restaurant operating expenses when recognized in the Company's Consolidated Statements of Operations. Advertising allowances are intended to offset the Company's costs of promoting and selling menu items in its restaurants and are recorded as a reduction to General and administrative expenses when earned.

Restricted Cash

At December 31, 2010 and 2009, the current portion of restricted cash is restricted for the payment of property taxes, the settlement of obligations in a rabbi trust for the Partner Equity Plan (the "PEP") and the settlement of other deferred compensation. Long-term restricted cash at December 31, 2010 and 2009 is restricted for the settlement of other deferred compensation and is immaterial to the Consolidated Balance Sheets.

Property, Fixtures and Equipment

Property, fixtures and equipment are stated at cost, net of accumulated depreciation. At the time property, fixtures and equipment are retired, or otherwise disposed of, the asset and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in earnings. The Company expenses repair and maintenance costs that maintain the appearance and functionality of the restaurant but do not extend the useful life of any restaurant asset. Improvements to leased properties are depreciated over the shorter of their useful life or the lease term, which includes cancelable renewal periods where failure to exercise such options would result in an economic penalty. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings and building improvements	20 to 30 years
Furniture and fixtures	5 to 7 years
Equipment	2 to 7 years
Leasehold improvements	5 to 20 years

The Company's accounting policies regarding property, fixtures and equipment include certain management judgments and projections regarding the estimated useful lives of these assets, the residual values to which the assets are depreciated or amortized, the determination of expected lease terms and the determination of what constitutes increasing the value and useful life of existing assets. These estimates, judgments and projections may produce materially different amounts of depreciation and amortization expense than would be reported if different assumptions were used.

Capitalized Software Costs

Capitalized software, which is a component of Property, fixtures and equipment, is recorded at cost less accumulated depreciation. Capitalized software is depreciated using the straight-line method over an estimated useful life of three years.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Operating Leases

Rent expense for the Company's operating leases, which generally have escalating rentals over the term of the lease and may include potential rent holidays, is recorded on a straight-line basis over the initial lease term and those renewal periods that are reasonably assured. The initial lease term includes the "build-out" period of the Company's leases, which is typically before rent payments are due under the terms of the lease. The difference between rent expense and rent paid is recorded as deferred rent and is included in the Consolidated Balance Sheets. Payments received from landlords as incentives for leasehold improvements are recorded as deferred rent and are amortized on a straight-line basis over the term of the lease as a reduction of rent expense. Lease termination fees, if any, and future obligated lease payments for closed locations are recorded as an expense in the period that they are incurred. Exit-related lease obligations of $7,604,000 and $6,635,000 are recorded in "Accrued and other current liabilities" and $2,582,000 and $3,228,000 are recorded in "Other long-term liabilities" in the Company's Consolidated Balance Sheets as of December 31, 2010 and 2009, respectively. Assets and liabilities resulting from the Merger relating to favorable and unfavorable lease amounts are amortized on a straight-line basis to rent expense over the remaining lease term.

Pre-Opening Expenses

Non-capital expenditures associated with opening new restaurants are expensed as incurred.

Impairment or Disposal of Long-Lived Assets

The Company assesses the potential impairment of amortizable intangibles, including trademarks, franchise agreements and net favorable leases, and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In evaluating long-lived restaurant assets for impairment, the Company considers a number of factors such as:

- A significant change in market price;
- A significant adverse change in the manner in which a long-lived asset is being used;
- New laws and government regulations or a significant adverse change in business climate that adversely affect the value of a long-lived asset;
- A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life; and
- A current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection that demonstrates continuing losses associated with the use of the underlying long-lived asset.

If the aforementioned factors indicate that the Company should review the carrying value of the restaurant's long-lived assets, the Company performs a two-step impairment analysis. Each Company-owned restaurant is evaluated individually for impairment since that is the lowest level at which identifiable cash flows can be measured independently from cash flows of other asset groups. If the total future undiscounted cash flows expected to be generated by the assets are less than its carrying amount, as prescribed by step one testing, recoverability is measured in step two by comparing fair value of the asset to its carrying amount. Should the carrying amount exceed the asset's estimated fair value, an impairment loss is charged to earnings. Restaurant fair value is determined based on estimates of discounted future cash flows; and impairment charges primarily occur as a result of the carrying value of a restaurant's assets exceeding its estimated fair market value, primarily due to anticipated closures or declining future cash flows from lower projected future sales on existing locations. During the years ended December 31, 2010, 2009 and 2008, the Company recorded property, fixtures and equipment impairment charges and restaurant closing expense of $6,469,000, $90,301,000 and $65,767,000, respectively (see Note 7).

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Impairment or Disposal of Long-Lived Assets (continued)

The Company's judgments and estimates related to the expected useful lives of long-lived assets are affected by factors such as changes in economic conditions and changes in operating performance and expected use. As the Company assesses the ongoing expected cash flows and carrying amounts of its long-lived assets, these factors could cause it to realize a material impairment charge. The Company uses the straight-line method to amortize definite-lived intangible assets.

Restaurant sites and certain other assets to be sold are included in assets held for sale when certain criteria are met, including the requirement that the likelihood of selling the assets within one year is probable. For assets that meet the held for sale criteria, the Company separately evaluates whether the assets also meet the requirements to be reported as discontinued operations. If the Company no longer had any significant continuing involvement with respect to the operations of the assets and cash flows were discontinued, it would classify the assets and related results of operations as discontinued. Assets whose sale is not probable within one year remain in property, fixtures and equipment until their sale is probable within one year. The Company did not have any assets classified as held for sale as of December 31, 2010 and 2009.

Generally, restaurant closure costs are expensed as incurred. When it is probable that the Company will cease using the property rights under a non-cancellable operating lease, it records a liability for the net present value of any remaining lease obligations net of estimated sublease income that can reasonably be obtained for the property. The associated expense is recorded in "Provision for impaired assets and restaurant closings." Any subsequent adjustments to the liability from changes in estimates are recorded in the period incurred.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the residual after allocation of the purchase price to the individual fair values and carryover basis of assets acquired. On an annual basis or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, the Company reviews the recoverability of goodwill and indefinite-lived intangible assets based upon an analysis of discounted cash flows of the related reporting unit as compared to the carrying value. If the carrying amount of the reporting unit's goodwill and indefinite-lived intangible assets exceeds its estimated fair value, the amount of impairment loss is recognized in an amount equal to that excess. Generally, the Company performs its annual assessment for impairment for goodwill and indefinite-lived intangible assets during the second quarter of the fiscal year, unless facts and circumstances require differently. The Company's indefinite-lived intangible assets consist only of goodwill and its trade names.

Impairment indicators that may necessitate goodwill impairment testing in between the Company's annual impairment tests include the following:

- A significant adverse change in legal factors or in the business climate;
- An adverse action or assessment by a regulator;
- Unanticipated competition;
- A loss of key personnel;
-

A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of; and

- The testing for recoverability of a significant asset group within a reporting unit.

Impairment indicators that may necessitate indefinite-lived intangible asset impairment testing in between the Company's annual impairment tests are consistent with those of its long-lived assets.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Goodwill and Indefinite-Lived Intangible Assets (continued)

The Company performs its annual impairment test each year in the second quarter. At the end of the fourth quarter of 2008, as a result of 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 concluded a triggering event had occurred indicating potential impairment and performed an additional impairment test of its goodwill and other intangible assets.

The Company performed its annual impairment test in the second quarter of 2010 and determined that none of its reporting units are at risk for material goodwill impairment. The Company did not record any goodwill or indefinite-lived intangible asset impairment charges during the year ended December 31, 2010. As a result of the Company's annual impairment test in the second quarter of 2009, it recorded goodwill and indefinite-lived intangible asset impairment charges of $11,078,000 and $36,000,000, respectively. As a result of the Company's annual impairment test in the second quarter of 2008 and its additional impairment test in the fourth quarter of 2008, it recorded goodwill and indefinite-lived intangible asset impairment charges of $604,071,000 and $42,958,000, respectively, during the year ended December 31, 2008 (see Note 8).

Sales declines at the Company's restaurants, unplanned increases in health insurance, commodity or labor costs, deterioration in overall economic conditions and challenges in the restaurant industry may result in future impairment charges. It is possible that changes in circumstances or changes in management's judgments, assumptions and estimates, could result in an impairment charge of a portion or all of its goodwill or other intangible assets.

Construction in Progress

The Company capitalizes all direct restaurant construction costs. Upon restaurant opening, these costs are depreciated and charged to expense based upon their classification within property, fixtures and equipment. The amount of interest capitalized in connection with restaurant construction was immaterial in all periods.

Deferred Financing Fees

The Company capitalizes deferred financing fees related to the issuance of debt obligations. The Company amortizes deferred financing fees to interest expense over the terms of the respective financing arrangements using the effective interest method.

Liquor Licenses

The costs of obtaining non-transferable liquor licenses directly issued by local government agencies for nominal fees are expensed as incurred. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived intangible assets and included in "Other assets." Annual liquor license renewal fees are expensed over the renewal term.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Company records food and beverage revenues upon sale. Initial and developmental franchise fees are recognized as income once the Company has substantially performed all of its material obligations under the franchise agreement, which is generally upon the opening of the franchised restaurant. Continuing royalties, which are a percentage of net sales of the franchisee, are recognized as income when earned. Franchise-related revenues are included in the line "Other revenues" in the Consolidated Statements of Operations.

The Company defers revenue for gift cards, which do not have expiration dates, until redemption by the customer. The Company also recognizes gift card "breakage" revenue for gift cards when the likelihood of redemption by the customer is remote, which the Company determined are those gift cards issued on or before three years prior to the balance sheet date. The Company recorded breakage revenue of $11,048,000, $9,310,000 and $11,293,000 for the years ended December 31, 2010, 2009 and 2008, respectively. Breakage revenue is recorded as a component of "Restaurant sales" in the Consolidated Statements of Operations.

Gift cards sold at a discount are recorded as revenue upon redemption of the associated gift cards at an amount net of the related discount. Gift card sales commissions paid to third-party providers are initially capitalized and subsequently recognized as "Other restaurant operating" expenses upon redemption of the associated gift card. Deferred expenses are $8,111,000 and $7,070,000 as of December 31, 2010 and 2009, respectively, and are reflected in "Other current assets" in the Company's Consolidated Balance Sheets. Gift card sales that are accompanied by a bonus gift card to be used by the customer at a future visit result in a separate deferral of a portion of the original gift card sale. Revenue is recorded when the bonus card is redeemed at a value based on the estimated fair market value of the bonus card.

The Company collects and remits sales, food and beverage, alcoholic beverage and hospitality taxes on transactions with customers and reports such amounts under the net method in its Consolidated Statements of Operations. Accordingly, these taxes are not included in gross revenue.

Advertising Costs

Advertising production costs are expensed in the period when the advertising first occurs. All other advertising costs are expensed in the period in which the costs are incurred. The total amounts charged to advertising expense were $146,141,000, $140,033,000 and $153,398,000, for the years ended December 31, 2010, 2009 and 2008, respectively.

Foreign Currency Translation and Comprehensive Income (Loss)

For all significant non-U.S. operations, the functional currency is the local currency. Assets and liabilities of those operations are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates for the reporting period. Translation gains and losses are reported as a separate component of Accumulated other comprehensive loss in unitholder's deficit.

Foreign currency transactions may produce receivables or payables that are fixed in terms of the amount of foreign currency that will be received or paid. A change in exchange rates between the U.S dollar and the currency in which a transaction is denominated increases or decreases the expected amount of cash flows in U.S. dollars upon settlement of the transaction. This increase or decrease is a foreign currency transaction gain or loss that generally will be included in determining net income (loss) for the period in which the exchange rate changes. Similarly, a transaction gain or loss, measured from the transaction date or the most recent intervening balance sheet date, whichever is later, realized upon settlement of a foreign currency transaction generally will be included in determining net income (loss) for the period in which the transaction is settled.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Income Taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in the tax rate is recognized in income in the period that includes the enactment date of the rate change. The Company recorded a valuation allowance to reduce its deferred income tax assets to the amount that is more likely than not to be realized. The Company has considered future taxable income and ongoing feasible tax planning strategies in assessing the need for the valuation allowance. Judgments made regarding future taxable income may change due to changes in market conditions, changes in tax laws or other factors. If the assumptions and estimates change in the future, the valuation allowance established may be increased or decreased, resulting in a respective increase or decrease in income tax expense.

The noncontrolling interest in domestic affiliated entities includes no provision or liability for income taxes, as any tax liability related thereto is the responsibility of the holder of the noncontrolling interest.

Employee Partner Distributions and Buyouts

The managing partner of each Company-owned domestic restaurant and the chef partner of each Fleming's and Roy's Company-owned domestic restaurant, as well as area operating partners, generally receive distributions from a partnership (the "Management Partnership") that provides management and supervisory services to his or her restaurant based on a percentage of their associated restaurants' monthly cash flows. The expense associated with the monthly distributions for managing and chef partners is included in "Labor and other related" expenses, and the expense associated with the monthly distributions or payments for area operating partners is included in "General and administrative" expenses in the Consolidated Statements of Operations.

Managing and chef partners that are eligible to participate in a deferred compensation program upon completion of their five-year employment term receive an unfunded, unsecured promise of a cash contribution. An area operating partner's interest in the Management Partnership may be purchased, at the Company's option, after the restaurant has been open for a five-year period based on the terms specified in the agreement. The Company estimates future purchases of area operating partners' interests, as well as deferred compensation obligations to managing and chef partners, using current and historical information on restaurant performance and records the partner obligations in the line item "Partner deposit and accrued buyout liability" in its Consolidated Balance Sheets. In the period the Company purchases the area operating partner's interests, an adjustment is recorded to recognize any remaining expense associated with the purchase and reduce the related accrued buyout liability. Deferred compensation expenses for managing and chef partners are included in "Labor and other related" expenses and buyout expenses for area operating partners are included in "General and administrative" expenses in the Consolidated Statements of Operations.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation

The Kangaroo Holdings, Inc. 2007 Equity Incentive Plan (the "KHI Equity Plan") permits the grant of stock options and restricted stock of KHI to Company management and other key employees. The Company accounts for its stock-based employee compensation using a fair value based method of accounting.

Generally, stock options vest and become nominally exercisable in 20% increments over a period of five years contingent on continued employee service. The KHI Equity Plan contains a management call option that allows KHI to repurchase all shares purchased through exercise of stock options upon termination of employment at any time prior to the earlier of an initial public offering or a change of control. If an employee's termination of employment is a result of death or disability, by the Company other than for cause or by the employee for good reason, KHI may repurchase exercised stock under this call option at fair market value. If an employee's termination of employment is by the Company for cause or by the employee without good reason, KHI may repurchase the stock under this call provision for the lesser of the exercise price or fair market value. Additionally, the holder of shares acquired upon the exercise of stock options is prohibited from transferring the shares to any person, subject to narrow exceptions, and should a permitted transfer occur, the transferred shares remain subject to the management call option. As a result of the transfer restrictions and call option, the Company does not record compensation expense for stock options that contain the call option since employees cannot realize monetary benefit from the options or any shares acquired upon the exercise of the options unless the employee is employed at the time of an initial public offering or change of control. There have not been any exercises of stock options by any employee to date, and all stock options of terminated employees with a call provision have been forfeited.

The Company uses the Black-Scholes option pricing model to estimate the weighted-average grant date fair value of stock options granted. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee forfeiture rate within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Results may vary depending on the assumptions applied within the model. The benefits of tax deductions in excess of recognized compensation cost, if any, are reported as a financing cash flow.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Stock-Based and Deferred Compensation Plans

Stock-Based and Deferred Compensation Plans

Managing and Chef Partners

Managing and chef partners participate in the PEP, a deferred compensation program that provides an unfunded, unsecured promise to pay participants in cash, upon completion of their five-year employment terms. The Company is in the process of developing modifications to its managing and chef partner compensation structure.

Upon the closing of the Merger, certain stock options that had been granted to managing and chef partners under a pre-merger managing partner stock plan (the “MP Stock Plan”) upon completion of a previous employment contract and at the beginning of an employment agreement were converted into the right to receive cash in the form of a “Supplemental PEP” contribution and a “Supplemental Cash” payment, respectively. Additionally, all outstanding, unvested partner employment grants of restricted stock under the MP Stock Plan were converted into the right to receive cash on a deferred basis. Additionally, certain members of management were given the option to either convert some or all of their restricted stock granted under the pre-merger stock plan in the same manner as managing partners or convert some or all of it into KHI restricted stock. In accordance with the terms of the Employee Rollover Agreement adopted by the Company on June 14, 2007, those shares converted into KHI restricted stock vest 20% annually over five years, and grants are fully vested upon an initial public offering or a change of control. Grants of restricted stock under the pre-merger stock plan that converted into the right to receive cash are referred to as “Restricted Stock Contributions.”

As of December 31, 2010, the Company’s total liability with respect to obligations primarily under the PEP, Supplemental PEP and Restricted Stock Contributions was approximately $101,424,000, of which $13,956,000 and $87,468,000 was included in the line items “Accrued and other current liabilities” and “Other long-term liabilities,” respectively, in its Consolidated Balance Sheet. As of December 31, 2009, the Company’s total liability with respect to obligations primarily under the PEP, Supplemental PEP, Supplemental Cash and Restricted Stock Contributions was approximately $94,564,000, of which $15,082,000 and $79,482,000 was included in the line items “Accrued and other current liabilities” and “Other long-term liabilities,” respectively, in its Consolidated Balance Sheet. Partners and management may allocate the contributions into benchmark investment funds, and these amounts due to participants will fluctuate according to the performance of their allocated investments and may differ materially from the initial contribution and current obligation.

Prior to the Merger, certain partners participating in the PEP were to receive common stock (“Partner Shares”) upon completion of their employment contract. Upon closing of the Merger, these partners are entitled to receive a deferred payment of cash instead of common stock upon completion of their current employment term. Partners will not receive the deferred cash payment if they resign or are terminated for cause prior to completing their current employment terms. There will not be any future earnings or losses on these amounts prior to payment to the partners. The amount accrued for the Partner Shares obligation was approximately $6,604,000 as of December 31, 2010, of which $6,477,000 and $127,000 was included in the line items “Accrued and other current liabilities” and “Other long-term liabilities,” respectively, in the Company’s Consolidated Balance Sheet. The amount accrued for the Partner Shares obligation was approximately $5,679,000 as of December 31, 2009 and was included in the line item “Other long-term liabilities” in the Company’s Consolidated Balance Sheet.

As of December 31, 2010 and 2009, the Company had approximately $57,978,000 and $59,521,000, respectively, in various corporate owned life insurance policies and another $1,026,000 and $1,109,000, respectively, of restricted cash, both of which are held within an irrevocable grantor or "rabbi" trust account for settlement of the Company's obligations under the PEP, Supplemental PEP and Restricted Stock Contributions. The Company is the sole owner of any assets within the rabbi trust and participants are considered general creditors of the Company with respect to assets within the rabbi trust.

As of December 31, 2010 and 2009, there were $49,024,000 and $39,613,000, respectively, of unfunded obligations related to the PEP, Supplemental PEP, Supplemental Cash, Restricted Stock Contributions and Partner Shares liabilities that may require the use of cash resources in the future.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Stock-Based and Deferred Compensation Plans (continued)

Stock-Based and Deferred Compensation Plans (continued)

Managing and Chef Partners (continued)

Amounts credited to partners' PEP accounts are fully vested at all times and participants have no discretion with respect to the form of benefit payments under the PEP. Effective January 1, 2009, the Company accelerated the distribution of PEP and Supplemental PEP benefits to certain active participants. Active managing and chef partners who complete an employment contract on or after January 1, 2009 and remain employed with the Company until their PEP accounts are fully distributed will receive their PEP distributions at certain payment dates throughout a seven-year period after completion of their employment contracts (previously each account was generally distributed to the participant over a ten-year period). Managing and chef partners who complete an employment contract on or after January 1, 2009 and do not remain employed with the Company until their PEP accounts are fully distributed will receive their entire PEP account balance in the seventh year after completion of their employment contract. Their PEP account balance will be determined as of the date of termination of employment, subject to any subsequent increases or decreases based on the performance of their investment elections.

Managing and chef partners whose PEP accounts relate to an employment contract completed before January 1, 2009 and those with Supplemental PEP accounts from the Merger, who in either case were employed with the Company through December 31, 2008, were permitted to keep the original ten-year distribution schedule or elect a new distribution schedule. Approximately 75% of participants elected the new distribution schedule, which results in distribution of their account balance at certain payment dates throughout a seven-year period.

If participants do not remain employed by the Company through 2015, then their remaining PEP account balance will be distributed in one payment in 2015. Their account balance will be determined as of the date of termination of employment, subject to any subsequent increases or decreases based on the performance of their investment choices.

Participants with PEP or Supplemental PEP accounts who were not employed with the Company through December 31, 2008 were required to keep the original ten-year distribution schedule.

Area Operating Partners

Area operating partners are required, as a condition of employment, to make an initial investment of $50,000 in the Management Partnership that provides supervisory services to the restaurants that the area operating partner oversees. This interest gives the area operating partner the right to distributions from the Management Partnership based on a percentage of his or her restaurants' monthly cash flows for the duration of the agreement, typically ranging from 4% to 9%. The Company has the option to purchase an area operating partner's interest in the Management Partnership after the restaurant has been open for a five-year period on the terms specified in the agreement.

For restaurants opened on or after January 1, 2007, the area operating partner's percentage of cash distributions and buyout percentage is calculated based on the associated restaurant's return on investment compared to the Company's targeted return on investment and may range from 3.0% to 12.0%. This percentage is determined after the first five full calendar quarters from the date of the associated restaurant's opening and is adjusted each quarter thereafter based on a trailing 12-month restaurant return on investment. The buy-out percentage is the area operating partner's average distribution percentage for the 24 months immediately preceding the buy-out. Buyouts are paid in cash within 90 days or paid over a two-year period.

Management and Other Key Employees

The Company's Ultimate Parent, through the KHI Equity Plan, grants stock options and restricted stock of KHI to Company management and other key employees. As of December 31, 2010, 11,000,000 KHI shares were approved for stock option and restricted stock grants under the KHI Equity Plan by the KHI Board of Directors. The maximum term of options and restricted stock granted under the Equity Plan is ten years. The Company has not granted any shares of restricted stock under the KHI Equity Plan. 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.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Stock-Based and Deferred Compensation Plans (continued)

Stock-Based and Deferred Compensation Plans (continued)

Other Benefit Plans

The Company has a qualified defined contribution 401(k) plan (the OSI Restaurant Partners, LLC Salaried Employees 401(k) Plan and Trust, or "the 401(k) Plan") covering substantially all full-time employees, except officers and certain highly-compensated employees. Assets of the 401(k) Plan are held in trust for the sole benefit of the employees. The Company contributed $1,900,000, $2,000,000, and $2,000,000 to the 401(k) Plan for the plan years ended December 31, 2010, 2009 and 2008, respectively.

The Company provides a deferred compensation plan for its highly-compensated employees who are not eligible to participate in the 401(k) Plan. The deferred compensation plan allows these employees to contribute up to 90% of their income on a pre-tax basis to an investment account consisting of various investment fund options. The Company does not currently intend to provide any matching or profit-sharing contributions, and participants are fully vested in their deferrals and their related returns. Participants are considered unsecured general creditors in the event of Company bankruptcy or insolvency.

Stock Options

The following table presents a summary of the Company's stock option activity for the year ended December 31, 2010 (in thousands, except exercise price and contractual life):

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE
Outstanding at December 31, 2009	9,697	$ 8.43	8.9	$ -
Granted (1)	4,952	6.54		
Forfeited (1)	(4,311)	9.91		
Outstanding at December 31, 2010	10,338	$ 7.00	8.1	$ 29,011
Exercisable at December 31, 2010	4,216	$ 7.74	7.5	$ 8,748

(1) Includes 3,874,949 stock options that were exchanged on April 6, 2010 as further described below.

The weighted-average grant date fair value of stock options granted during the years ended December 31, 2010, 2009 and 2008 was $3.18, $3.65, and $2.49, respectively, and was estimated using the Black-Scholes option pricing model. The following assumptions were used to calculate the fair value of options granted during the years ended December 31, 2010, 2009 and 2008: (1) weighted-average risk-free interest rates of 1.95%, 2.27%, and 2.93%, respectively; (2) dividend yield of 0.0%; (3) expected term of six and a half years, five years and five years; and (4) weighted-average volatilities of 73.9%, 65.3% and 40.9%, respectively. The Company did not have any stock options exercised in the years ended December 31, 2010, 2009 and 2008 and therefore did not have any tax benefits realized from the exercise of stock options in these periods.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Stock-Based and Deferred Compensation Plans (continued)

Stock Options (continued)

Generally, stock options vest and become nominally exercisable in 20% increments over a period of five years contingent on continued employee service. The KHI Equity Plan contains a management call option that allows KHI to repurchase all shares purchased through exercise of stock options upon termination of employment at any time prior to the earlier of an initial public offering or a change of control. If an employee's termination of employment is a result of death or disability, by the Company other than for cause or by the employee for good reason, KHI may repurchase exercised stock under this call option at fair market value. If an employee's termination of employment is by the Company for cause or by the employee without good reason, KHI may repurchase the stock under this call provision for the lesser of the exercise price or fair market value. Additionally, the holder of shares acquired upon the exercise of stock options is prohibited from transferring the shares to any person, subject to narrow exceptions, and should a permitted transfer occur, the transferred shares remain subject to the management call option. As a result of the transfer restrictions and call option, the Company does not record compensation expense for stock options that contain the call option since employees cannot realize monetary benefit from the options or any shares acquired upon the exercise of the options unless the employee is employed at the time of an initial public offering or change of control. There have not been any exercises of stock options by any employee to date, and all stock options of terminated employees with a call provision have been forfeited.

During the second quarter of 2009, the stock option agreements between KHI and certain of the Company's then named executive officers were amended to eliminate the call option, resulting in the recording of stock option compensation expense. Their 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.

In November 2009, the Company's chief executive officer ("CEO") received a stock option grant that contained a modified form of the call option. In accordance with accounting for stock-based compensation, this modified form of the call option does not preclude the Company from recording compensation expense during the service period for one quarter of her option shares. Compensation expense is not recorded for the remaining three quarters of her option shares since they are not considered vested from an accounting standpoint until the occurrence of a Qualifying Liquidity Event, as defined in the CEO's stock option agreement.

Additionally, KHI will make the CEO a one-time grant of an additional 550,000 stock options with an exercise price equal to the fair market value of a share of common stock on the grant date if and when the fair market value of a share of KHI common stock is $10.00 or more. The additional 550,000 shares will vest, and compensation expense will be recorded, equally over a five-year period once a grant date is established.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Stock-Based and Deferred Compensation Plans (continued)

Stock Options (continued)

In March 2010, KHI offered all then active employees the opportunity to exchange outstanding stock options with an exercise price of $10.00 per share for the same number of replacement stock options with an exercise price of $6.50 per share. Under the exchange program, the vested portion of the eligible stock options as of the grant date of the replacement stock options were exchanged for stock options that were fully vested. The unvested portion of the exchanged stock options were exchanged for unvested replacement stock options that vest and become exercisable over a period of time that is equal to the remaining vesting period of the exchanged stock options, plus one year, subject to the participant's continued employment through the applicable vesting date. For exchanged stock options that contained both performance-based and time-based vesting conditions, the replacement stock options contain only time-based vesting conditions and vest in accordance with the above terms. All eligible stock options were tendered and accepted for exchange pursuant to the exchange offer. The original stock options were cancelled following the expiration of the offer, and the issuance of the replacement stock options occurred on April 6, 2010. The stock options exchange did not have a material effect on the Company's consolidated financial statements.

The Company recorded compensation expense of $1,119,000 and $633,000 and total recognized tax benefit of $435,000 and $246,000 during the years ended December 31, 2010 and 2009, respectively, for vested stock options. There is no compensation expense or related tax benefit recorded during the year ended December 31, 2008. The Company did not capitalize any stock-based compensation costs during any periods presented. As of December 31, 2010, there is $3,887,000 of total unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 3.8 years.

Restricted Stock

	NUMBER OF KHI RESTRICTED SHARE AWARDS		WEIGHTED-AVERAGE GRANT DATE FAIR VALUE PER AWARD
KHI restricted stock outstanding at December 31, 2009	775	$	10.00
Vested	294		10.00
KHI restricted stock outstanding at December 31, 2010	481	$	10.00

During the second quarter of 2009, the restricted stock agreements between KHI and certain of the Company's named executive officers were amended. These amendments 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 year ended December 31, 2009, $10,289,000 (2,036,925 shares) related to the accelerated vesting of the restricted stock held by these officers.

Compensation expense recognized in net income (loss) for the years ended December 31, 2010, 2009 and 2008 was $2,027,000, $14,582,000 and $7,017,000, respectively, for KHI restricted stock awards. The total tax benefit recognized related to the compensation expense recorded for KHI restricted stock awards was $789,000, $5,672,000 and $2,758,000 for the years ended December 31, 2010, 2009 and 2008, respectively. As measured on the vesting date, the total fair value of KHI restricted stock that vested during the years ended December 31, 2010, 2009 and 2008 was $1,762,000, $8,853,000 and $5,414,000, respectively. Unrecognized pre-tax compensation expense related to non-vested KHI restricted stock awards was approximately $2,482,000 at December 31, 2010 and will be recognized over a weighted-average period of 1.5 years.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Fair Value Measurements

On January 1, 2008, the Company adopted new accounting guidance for financial assets and liabilities and nonfinancial assets and liabilities that are re-measured at least annually. On January 1, 2009, the Company applied this guidance to nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It 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.

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date (exit price) and is a market-based measurement, not an entity-specific measurement. 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. 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, a three-tier fair value hierarchy 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 invested $11,234,000 of its excess cash in money market funds classified as Cash and cash equivalents or restricted cash in its Consolidated Balance Sheet at December 31, 2010 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 quoted prices for identical 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 1 of the fair value hierarchy. The amount of excess cash invested in money market funds at December 31, 2009 was immaterial to the Company's consolidated financial statements and has been excluded from the applicable table within this footnote.

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 senior secured credit facilities. The collar consisted of a London Interbank Offered Rate ("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 expired at the end of each calendar quarter beginning March 31, 2008 and ending September 30, 2010. The quarterly expiration dates corresponded to the scheduled amortization payments of the Company's term loan. The Company's interest rate collar matured on September 30, 2010, and the Company is not currently party to another derivative financial instrument to manage interest rate risk on its variable-rate debt.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Fair Value Measurements (continued)

Fair Value Measurements on a Recurring Basis (continued)

The valuation of the Company's interest rate collar was based on a discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflected the contractual terms of the collar, including the period to maturity, and used observable market-based inputs, including interest rate curves. Interest rate curves were used to determine forward LIBOR rates on each quarter's interest rate reset date. Since the interest rate collar matured on September 30, 2010, its final interest rate reset date was June 28, 2010.

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

The following tables present the Company's money market funds and interest rate collar measured at fair value on a recurring basis as of December 31, 2010 and 2009, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

	TOTAL DECEMBER 31, 2010	LEVEL 1	LEVEL 2	LEVEL 3
Assets:				
Money market funds	$ 11,234	$ 11,234	$ -	$ -

	TOTAL DECEMBER 31, 2009	LEVEL 1	LEVEL 2	LEVEL 3
Liabilities:				
Interest rate collar	$ 18,458	$ -	$ 18,458	$ -

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Fair Value Measurements (continued)

Fair Value Measurements on a Nonrecurring Basis

The Company did not have material impairment charges as a result of fair value measurements on a nonrecurring basis during 2010. It performed its annual impairment test of goodwill and indefinite-lived intangible assets during the second quarter of 2010.

The following table presents losses related to the Company's assets and liabilities that were measured at fair value on a nonrecurring basis during the year ended December 31, 2009 aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

	YEAR ENDED DECEMBER 31, 2009	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL LOSSES
Long-lived assets held and used	$ 5,824	$ -	$ -	$ 5,824	$ 85,154
Investments in and advances to unconsolidated affiliates	-	-	-	-	2,876
Goodwill (1)	368,628	-	-	368,628	11,078
Indefinite-lived intangible assets (1)	362,000	-	-	362,000	36,000

(1) Amounts as of June 30, 2009 from the Company's annual second quarter impairment test.

The Company recorded $85,154,000 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 year ended December 31, 2009. At the time of such impairment, the impaired long-lived assets had $5,824,000 of remaining fair value during the year ended December 31, 2009. Due to the third quarter of 2009 sale of its Cheeseburger in Paradise concept, the Company recorded a $45,962,000 impairment charge (included in the total above) during the second quarter of 2009 to reduce the carrying value of this concept's long-lived assets to their estimated fair market value. The Company used a weighted-average probability analysis and estimates of expected future cash flows to determine the fair value of this concept. The Company used a discounted cash flow model to estimate the fair value of the remaining long-lived assets included in the table above. 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.

The Company recorded goodwill impairment charges of $11,078,000 and indefinite-lived intangible asset impairment charges of $36,000,000 during the year ended December 31, 2009 as a result of its annual impairment test. 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.

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, which vary between goodwill and trade names, during the annual 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%

5. Derivative Instruments and Hedging Activities

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.

Interest rate changes associated with the Company's variable-rate debt generally impact its earnings and cash flows, assuming other factors are held constant. 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 11). 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. From September 2007 to September 2010, the Company used an interest rate collar as part of its interest rate risk management strategy to manage its exposure to interest rate movements. Given the interest rate environment, the Company did not enter into another derivative financial instrument upon the maturity of its interest rate collar on September 30, 2010. 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 does not use derivative financial instruments to manage its commodity price risk, except for natural gas and diesel fuel, as described below.

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 records mark-to-market changes in the fair value of these derivative instruments in earnings in the period of change. The effects of these natural gas swaps were immaterial to the Company's consolidated financial statements for all periods presented and have been excluded from the tables within this footnote.

The Company's third party distributor charges the Company for the diesel fuel used to deliver inventory to the Company's restaurants. From time to time, the Company may enter 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 consolidated financial statements for all periods presented and have been excluded from the tables within this footnote.

Table of Contents

OSI Restaurant Partners, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Derivative Instruments and Hedging Activities (continued)

The Company's exposure to foreign currency exchange fluctuations relates primarily to its direct investment in restaurants in South Korea, Japan, Hong Kong and Brazil and to its 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 2010, the Company purchased approximately 90% of its beef raw materials from four beef suppliers who represented approximately 76% of the total beef marketplace in the United States. In 2011, the Company expects to purchase approximately 80% of its beef raw materials from four beef suppliers who represent approximately 76% of the total beef marketplace in the United States.

Non-designated Hedges of Interest Rate Risk

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 senior secured credit facilities. The collar consisted 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 expired at the end of each calendar quarter beginning March 31, 2008 and ending September 30, 2010, which was the maturity date of the collar. The quarterly expiration dates corresponded to the scheduled amortization payments of the Company's term loan.

The Company's interest rate collar was a non-designated hedge of the Company's exposure to interest rate risk. The Company recorded mark-to-market changes in the fair value of the derivative instrument in earnings in the period of change.

The following table presents the fair value of the Company's interest rate collar and its classification in the Company's Consolidated Balance Sheet as of December 31, 2009 (in thousands):

LIABILITY DERIVATIVES
DECEMBER 31, 2009