

Bloomin' Brands, Inc.
Form 10-Q
August 02, 2018

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

FORM 10-Q
(Mark
One)

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

For the quarterly period ended July 1, 2018
or

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

For the transition period from _____ to _____

Commission File Number: 001-35625

BLOOMIN' BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware

20-8023465

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

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

(Address of principal executive offices) (Zip Code)

(813) 282-1225

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2018, 92,538,341 shares of common stock of the registrant were outstanding.

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BLOOMIN' BRANDS, INC.

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 For the Quarterly Period Ended July 1, 2018
 (Unaudited)

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BLOOMIN' BRANDS, INC.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

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

	JULY 1, 2018	DECEMBER 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$81,694	\$ 128,263
Current portion of restricted cash and cash equivalents	4,521	1,280
Inventories	48,641	51,264
Other current assets, net	113,208	179,402
Total current assets	248,064	360,209
Property, fixtures and equipment, net	1,141,355	1,173,414
Goodwill	298,615	310,234
Intangible assets, net	511,442	522,290
Deferred income tax assets, net	67,945	60,486
Other assets, net	122,445	135,261
Total assets	\$2,389,866	\$ 2,561,894
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$164,798	\$ 185,461
Accrued and other current liabilities	218,482	270,840
Unearned revenue	221,926	330,756
Current portion of long-term debt	25,964	26,335
Total current liabilities	631,170	813,392
Deferred rent	164,021	160,047
Deferred income tax liabilities	14,539	16,926
Long-term debt, net	1,113,765	1,091,769
Deferred gain on sale-leaseback transactions, net	182,501	188,086
Other long-term liabilities, net	192,400	210,443
Total liabilities	2,298,396	2,480,663
Commitments and contingencies (Note 13)		
Stockholders' Equity		
Bloomin' Brands Stockholders' Equity		
Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued and outstanding as of July 1, 2018 and December 31, 2017	—	—
Common stock, \$0.01 par value, 475,000,000 shares authorized; 92,437,047 and 91,912,546 shares issued and outstanding as of July 1, 2018 and December 31, 2017, respectively	924	919
Additional paid-in capital	1,109,015	1,081,813
Accumulated deficit	(902,038)	(913,191)
Accumulated other comprehensive loss	(126,672)	(99,199)
Total Bloomin' Brands stockholders' equity	81,229	70,342
Noncontrolling interests	10,241	10,889
Total stockholders' equity	91,470	81,231
Total liabilities and stockholders' equity	\$2,389,866	\$ 2,561,894

The accompanying notes are an integral part of these consolidated financial statements.

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BLOOMIN' BRANDS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA, UNAUDITED)

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JUNE 25, 2017	JULY 1, 2018	JUNE 25, 2017
Revenues				
Restaurant sales	\$1,015,484	\$1,021,184	\$2,114,487	\$2,165,015
Franchise and other revenues	16,330	15,274	33,792	26,154
Total revenues	1,031,814	1,036,458	2,148,279	2,191,169
Costs and expenses				
Cost of sales	322,790	323,130	674,922	687,878
Labor and other related	301,921	297,857	612,983	622,255
Other restaurant operating	238,379	248,412	491,724	499,536
Depreciation and amortization	50,782	48,063	100,902	94,653
General and administrative	76,129	77,056	144,825	148,997
Provision for impaired assets and restaurant closings	8,889	598	11,628	19,674
Total costs and expenses	998,890	995,116	2,036,984	2,072,993
Income from operations	32,924	41,342	111,295	118,176
Loss on extinguishment and modification of debt	—	(260	) —	(260
Other (expense) income, net	(6	) 7,281	(5	) 7,230
Interest expense, net	(11,319	) (9,543	) (21,629	) (18,684
Income before (benefit) provision for income taxes	21,599	38,820	89,661	106,462
(Benefit) provision for income taxes	(5,124	) 2,988	(3,199	) 20,992
Net income	26,723	35,832	92,860	85,470
Less: net income attributable to noncontrolling interests	2	699	741	1,712
Net income attributable to Bloomin' Brands	\$26,721	\$35,133	\$92,119	\$83,758
Net income	\$26,723	\$35,832	\$92,860	\$85,470
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(30,044	) (9,118	) (28,695	) 11,371
Unrealized gain (loss) on derivatives, net of tax	296	(610	) 1,184	(509
Reclassification of adjustment for loss on derivatives included in	71	643	379	1,427
Net income, net of tax	(2,954	) 26,747	65,728	97,759
Less: comprehensive income attributable to noncontrolling interests	360	757	1,081	1,682
Comprehensive (loss) income attributable to Bloomin' Brands	\$(3,314	) \$25,990	\$64,647	\$96,077
Earnings per share:				
Basic	\$0.29	\$0.36	\$1.00	\$0.83
Diluted	\$0.28	\$0.34	\$0.97	\$0.80
Weighted average common shares outstanding:				
Basic	92,120	98,852	92,194	100,963
Diluted	94,361	102,421	95,072	104,417

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Cash dividends declared per common share	\$0.09	\$0.08	\$0.18	\$0.16
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The accompanying notes are an integral part of these consolidated financial statements.

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BLOOMIN' BRANDS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT PER SHARE DATA, UNAUDITED)

	BLOOMIN' BRANDS, INC. COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUM-ULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	NON-CONTROLLING INTERESTS	TOTAL
	SHARES	AMOUNT					
Balance, December 31, 2017	91,913	\$ 919	\$ 1,081,813	\$ (913,191)	\$ (99,199)	\$ 10,889	\$ 81,231
Net income	—	—	—	92,119	—	1,063	93,182
Other comprehensive (loss) income, net of tax	—	—	—	—	(27,473)	341	(27,132)
Cash dividends declared, \$0.18 per common share	—	—	(16,734)	—	—	—	(16,734)
Repurchase and retirement of common stock	(3,404)	(34)	—	(80,966)	—	—	(81,000)
Stock-based compensation	—	—	11,178	—	—	—	11,178
Common stock issued under stock plans (1)	3,928	39	33,080	—	—	—	33,119
Change in the redemption value of redeemable interests	—	—	(322)	—	—	—	(322)
Distributions to noncontrolling interests	—	—	—	—	—	(3,372)	(3,372)
Contributions from noncontrolling interests	—	—	—	—	—	1,320	1,320
Balance, July 1, 2018	92,437	\$ 924	\$ 1,109,015	\$ (902,038)	\$ (126,672)	\$ 10,241	\$ 91,470

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BLOOMIN' BRANDS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT PER SHARE DATA, UNAUDITED)

	BLOOMIN' BRANDS, INC.						
	COMMON STOCK SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUM-ULATED DEFICIT	OTHER COMPREHENSIVE LOSS	NON- CONTROLLING INTERESTS	TOTAL
Balance, December 25, 2016	103,922	\$ 1,039	\$ 1,079,583	\$ (756,070)	\$ (111,143)	\$ 12,654	\$ 226,063
Net income	—	—	—	83,758	—	1,837	85,595
Other comprehensive income (loss), net of tax	—	—	—	—	12,319	(38)	12,281
Cash dividends declared, \$0.16 per common share	—	—	(16,308)	—	—	—	(16,308)
Repurchase and retirement of common stock	(9,917)	(99)	—	(198,629)	—	—	(198,728)
Stock-based compensation	—	—	12,716	—	—	—	12,716
Common stock issued under stock plans (1)	1,003	10	4,597	(143)	—	—	4,464
Change in the redemption value of redeemable interests	—	—	(126)	—	—	—	(126)
Purchase of noncontrolling interests, net of tax of \$45	—	—	(713)	—	—	(179)	(892)
Distributions to noncontrolling interests	—	—	—	—	—	(3,754)	(3,754)
Contributions from noncontrolling interests	—	—	—	—	—	481	481
Cumulative-effect from a change in accounting principle	—	—	—	14,364	—	—	14,364
Balance, June 25, 2017	95,008	\$ 950	\$ 1,079,749	\$ (856,720)	\$ (98,824)	\$ 11,001	\$ 136,156

(1) Net of forfeitures and shares withheld for employee taxes.

The accompanying notes are an integral part of these consolidated financial statements.

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BLOOMIN' BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS, UNAUDITED)

	TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JUNE 25, 2017
Cash flows provided by operating activities:		
Net income	\$92,860	\$85,470
Adjustments to reconcile Net income to cash provided by operating activities:		
Depreciation and amortization	100,902	94,653
Amortization of deferred discounts and issuance costs	1,288	1,637
Amortization of deferred gift card sales commissions	15,219	13,756
Provision for impaired assets and restaurant closings	11,628	19,674
Stock-based and other non-cash compensation expense	13,263	13,901
Deferred income tax (benefit) expense	(264)	1,686
Gain on sale of a business or subsidiary	—	(7,284)
Loss on extinguishment and modification of debt	—	260
Recognition of deferred gain on sale-leaseback transactions	(6,142)	(5,816)
Other non-cash items, net	1,257	1,802
Change in assets and liabilities	(129,928)	(36,602)
Net cash provided by operating activities	100,083	183,137
Cash flows used in investing activities:		
Proceeds from disposal of property, fixtures and equipment	6,164	4
Proceeds from sale-leaseback transactions, net	4,695	49,780
Proceeds from sale of a business, net of cash divested	—	33,994
Capital expenditures	(92,528)	(116,256)
Other investments, net	(275)	(1,123)
Net cash used in investing activities	\$(81,944)	\$(33,601)

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BLOOMIN' BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS, UNAUDITED)

	TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JUNE 25, 2017
Cash flows used in financing activities:		
Proceeds from issuance of long-term debt, net	\$—	\$124,438
Repayments of long-term debt	(12,876)	(64,399)
Proceeds from borrowings on revolving credit facilities, net	266,829	341,000
Repayments of borrowings on revolving credit facilities	(234,500)	(364,500)
Proceeds from failed sale-leaseback transactions, net	—	5,942
Proceeds from the exercise of share-based compensation	33,119	4,607
Distributions to noncontrolling interests	(3,372)	(3,754)
Contributions from noncontrolling interests	1,320	481
Purchase of limited partnership and noncontrolling interests	(1,443)	(4,024)
Repayments of partner deposits and accrued partner obligations	(9,646)	(7,862)
Repurchase of common stock	(81,000)	(198,871)
Cash dividends paid on common stock	(16,734)	(16,308)
Net cash used in financing activities	(58,303)	(183,250)
Effect of exchange rate changes on cash and cash equivalents	(3,164)	1,002
Net decrease in cash, cash equivalents and restricted cash	(43,328)	(32,712)
Cash, cash equivalents and restricted cash as of the beginning of the period	129,543	136,186
Cash, cash equivalents and restricted cash as of the end of the period	\$86,215	\$103,474
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$20,488	\$17,393
Cash paid for income taxes, net of refunds	6,675	22,695
Supplemental disclosures of non-cash investing and financing activities:		
Increase (decrease) in liabilities from the acquisition of property, fixtures and equipment or capital leases	\$1,430	\$(2,564)
Purchase of noncontrolling interest included in accrued and other current liabilities	—	898

The accompanying notes are an integral part of these consolidated financial statements.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Description of the Business and Basis of Presentation

Description of the Business - Bloomin' Brands, Inc., through its subsidiaries ("Bloomin' Brands" or the "Company"), owns and operates casual, upscale casual and fine dining restaurants. The Company's restaurant portfolio has four concepts: Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill and Fleming's Prime Steakhouse & Wine Bar. Each of the Company's concepts has additional restaurants in which it has no direct investment and are operated under franchise agreements.

Basis of Presentation - The accompanying interim unaudited consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States ("U.S. GAAP") for complete financial statements. In the opinion of the Company, all adjustments necessary for fair financial statement presentation for the periods presented have been included and are of a normal, recurring nature. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Recently Adopted Financial Accounting Standards - On January 1, 2018, the Company elected to early adopt Accounting Standards Update ("ASU") No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," ("ASU No. 2017-04") on a prospective basis. ASU No. 2017-04 eliminates the second step of goodwill impairment, which requires a hypothetical purchase price allocation. Under ASU No. 2017-04, goodwill impairment is calculated as the amount a reporting unit's carrying value exceeds its calculated fair value. The adoption of ASU No. 2017-04 did not impact the Company's Consolidated Financial Statements. Goodwill and indefinite-lived intangible assets are tested for impairment annually, as of the first day of the second fiscal quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company performed its annual assessment for impairment of goodwill and other indefinite-lived intangible assets during the second quarters of 2018 and 2017. In connection with these assessments, the Company did not record any goodwill or indefinite-lived intangible impairment charges.

On January 1, 2018, the Company adopted ASU No. 2014-09 "Revenue Recognition (Topic 606), Revenue from Contracts with Customers" ("ASU No. 2014-09") using the full retrospective transition method. Under ASU No. 2014-09, revenue is recognized in an amount that reflects the consideration an entity expects to receive for the transfer of goods and services. The standard also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under the new standard, the Company recognizes gift card breakage proportional to redemptions, which are highest in the Company's first fiscal quarter. Previously, under the remote method, the majority of breakage revenue was recorded in the Company's fourth fiscal quarter corresponding with the timing of the original gift card sale. Advertising fees charged to franchisees, which were previously recorded as a reduction to Other restaurant operating expenses, are recognized as Franchise revenue. In addition, initial franchise and renewal fees are recognized over the term of the franchise agreements. In connection with adoption of ASU No. 2014-09, a cumulative effect adjustment of \$33.1 million, net of tax, was recorded as a credit to the ending balance of Accumulated deficit as of December 27, 2015.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) - Continued

The following table includes a restatement of the Company's Consolidated Statement of Operations for the retrospective adoption of ASU No. 2014-09 during the periods indicated:

(dollars in thousands, except per share data)	THIRTEEN WEEKS ENDED JUNE 25, 2017			TWENTY-SIX WEEKS ENDED JUNE 25, 2017		
	AS	2014-09	AS	AS	2014-09	AS
	REPORTED	IMPACT	RESTATED	REPORTED	IMPACT	RESTATED
Revenues						
Restaurant sales	\$1,019,957	\$1,227	\$1,021,184	\$2,155,445	\$9,570	\$2,165,015
Franchise and other revenues	13,025	2,249	15,274	21,360	4,794	26,154
Total revenues	\$1,032,982	\$3,476	\$1,036,458	\$2,176,805	\$14,364	\$2,191,169
Costs and expenses						
Other restaurant operating	\$244,124	\$4,288	\$248,412	\$492,064	\$7,472	\$499,536
Income from operations	\$42,154	\$(812)	\$41,342	\$111,284	\$6,892	\$118,176
Income before provision for income taxes	\$39,632	\$(812)	\$38,820	\$99,570	\$6,892	\$106,462
Provision for income taxes	\$3,303	\$(315)	\$2,988	\$18,318	\$2,674	\$20,992
Net income	\$36,329	\$(497)	\$35,832	\$81,252	\$4,218	\$85,470
Net income attributable to Bloomin' Brands	\$35,630	\$(497)	\$35,133	\$79,540	\$4,218	\$83,758
Basic earnings per share	\$0.36	\$(0.01)	\$0.36	\$0.79	\$0.04	\$0.83
Diluted earnings per share	\$0.35	\$—	\$0.34	\$0.76	\$0.04	\$0.80

The following table includes a restatement of the Company's Consolidated Balance Sheet as of December 31, 2017 for the retrospective adoption of ASU No. 2014-09:

(dollars in thousands)	DECEMBER 31, 2017		
	AS	2014-09	AS
	REPORTED	IMPACT	RESTATED
ASSETS			
Deferred income tax assets, net	\$71,499	\$(11,013)	\$60,486
Total assets	\$2,572,907	\$(11,013)	\$2,561,894
LIABILITIES AND STOCKHOLDERS' EQUITY			
Unearned revenue			
Deferred gift card revenue	\$371,455	\$(47,827)	\$323,628
Deferred loyalty revenue	6,667	—	6,667
Deferred franchise fees - current	105	356	461
Total Unearned revenue	\$378,227	\$(47,471)	\$330,756
Total current liabilities	\$860,863	\$(47,471)	\$813,392
Other long-term liabilities, net (1)	\$205,745	\$4,698	\$210,443
Total liabilities	\$2,523,436	\$(42,773)	\$2,480,663
Bloomin' Brands Stockholders' Equity			
Accumulated deficit	\$(944,951)	\$31,760	\$(913,191)
Total Bloomin' Brands stockholders' equity	\$38,582	\$31,760	\$70,342
Total stockholders' equity	\$49,471	\$31,760	\$81,231
Total liabilities and stockholders' equity	\$2,572,907	\$(11,013)	\$2,561,894

(1) Includes the non-current portion of deferred franchise fees.

See Note 2 - Revenue Recognition for required disclosures under ASU No. 2014-09.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) - Continued

Effective June 26, 2017, the Company adopted ASU No. 2016-18, "Statement of Cash Flows (Topic 230), Restricted Cash" ("ASU No. 2016-18"). ASU No. 2016-18 provides guidance on the presentation of restricted cash and restricted cash equivalents, which are now included with cash and cash equivalents when reconciling the beginning and ending cash amounts shown on the statements of cash flows. Using the retrospective transition method required under the standard, the Company has adjusted the presentation of its Condensed Consolidated Statements of Cash Flows for the period presented. The adoption of ASU No. 2016-18 did not have any other impact on the Company's Consolidated Financial Statements.

The following table provides additional details by financial statement line item of the restated presentation in the Company's Condensed Consolidated Statement of Cash Flows for the twenty-six weeks ended June 25, 2017:

	TWENTY-SIX WEEKS ENDED JUNE 25, 2017		
(dollars in thousands)	AS REPORTED	2016-18 IMPACT	AS RESTATED
Cash flows used in investing activities:			
Decrease in restricted cash	\$ 14,969	\$ (14,969)	\$ —
Increase in restricted cash	\$ (5,957)	\$ 5,957	\$ —
Net cash used in investing activities	\$ (24,589)	\$ (9,012)	\$ (33,601)
Net decrease in cash, cash equivalents and restricted cash	\$ (23,702)	\$ (9,010)	\$ (32,712)
Cash, cash equivalents and restricted cash as 127,176 of the beginning of the period		9,010	136,186
Cash, cash equivalents and restricted cash as of the end of the period	\$ 103,474	\$ —	\$ 103,474

Recently Issued Financial Accounting Standards Not Yet Adopted - In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02: "Leases (Topic 842)" ("ASU No. 2016-02"). ASU No. 2016-02 requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. ASU No. 2016-02 is effective for the Company in 2019 and must be adopted using a modified retrospective approach. In preparation for adoption of ASU No. 2016-02, the

Company has implemented a new lease accounting system. The Company is currently evaluating practical expedients and accounting policy elections, and assessing the overall financial statement impact. The Company expects the adoption of ASU No. 2016-02 to have a significant impact on its Consolidated Balance Sheets due to recognition of right-of-use assets and lease liabilities related to real estate and equipment under operating lease agreements, but will likely have an insignificant impact on its Consolidated Statement of Operations and Comprehensive Income. The Company's evaluation of ASU No. 2016-02 is ongoing and may identify additional impacts on its Consolidated Financial Statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU No. 2017-12") which provides guidance for reporting the economic results of hedging activities and to simplify the disclosures of risk exposures and hedging strategies. ASU No. 2017-12 will be effective for the Company in 2019, with early adoption permitted and is not expected to have a material impact on the Company's Consolidated Financial Statements and related disclosures.

Reclassifications - The Company reclassified certain items in the accompanying Consolidated Financial Statements for prior periods to be comparable with the classification for the current period.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued

2. Revenue Recognition

The Company records food and beverage revenues, net of discounts and taxes, upon delivery to the customer. Franchise-related revenues are included in Franchise and other revenues in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income. Royalties, which are a percentage of net sales of the franchisee, are recognized as revenue in the period which the sales are reported to have occurred. The following table includes the categories of revenue included in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income for the periods indicated:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JUNE 25, 2017 (Restated) (1)	JULY 1, 2018	JUNE 25, 2017 (Restated) (1)
(dollars in thousands)				
Revenues				
Restaurant sales	\$1,015,484	\$1,021,184	\$2,114,487	\$2,165,015
Franchise and other revenues:				
Franchise revenue	\$13,134	\$11,565	\$27,349	\$20,662
Other revenue	3,196	3,709	6,443	5,492
Total Franchise and other revenues	\$16,330	\$15,274	\$33,792	\$26,154
Total revenues	\$1,031,814	\$1,036,458	\$2,148,279	\$2,191,169

(1) See Note 1 - Description of the Business and Basis of Presentation for details of the impact of implementing ASU No. 2014-09.

The following table includes the disaggregation of Restaurant sales and Franchise revenue, by restaurant concept and major international market, for the periods indicated:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JULY 1, 2018	JULY 1, 2018	JULY 1, 2018
(dollars in thousands)	RESTAURANT SALES	FRANCHISE REVENUE	RESTAURANT SALES	FRANCHISE REVENUE
U.S.				
Outback Steakhouse (1)	\$521,719	\$ 10,157	\$1,093,198	\$ 21,231
Carrabba's Italian Grill (1)	163,454	157	337,381	304
Bonefish Grill	149,054	233	305,903	473
Fleming's Prime Steakhouse & Wine Bar	73,312	—	154,302	—
Other	1,398	—	2,497	—
U.S. Total	\$908,937	\$ 10,547	\$1,893,281	\$ 22,008
International				
Outback Steakhouse-Brazil	\$87,809	\$ —	\$182,932	\$ —
Other	18,738	2,587	38,274	5,341
International Total	\$106,547	\$ 2,587	\$221,206	\$ 5,341
Total	\$1,015,484	\$ 13,134	\$2,114,487	\$ 27,349

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) - Continued

	THIRTEEN WEEKS ENDED JUNE 25, 2017		TWENTY-SIX WEEKS ENDED JUNE 25, 2017	
	RESTAURANT SALES (Restated) (2)	FRANCHISE REVENUE (Restated) (2)	RESTAURANT SALES (Restated) (2)	FRANCHISE REVENUE (Restated) (2)
(dollars in thousands)				
U.S.				
Outback Steakhouse (1)	\$519,060	\$ 8,731	\$1,130,535	\$ 14,965
Carrabba's Italian Grill (1)	168,372	156	351,022	245
Bonefish Grill	150,743	258	314,387	517
Fleming's Prime Steakhouse & Wine Bar	70,089	—	147,875	—
U.S. Total	\$908,264	\$ 9,145	\$1,943,819	\$ 15,727
International				
Outback Steakhouse-Brazil	\$95,801	\$ —	\$186,691	\$ —
Other	17,119	2,420	34,505	4,935
International Total	\$112,920	\$ 2,420	\$221,196	\$ 4,935
Total	\$1,021,184	\$ 11,565	\$2,165,015	\$ 20,662

(1) In 2017, the Company sold 53 Outback Steakhouse restaurants and one Carrabba's Italian Grill restaurant, which are now operated as franchises.

(2) See Note 1 - Description of the Business and Basis of Presentation for details of the impact of implementing ASU No. 2014-09.

Gift Card Revenue - Proceeds from the sale of gift cards, which do not have expiration dates, are recorded as deferred revenue and recognized as revenue upon redemption by the customer. 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 breakage, the amount of gift cards which will not be redeemed, is recognized using estimates based on historical redemption patterns. If actual redemptions vary from the estimated breakage, gift card breakage income may differ from the amount recorded. The Company periodically updates its estimates used for breakage. Gift card sales that are accompanied by a bonus 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 the estimated fair market value of the bonus card. Approximately 87% of the current deferred gift card revenue is expected to be recognized over the next 12 months.

Gift card sales commissions paid to third-party providers are initially capitalized and subsequently amortized to Other restaurant operating expenses based on historical gift card redemption patterns.

Advertising Fees - Advertising fees charged to franchisees are recognized as Franchise revenue in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income.

Franchise Fees - Initial franchise and renewal fees are recognized over the term of the franchise agreement and renewal period, respectively. The weighted average remaining term of franchise agreements and renewal periods was approximately 15 years as of July 1, 2018.

Loyalty Program - The Company maintains a customer loyalty program, Dine Rewards, in the U.S., where customers have the ability to earn a reward after a number of qualified visits. The Company has developed an estimated value of the partial reward earned from each qualified visit, which is recorded as deferred revenue. Each reward has a maximum value and must be redeemed within three months of earning such reward. The revenue associated with the fair value of the qualified visit is recognized upon the earlier of redemption or expiration of the reward. The Company applies the practical expedient to exclude disclosures regarding loyalty program remaining performance obligations which have original expected durations of one year or less.

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) - Continued

The following table includes a detail of assets and liabilities from contracts with customers included on the Company's Consolidated Balance Sheets as of the periods indicated:

(dollars in thousands)	JULY 1, 2018	DECEMBER 31, 2017
Other current assets, net		
Deferred gift card sales commissions	\$9,175	\$ 16,231
Unearned revenue		
Deferred gift card revenue (1)	\$213,286	\$ 323,628
Deferred loyalty revenue	8,145	6,667
Deferred franchise fees - current (1)	495	461
Total Unearned revenue	\$221,926	\$ 330,756
Other long-term liabilities, net		
Deferred franchise fees - non-current (1)	\$4,661	\$ 4,698

(1) See Note 1 - Description of the Business and Basis of Presentation for details of the impact of implementing ASU No. 2014-09 on the Company's Consolidated Balance Sheet as of December 31, 2017.

The following table is a rollforward of deferred gift card sales commissions for the periods indicated:

(dollars in thousands)	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JUNE 25, 2017	JULY 1, 2018	JUNE 25, 2017
Balance, beginning of period	\$10,039	\$10,226	\$16,231	\$15,584
Deferred gift card sales commissions amortization	(5,804)	(5,854)	(15,219)	(13,756)
Deferred gift card sales commissions capitalization	5,400	5,060	9,258	8,790
Other	(460)	(14)	(1,095)	(1,200)
Balance, end of period	\$9,175	\$9,418	\$9,175	\$9,418

The Company applies the portfolio approach practical expedient to account for gift card contracts and performance obligations. The following table is a rollforward of unearned gift card revenue for the periods indicated:

(dollars in thousands)	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JUNE 25, 2017	JULY 1, 2018	JUNE 25, 2017
Balance, beginning of period	\$227,783	\$217,872	\$323,628	\$331,803
Gift card sales	78,837	80,376	135,122	139,246
Gift card redemptions	(88,496)	(91,482)	(233,052)	(255,635)
Gift card breakage (1)	(4,838)	(4,961)	(12,412)	(13,609)
Balance, end of period	\$213,286	\$201,805	\$213,286	\$201,805

(1) See Note 1 - Description of the Business and Basis of Presentation for details of the impact of implementing ASU No. 2014-09 for the thirteen and twenty-six weeks ended June 25, 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued

3. Impairments and Exit Costs

The components of Provision for impaired assets and restaurant closings are as follows:

(dollars in thousands)	THIRTEEN WEEKS ENDED JULY 1, 2018		TWENTY-SIX WEEKS ENDED JULY 1, 2018	
	2018	2017	2018	2017
Impairment losses				
U.S.	\$284	\$ 12	\$395	\$ 932
International	4,437	—	6,597	—
Total impairment losses	\$4,721	\$ 12	\$6,992	\$ 932
Restaurant closure expenses				
U.S.	\$674	\$ 586	\$1,022	\$18,742
International	3,494	—	3,614	—
Total restaurant closure expenses	\$4,168	\$ 586	\$4,636	\$18,742
Provision for impaired assets and restaurant closings	\$8,889	\$ 598	\$11,628	\$19,674

Closure Initiatives - Since February 2017, the Company decided to close certain underperforming restaurants in the U.S. and certain Abbraccio restaurants outside of the core markets of São Paulo and Rio de Janeiro in Brazil and in 2016 the Company decided to close certain Bonefish Grill restaurants (collectively, the "Closure Initiatives"). Following is a summary of expenses related to the Closure Initiatives recognized in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income for the periods indicated:

(dollars in thousands)	INCOME STATEMENT LOCATION	THIRTEEN WEEKS ENDED JULY 1, 2018		TWENTY-SIX WEEKS ENDED JULY 1, 2018	
		2018	2017	2018	2017
Impairment, facility closure and other expenses (1)	Provision for impaired assets and restaurant closings	\$1,607	\$ (244)	\$1,632	\$18,012
Severance and other expenses	General and administrative	110	766	232	2,948
Reversal of deferred rent liability	Other restaurant operating	(147)	180	(147)	(4,761)
Total		\$1,570	\$ 702	\$1,717	\$16,199

The Company recognized asset impairment and closure charges of \$1.0 million within the International segment (1) related to the Closure Initiatives during the thirteen and twenty-six weeks ended July 1, 2018. All other asset impairment and closure charges for the periods presented were recognized within the U.S. segment.

International Restructuring - During the thirteen and twenty-six weeks ended July 1, 2018, the Company recognized asset impairment and closure charges of \$6.9 million and \$9.2 million, respectively, related to the restructuring of certain international markets, including China.

The remaining restaurant impairment and closing charges resulted primarily from the carrying value of a restaurant's assets exceeding its estimated fair market value, primarily due to locations identified for remodel, relocation or closure.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) - Continued

Projected Future Expenses and Cash Expenditures - The Company expects to incur additional charges for the Closure Initiatives through Q3 2019, including costs associated with lease obligations, employee terminations and other closure-related obligations. Following is a summary of remaining estimated pre-tax expense and future cash expenditures, by type, as of July 1, 2018:

	CLOSURE INITIATIVES
Estimated future expense (dollars in millions)	
Lease related liabilities, net of subleases	\$2.9 to \$3.4
Employee severance and other obligations	0.3 to 0.6
Total estimated future expense	\$3.2 to \$4.0

Total estimated future cash expenditures (dollars in millions) \$22.3 to \$27.4

Total future undiscounted cash expenditures for the Closure Initiatives, primarily related to lease liabilities, are expected to occur over the remaining lease terms with the final term ending in January 2029.

Accrued Facility Closure and Other Costs Rollforward - The following table summarizes the Company's accrual activity related to facility closure and other costs, primarily associated with the Closure Initiatives, during the twenty-six weeks ended July 1, 2018:

	TWENTY-SIX WEEKS ENDED JULY 1, 2018
(dollars in thousands)	
Balance, beginning of the period	\$ 22,709
Charges	8,071
Cash payments	(8,186)
Adjustments	(3,435)
Balance, end of the period (1)	\$ 19,159

(1) As of July 1, 2018, the Company had exit-related accruals of \$6.0 million recorded in Accrued and other current liabilities and \$13.2 million recorded in Other long-term liabilities, net in the Consolidated Balance Sheet.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) - Continued

4. Earnings Per Share

The following table presents the computation of basic and diluted earnings per share:

	THIRTEEN		TWENTY-SIX	
	WEEKS ENDED		WEEKS ENDED	
	JULY 1, JUNE 25,		JULY 1, JUNE 25,	
	2018	2017	2018	2017
		(Restated)		(Restated)
(in thousands, except per share data)		(1)		(1)
Net income attributable to Bloomin' Brands	\$26,721	\$ 35,133	\$92,119	\$ 83,758
Basic weighted average common shares outstanding	92,120	98,852	92,194	100,963
Effect of diluted securities:				
Stock options	1,861	3,128	2,406	3,030
Nonvested restricted stock and restricted stock units	380	433	452	394
Nonvested performance-based share units	—	8	20	30
Diluted weighted average common shares outstanding	94,361	102,421	95,072	104,417
Basic earnings per share	\$0.29	\$ 0.36	\$1.00	\$ 0.83
Diluted earnings per share	\$0.28	\$ 0.34	\$0.97	\$ 0.80

(1) See Note 1 - Description of the Business and Basis of Presentation for details of the Net income and Earnings per share impact of implementing ASU No. 2014-09.

Dilutive securities outstanding not included in the computation of earnings per share because their effect was antidilutive were as follows:

	THIRTEEN		TWENTY-SIX	
	WEEKS ENDED		WEEKS ENDED	
	JULY 1, JUNE 25,		JULY 1, JUNE 25,	
	2018	2017	2018	2017
(shares in thousands)				
Stock options	2,133	5,359	2,041	5,462
Nonvested restricted stock and restricted stock units	16	153	63	172
Nonvested performance-based share units	197	262	180	317

5. Stock-based Compensation Plans

The Company recognized stock-based compensation expense as follows:

	THIRTEEN		TWENTY-SIX	
	WEEKS ENDED		WEEKS ENDED	
	JULY 1, JUNE 25,		JULY 1, JUNE 25,	
	2018	2017	2018	2017
(dollars in thousands)				
Stock options	\$1,628	\$ 2,944	\$3,526	\$ 5,699
Restricted stock and restricted stock units	2,455	2,689	4,787	5,242

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Performance-based share units	1,874	820	2,470	1,236
	\$5,957	\$ 6,453	\$10,783	\$ 12,177

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The following table presents a summary of the Company's stock option activity:

(in thousands, except exercise price and contractual life)	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE
Outstanding as of December 31, 2017	10,051	\$ 14.89	5.2	\$ 71,373
Granted	488	24.01		
Exercised	(3,566)	10.23		
Forfeited or expired	(178)	20.47		
Outstanding as of July 1, 2018	6,795	\$ 17.85	5.9	\$ 25,734
Exercisable as of July 1, 2018	4,461	\$ 17.02	4.6	\$ 21,278

Assumptions used in the Black-Scholes option pricing model and the weighted-average fair value of option awards granted were as follows:

Assumptions:	TWENTY-SIX WEEKS ENDED			
	JULY 1, 2018		JUNE 25, 2017	
Weighted-average risk-free interest rate (1)	2.66 %	1.93 %		
Dividend yield (2)	1.50 %	1.84 %		
Expected term (3)	5.8 years	6.3 years		
Weighted-average volatility (4)	32.76 %	33.73 %		
Weighted-average grant date fair value per option	\$7.23	\$5.09		

(1) Risk-free interest rate is the U.S. Treasury yield curve in effect as of the grant date for periods within the expected term of the option.

(2) Dividend yield is the level of dividends expected to be paid on the Company's common stock over the expected term of the option.

(3) Expected term represents the period of time that the options are expected to be outstanding. The Company estimates the expected term based on historical exercise experience for its stock options.

(4) Based on the historical volatility of the Company's stock.

The following represents stock option compensation information for the periods indicated:

(dollars in thousands)	TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JUNE 25, 2017
Intrinsic value of options exercised	\$48,044	\$ 7,588
Excess tax benefits for tax deductions related to the exercise of stock options	\$7,837	\$ 1,299
Cash received from option exercises, net of tax withholding	\$36,460	\$ 6,835

During the twenty-six weeks ended July 1, 2018, the Company made grants to its employees of 0.4 million time-based restricted stock units and 0.2 million performance-based share units.

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The following represents unrecognized stock compensation expense and the remaining weighted-average vesting period as of July 1, 2018:

	UNRECOGNIZED COMPENSATION EXPENSE (dollars in thousands)	REMAINING WEIGHTED-AVERAGE VESTING PERIOD (in years)
Stock options	\$ 11,518	2.5
Restricted stock units	\$ 19,683	2.7
Performance-based share units	\$ 9,435	1.3

As of July 1, 2018, the maximum number of shares of common stock available for issuance pursuant to the Bloomin' Brands, Inc. 2016 Omnibus Incentive Compensation Plan was 4,271,424.

6. Other Current Assets, Net

Other current assets, net, consisted of the following:

(dollars in thousands)	JULY 1, 2018	DECEMBER 31, 2017
Prepaid expenses	\$43,105	\$ 40,688
Accounts receivable - gift cards, net	17,339	66,361
Accounts receivable - vendors, net	7,895	19,483
Accounts receivable - franchisees, net	2,055	2,017
Accounts receivable - other, net	18,886	22,808
Deferred gift card sales commissions	9,175	16,231
Assets held for sale	5,606	6,217
Other current assets, net	9,147	5,597
	\$113,208	\$ 179,402

7. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

(dollars in thousands)	JULY 1, 2018	DECEMBER 31, 2017
Accrued payroll and other compensation	\$86,447	\$ 113,636
Accrued insurance	23,765	23,482
Other current liabilities	108,270	133,722
	\$218,482	\$ 270,840

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BLOOMIN' BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. Long-term Debt, Net

Following is a summary of outstanding long-term debt:

(dollars in thousands)	JULY 1, 2018		DECEMBER 31, 2017	
	OUTSTANDING BALANCE	INTEREST RATE	OUTSTANDING BALANCE	INTEREST RATE
Senior Secured Credit Facility:				
Term loan A (1)	\$487,500	3.78 %	\$500,000	3.27 %
Revolving credit facility (1)	633,500	3.77 %	600,000	3.26 %
Total Senior Secured Credit Facility	\$1,121,000		\$1,100,000	
Financing obligations	19,571	7.66% to 7.82%	19,579	7.52% to 7.82%
Capital lease obligations	2,958		2,015	
Other notes payable	141	1.03% to 2.18%	904	0.00% to 2.18%
Less: unamortized debt discount and issuance costs	(3,941)		(4,394)	
Total debt, net	\$1,139,729		\$1,118,104	
Less: current portion of long-term debt	(25,964)		(26,335)	
Long-term debt, net	\$1,113,765		\$1,091,769	

(1) Represents the weighted-average interest rate for the respective period.

Debt Covenants - As of July 1, 2018 and December 31, 2017, the Company was in compliance with its debt covenants.

9. Stockholders' Equity

Share Repurchases - On February 16, 2018, the Company's Board of Directors (the "Board") canceled the remaining \$55.0 million of authorization under the 2017 Share Repurchase Program and approved a new \$150.0 million authorization (the "2018 Share Repurchase Program"). The 2018 Share Repurchase Program will expire on August 16, 2019. As of July 1, 2018, \$69.0 million remained available for repurchase under the 2018 Share Repurchase Program. Following is a summary of the shares repurchased under the Company's share repurchase program during fiscal year 2018:

	NUMBER OF SHARES (in thousands)	AVERAGE REPURCHASE PRICE PER SHARE	AMOUNT (dollars in thousands)
First fiscal quarter	2,116	\$ 24.10	\$ 50,996
Second fiscal quarter	1,287	\$ 23.31	30,004
Total common stock repurchases	3,403	\$ 23.80	\$ 81,000

Dividends - The Company declared and paid dividends per share during fiscal year 2018 as follows:

	DIVIDENDS PER SHARE	AMOUNT (dollars in thousands)
First fiscal quarter	\$ 0.09	\$ 8,371

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Second fiscal quarter	0.09	8,363
Total cash dividends declared and paid	\$ 0.18	\$ 16,734

In July 2018, the Board declared a quarterly cash dividend of \$0.09 per share, payable on August 22, 2018, to shareholders of record at the close of business on August 9, 2018.

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Accumulated Other Comprehensive Loss - Following are the components of Accumulated other comprehensive loss:

(dollars in thousands)	JULY 1, 2018	DECEMBER 31, 2017	
Foreign currency translation adjustment	\$(127,609)	\$ (98,573)
Unrealized gains (losses) on derivatives, net of tax	937	(626)
Accumulated other comprehensive loss	\$(126,672)	\$ (99,199)

Following are the components of the Company's Other comprehensive (loss) income during the periods presented:

(dollars in thousands)	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JUNE 25, 2017	JULY 1, 2018	JUNE 25, 2017
Foreign currency translation adjustment	\$(30,402)	\$(9,176)	\$(29,036)	\$ 11,401
Unrealized gain (loss) on derivatives, net of tax (1)	\$296	\$(610)	\$1,184	\$(509)
Reclassification of adjustment for loss on derivatives included in Net income, net of tax (2)	71	643	379	1,427
Total unrealized gain on derivatives, net of tax	\$367	\$33	\$1,563	\$918
Other comprehensive (loss) income attributable to Bloomin' Brands	\$(30,035)	\$(9,143)	\$(27,473)	\$12,319

Unrealized gain (loss) on derivatives is net of tax of \$0.1 million and \$(0.4) million for the thirteen weeks ended (1) July 1, 2018 and June 25, 2017, respectively, and \$0.4 million and \$(0.3) million for the twenty-six weeks ended July 1, 2018 and June 25, 2017, respectively.

Reclassifications of adjustments for losses on derivatives are net of tax of \$0.4 million for the thirteen weeks ended (2) June 25, 2017 and \$0.1 million and \$0.9 million for the twenty-six weeks ended July 1, 2018 and June 25, 2017, respectively.

10. Derivative Instruments and Hedging Activities

Cash Flow Hedges of Interest Rate Risk - On September 9, 2014, the Company entered into variable-to-fixed interest rate swap agreements with eight counterparties to hedge a portion of the cash flows of the Company's variable rate debt. The swap agreements have an aggregate notional amount of \$400.0 million, a start date of June 30, 2015, and mature on May 16, 2019. Under the terms of the swap agreements, the Company pays a weighted-average fixed rate of 2.02% on the \$400.0 million notional amount and receives payments from the counterparty based on the 30-day LIBOR rate. The interest rate swaps, which have been designated and qualify as a cash flow hedge, are recognized on the Company's Consolidated Balance Sheets at fair value and are classified based on the instruments' maturity dates.

The following table presents the fair value and classification of the Company's interest rate swaps:

(dollars in thousands)	JULY 1, DECEMBER 31,		CONSOLIDATED BALANCE SHEET
	2018	2017	CLASSIFICATION
Interest rate swaps - asset	\$ 1,162	\$ —	Other current assets, net
Interest rate swaps - asset	—	67	Other assets, net
Total fair value of derivative instruments - assets (1)	\$ 1,162	\$ 67	

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Interest rate swaps - liability (1) \$— \$ 1,010 Accrued and other current liabilities

(1) See Note 11 - Fair Value Measurements for fair value discussion of the interest rate swaps.

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The following table summarizes the effects of the interest rate swaps on Net income for the periods indicated:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	JULY 1, 2018	JUNE 25, 2017	JULY 1, 2018	JUNE 25, 2017
(dollars in thousands)				
Interest rate swap expense recognized in Interest expense, net (1)	\$(95)	\$(1,036)	\$(510)	\$(2,301)
Income tax benefit recognized in Provision for income taxes	24	393	131	874
Total effects of the interest rate swaps on Net income	\$(71)	\$(643)	\$(379)	\$(1,427)

(1) During the thirteen and twenty-six weeks ended July 1, 2018 and June 25, 2017, the Company did not recognize any gain or loss as a result of hedge ineffectiveness.

11. Fair Value Measurements

Fair value is the price that would be received for an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants on the measurement date. Fair value is categorized into one of the following three levels based on the lowest level of significant input:

Level 1 Unadjusted quoted market prices in active markets for identical assets or liabilities

Level 2 Observable inputs available at measurement date other than quoted prices included in Level 1

Level 3 Unobservable inputs that cannot be corroborated by observable market data

Fair Value Measurements on a Recurring Basis - The following table summarizes the Company's financial assets and liabilities measured at fair value by hierarchy level on a recurring basis as of the dates indicated:

	JULY 1, 2018			DECEMBER 31, 2017		
	TOTAL	LEVEL 1	LEVEL 2	TOTAL	LEVEL 1	LEVEL 2
(dollars in thousands)						
Assets:						
Cash equivalents:						
Fixed income funds	\$5,360	\$5,360	\$—	\$1,830	\$1,830	\$—
Money market funds	10,367	10,367	—	24,656	24,656	—
Restricted cash equivalents:						
Money market funds	4,521	4,521	—	1,280	1,280	—
Other current assets, net						
Derivative instruments - interest rate swaps	1,162	—	1,162	—	—	—
Other assets, net:						
Derivative instruments - interest rate swaps	—	—	—	67	—	67
Total asset recurring fair value measurements	\$21,410	\$20,248	\$1,162	\$27,833	\$27,766	\$67
Liabilities:						
Accrued and other current liabilities:						
Derivative instruments - interest rate swaps	\$—	\$—	\$—	\$1,010	\$—	\$1,010
Total liability recurring fair value measurements	\$—	\$—	\$—	\$—	\$—	\$—