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

FORM 10-K

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

For the fiscal year ended June 26, 2002 Commission File No. 1-10275

BRINKER INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	75-1914582
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
6820 LBJ Freeway, Dallas, Texas	75240
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number,
including area code (972) 980-9917

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, $0.10 par value
Stock Purchase Rights

Securities registered pursuant to Section 12(g) of the Act: None

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 ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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. ___

The aggregate market value of the voting stock held by persons other than directors and officers of registrant (who might be deemed to be affiliates of registrant) at September 9, 2002 was $2,684,885,934.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 9, 2002
Common Stock, $0.10 par value	97,377,571 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Shareholders for the fiscal year ended June 26, 2002, are incorporated by reference into Part II hereof, to the extent indicated herein. Portions of the registrant's Proxy Statement for its annual meeting of shareholders on November 14, 2002, to be dated on or about September 24, 2002, are incorporated by reference into Part III hereof, to the extent indicated herein.

PART I

Item 1. BUSINESS.

General

Brinker International, Inc. (the "Company") is principally engaged in the ownership, operation, development and franchising of the Chili's Grill & Bar ("Chili's"), Romano's Macaroni Grill ("Macaroni Grill"), On The Border Mexican Grill & Cantina ("On The Border"), Cozymel's Coastal Grill ("Cozymel's"), Maggiano's Little Italy ("Maggiano's"), Corner Bakery Cafe ("Corner Bakery"), and Big Bowl Asian Kitchen ("Big Bowl") restaurant concepts. In July 2001, the Company acquired a 40% interest in the legal entities owning and developing Rockfish Seafood Grill ("Rockfish"). The Company was organized under the laws of the State of Delaware in September 1983 to succeed to the business operated by

Chili's, Inc., a Texas corporation, organized in August 1977. The Company completed the acquisitions of Macaroni Grill, On The Border, Cozymel's, Maggiano's, Corner Bakery and Big Bowl in November 1989, May 1994, July 1995, August 1995, August 1995, and February 2001, respectively. In August 2002, the Company entered into a letter of intent to divest its interest in the Eatzi's Market & Bakery concept.

Core Restaurant Concepts

Chili's Grill & Bar

Chili's is a full-service Southwestern-themed restaurant, featuring a casual atmosphere and a varied menu of chicken, beef and seafood entrees, steaks, hamburgers, ribs, fajitas, sandwiches, salads, appetizers and desserts, all of which are prepared fresh daily according to special Chili's recipes.

Chili's restaurants feature quick, efficient and friendly table service designed to minimize customer waiting time and facilitate table turnover, with an average turnover time per table of approximately 45 minutes. Service personnel are dressed casually in jeans, knit shirts and aprons to reinforce the casual, informal environment. The decor of a Chili's restaurant consists of booth seating, tile-top tables, hanging plants and wood and brick walls covered with interesting memorabilia.

Emphasis is placed on serving substantial portions of fresh, high quality food at modest prices. Entree selections range in menu price from $5.79 to $13.99, with the average revenue per meal, including alcoholic beverages, approximating $11.15 per person. A full-service bar is available at each Chili's restaurant, with frozen margaritas offered as the concept's specialty drink. During the year ended June 26, 2002, food and non-alcoholic beverage sales constituted approximately 86.1% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 13.9%.

Romano's Macaroni Grill

Macaroni Grill is a casual, fun Italian restaurant full of the sights, sounds and aromas of a traditional Tuscan kitchen. Enjoyed for any occasion, guests enjoy their favorite Italian dishes along with special signature pastas, grilled features, seafood, salads and pizza - all prepared by talented chefs in open kitchens. The restaurant has an old world charm with wood burning ovens, festive string lights, fresh flowers, large selections of wine, and display cooking. Guests are met with a sincere welcome at the door and enjoy warm, knowledgeable service. Additionally, guests enjoy the convenience of Macaroni Grill's Curbside To Go service where delicious, chef-prepared meals are delivered right to their cars for them to share at home with friends and family.

Entree selections range in menu price from $5.99 to $16.99 with monthly chef features priced separately. The average revenue per meal, including alcoholic beverages, is approximately $13.84 per person. During the year ended June 26, 2002, food and non-alcoholic beverage sales constituted approximately 87.2% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 12.8%.

On The Border Mexican Grill & Cantina

On The Border restaurants are full-service, casual Mexican restaurants featuring mesquite-grilled favorites and traditional Tex-Mex appetizers, entrees and desserts served in generous portions at modest prices. On The Border restaurants feature a full-service bar, an outdoor patio, booth and table seating in the dining room, and a colorful, festive atmosphere. On The Border restaurants also offer enthusiastic table service to facilitate table turnover while simultaneously providing customers with a satisfying casual dining experience. In addition, On The Border offers To Go service intended to fill the need for speed and convenience while offering a quality take-out experience.

Entree selections range in menu price from $5.49 to $13.99, with the average revenue per meal, including alcoholic beverages, approximating $13.14 per person. During the year ended June 26, 2002, food and non-alcoholic beverage sales constituted approximately 77.8% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 22.2%.

Cozymel's Coastal Grill

Cozymel's restaurants are casual, upscale coastal restaurants featuring a daily fresh fish feature, grilled chicken and beef entrees, appetizers, desserts and a full-service bar featuring a wide variety of signature margaritas and specialty frozen beverages. Cozymel's restaurants offer a "tropical, not typical" atmosphere, which includes an outdoor patio, intended to evoke the atmosphere of a tropical island.

Entree selections range in menu price from $6.49 to $15.99 with the average revenue per meal, including alcoholic beverages, approximating $15.70 per person. During the year ended June 26, 2002, food and non-alcoholic beverage sales constituted approximately 75.5% of the concept's total restaurant revenues, with alcoholic beverages accounting for the remaining 24.5%.

Maggiano's Little Italy

Maggiano's restaurants are classic re-creations of dinner houses found in New York's Little Italy in the 1940s. Each of the Maggiano's restaurants is a casual, full-service Italian restaurant with a family-style menu as well as a full lunch and dinner menu offering Southern Italian appetizers, homemade bread, bountiful portions of pasta, chicken, seafood, veal and prime steaks, as well as a full range of alcoholic beverages. Most Maggiano's restaurants also feature extensive banquet facilities. Entree selections range in menu price from $6.95 to $32.95, with the average revenue per meal, including alcoholic beverages, approximating $25.24 per person. During the year ended June 26, 2002, food and non-alcoholic beverage sales constituted approximately 78.6% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 21.4%.

Corner Bakery Cafe

Corner Bakery Cafe is a retail bakery cafe serving breakfast, lunch and dinner in the emerging quick-casual dining segment. Corner Bakery Cafe is committed to providing a variety of menu selections. Featured in the cafes are specialty sandwiches, fresh salads, hot soups, panini and pastas.

While retaining a relaxed atmosphere, Corner Bakery Cafe exemplifies casual elegance, with most bakeries having both indoor and outdoor seating. Savory foods, breads and sweets are created seasonally to take advantage of the highest quality ingredients available. Corner Bakery Catering offers a wide range of gift baskets, breakfast and sandwich trays and lunch boxes for any size meeting or social event. Prices for menu items range from $1.00 to $6.99 with the average revenue per meal, including alcoholic beverages, approximating $7.41 per person. During the year ended June 26, 2002, food and non-alcoholic beverage sales constituted over 99% of the concept's total restaurant revenues. Catering sales constituted approximately 19.5% of such food and non-alcoholic beverage sales.

Big Bowl Asian Kitchen

Big Bowl features contemporary Asian cuisine prepared with fresh ingredients in a casual, vibrant atmosphere. Big Bowl is distinguished by its authentic, full-flavored menu that features five kinds of fresh noodles, chicken pot stickers and dumplings, hand-rolled summer rolls, seasonal stir-fry dishes featuring local produce, wok-seared fish, and signature beverages, such as "homemade" fresh ginger ale and tropical cocktails. Big Bowl's focus on quality means garlic, ginger and lemon grass are chopped daily, lemon juice is hand squeezed, and peanut sauce is prepared with home-roasted peanuts. Big Bowl's flavorful broths, curry pastes, dip sauces and condiments are made from scratch. Big Bowl's interactive stir-fry bar allows the guests to help themselves to a "Farmers' Market" array of vegetables to be wok-cooked with their own choice of sauces and meats with noodles or rice.

While honoring its Asian culinary tradition, Big Bowl strives to deliver fine quality at great value, assisted by a service team carefully trained to guide guests through this new culinary experience. Entree selections range in menu price from $6.95 to $12.95, with the average revenue per meal, including alcoholic beverages, approximating $14.00 per person. During the year ended June 26, 2002, food and non-alcoholic beverage sales constituted approximately 87.8% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 12.2%.

Jointly-Developed Concept

Rockfish Seafood Grill

Rockfish offers its guests fresh, flavorful seafood dishes served in a lively environment. Reminiscent of a fly-fishing camp, the Rockfish decor features piney wood tables, river rock fireplaces and an open kitchen with chefs preparing the catch of the day. The restaurant serves a wide variety of reasonably priced seafood ranging from salmon and trout to catfish, shrimp and crab. Daily blackboard specials are also very popular with diners. Friendly, attentive servers clad in hunter green polo shirts and jeans add to the casual backdrop. All locations feature full-service bars and most have patio seating availability.

Entree selections range in menu price from $5.53 to $13.42 with certain specialty items priced on a daily basis. The average revenue per meal, including alcoholic beverages, is approximately $14.32 per person. During the year ended June 26, 2002, food and non-alcoholic beverage sales constituted approximately 85.0% of the concept's total revenues, with alcoholic beverage sales accounting for the remaining 15.0%.

Business Development

The Company's long-term objective is to continue expansion of its restaurant concepts by opening Company-operated units in strategically desirable markets. The Company intends to concentrate on the development of certain identified markets to achieve penetration levels deemed desirable by the Company, thereby improving the Company's competitive position, marketing potential and profitability. Expansion efforts will be focused not only on major metropolitan areas in the United States but also on smaller market areas and nontraditional locations (such as airports, kiosks and food courts) which can adequately support any of the Company's restaurant concepts.

The Company considers the restaurant site selection process critical to its long-term success and devotes significant effort to the investigation of new locations utilizing a variety of sophisticated analytical techniques. The site selection process evaluates a variety of factors: trade area demographics, such as target population density and household income levels; physical site characteristics such as visibility, accessibility and traffic volume; relative proximity to activity centers such as shopping centers, hotel and motel complexes and office buildings; and supply and demand trends, such as proposed infrastructure improvements, new developments, and potential competition. Members of management inspect, review and approve each restaurant site prior to its acquisition.

The Company periodically reevaluates restaurant sites to ensure that site selection attributes have not deteriorated below minimum standards. In the event site deterioration were to occur, the Company makes a concerted effort to improve the restaurant's performance by providing physical, operating and marketing enhancements unique to each restaurant's situation. If efforts to restore the restaurant's performance to acceptable minimum standards are unsuccessful, the Company considers relocation to a proximate, more desirable site, or evaluates closing the restaurant if the Company's measurement criteria, such as return on investment and area demographic trends, do not support relocation. Since inception, the Company has closed forty-one restaurants, including four in fiscal 2002, which were performing below the Company's standards primarily due to declining trade area demographics. The Company operates pursuant to a strategic plan targeted to support the Company's long-term growth objectives, with a focus on continued development of those restaurant concepts that have the greatest return potential for the Company and its shareholders.

The following table illustrates the system-wide restaurants opened in fiscal 2002 and the planned openings in fiscal 2003:

	Fiscal 2002 Openings	Fiscal 2003 Projected Openings
Chili's:		
Company-Operated	53	62-65
Franchise	23	18-21
Macaroni Grill:		
Company-Operated	18	18-20
Franchise	0	2-4
On The Border:		
Company-Operated	10	3-5

Franchise	2	1
Corner Bakery	13	10-12
Cozymel's	2	0-1
Maggiano's	6	4-5
Big Bowl	3	5-7
Rockfish	4	6-8
Total	134	129-149

The Company anticipates that some of the fiscal 2003 projected restaurant openings may be constructed pursuant to "build-to-suit" agreements, in which the lessor contributes some of the land cost and all, or substantially all, of the building construction costs. In other cases, the Company may either lease or own the land (paying for any owned land from its own funds) and either lease or own the building, furniture, fixtures and equipment (paying for any owned items from its own funds).

The following table illustrates the approximate average capital investment for a typical unit in the Company's primary restaurant concepts:

	Chili's	Macaroni Grill	On The Border	Cozymel's	Maggiano's	Corner Bakery
~~Land~~	~~$ 690,000~~	~~$ 870,000~~	~~$ 820,000~~	~~$1,100,000~~	~~$2,220,000~~	~~$ 700,000~~
~~Building~~	~~1,110,000~~	~~1,200,000~~	~~1,360,000~~	~~1,400,000~~	~~2,200,000~~	~~450,000~~
~~Furniture & Equipment~~	~~440,000~~	~~385,000~~	~~590,000~~	~~665,000~~	~~895,000~~	~~220,000~~
~~Other~~	~~60,000~~	~~80,000~~	~~80,000~~	~~160,000~~	~~70,000~~	~~30,000~~
~~Total~~	~~$2,300,000~~	~~$2,535,000~~	~~$2,850,000~~	~~$3,325,000~~	~~$5,385,000~~	~~$1,400,000~~

~~The specific rate at which the Company is able to open new restaurants is determined by its success in locating satisfactory sites, negotiating acceptable lease or purchase terms, securing appropriate local governmental permits and approvals, and by its capacity to supervise construction and recruit and train management personnel.~~

~~Franchise Operations~~

~~The Company intends to continue its expansion through franchise development, both domestically and internationally. At June 26, 2002, thirty-seven total joint venture or franchise development agreements existed. During the year ended June 26, 2002, twenty-three Chili's and two On The Border franchised restaurants were opened.~~

~~During the year ended June 26, 2002, the first Chili's restaurants opened in Qatar (July 2001), Taiwan (November 2001), and Oman (December 2001). Additionally, the first Chili's restaurant opened in Alaska (May 2002) in the 2002 fiscal year.~~

~~The Company intends to selectively pursue international expansion and is currently contemplating development in other countries. A typical franchise development agreement provides for payment of area development and initial franchise fees in addition to subsequent royalty and advertising fees based on the gross sales of each restaurant. Future franchise development agreements are expected to remain limited to enterprises having significant experience as restaurant operators and proven financial ability to develop multi-unit operations.~~

~~Jointly Developed Operations~~

~~From time to time, the Company enters into agreements for research and development activities related to the testing of new restaurant concepts, typically acquiring a significant equity interest in such ventures. In July 2001, the Company acquired a 40% interest in the legal entities owning the Rockfish restaurants. At June 26, 2002, twelve Rockfish restaurants were operating, all located in the state of Texas.~~

~~Restaurant Management~~

~~The Company's philosophy to maintain and operate each concept as a distinct and separate entity ensures that the culture, recruitment and training programs and unique operating environments are preserved. These factors are critical to the viability of each concept. Each concept is directed by a president and one or more concept vice presidents and senior vice presidents.~~

~~The Company's restaurant management structure varies by concept. The individual restaurants themselves are led by a management team including a general manager and between two to five additional managers. The level of restaurant supervision depends upon the operating complexity and~~

~~sales volume of each concept. An area director/supervisor is responsible for the supervision of, on average, three to seven restaurants. For those concepts with a significant number of units within a geographical region, additional levels of management may be provided.~~

~~The Company believes that there is a high correlation between the quality of restaurant management and the long-term success of a concept. In that regard, the Company encourages increased tenure at all management positions through various short and long term incentive programs, including equity ownership. These programs, coupled with a general management philosophy emphasizing quality of life, have enabled the Company to attract and retain management employees at levels above the industry norm.~~

~~The Company ensures consistent quality standards in all concepts through the issuance of operations manuals covering all elements of operations and food and beverage manuals, which provide guidance for preparation of Company-formulated recipes. Routine visitation to the restaurants by all levels of supervision enforces strict adherence to Company standards.~~

~~The director of training for each concept is responsible for maintaining each concept's operational training program. The training program includes a three to four month training period for restaurant management trainees, a continuing management training process for managers and supervisors, and training teams consisting of groups of employees experienced in all facets of restaurant operations that train employees to open new restaurants. The training teams typically begin on-site training at a new restaurant seven to ten days prior to opening and remain on location one to two weeks following the opening to ensure the smooth transition to operating personnel.~~

~~Purchasing~~

~~The Company's ability to maintain consistent quality of products throughout each of its restaurant concepts depends upon acquiring food and beverage products and related items from reliable sources. Suppliers are pre-approved by the Company and are required, along with the restaurants, to adhere to strict product specifications established through the Company's quality assurance program to ensure that high quality, wholesome food and beverage products are served in the restaurants. The Company negotiates directly with the major suppliers to obtain competitive prices and uses purchase commitment contracts to stabilize the potentially volatile pricing associated with certain commodity items. All essential food and beverage products are available, or upon short notice can be made available, from alternative qualified suppliers in all cities in which the Company's restaurants are located. Because of the relatively rapid turnover of perishable food products, inventories in the restaurants, consisting primarily of food, beverages and supplies, have a modest aggregate dollar value in relation to revenues.~~

~~Advertising and Marketing~~

~~The Company's concepts generally focus on the eighteen to fifty-four year old age group, which constitutes approximately half of the United States population. Members of this population segment grew up on fast food, but the Company believes that, with increasing maturity, they prefer a more adult, upscale dining experience. To attract this target group, the Company relies primarily on television, radio, direct mail advertising and word of mouth information communicated by customers.~~

~~The Company's franchise agreements require advertising contributions to the Company to be used exclusively for the purpose of maintaining, directly administering and preparing standardized advertising and promotional activities. Franchisees spend additional amounts on local advertising when approved by the Company.~~

~~Employees~~

~~At June 26, 2002, the Company employed approximately 90,000 persons, of whom approximately 1,100 were corporate personnel, 5,300 were restaurant area directors, managers or trainees and 83,600 were employed in non-management restaurant positions. The executive officers of the Company have an average of over twenty-two years of experience in the restaurant industry.~~

~~The Company considers its employee relations to be good and believes that its employee turnover rate compares favorably with the industry average. Most employees, other than restaurant management and corporate personnel,~~

are paid on an hourly basis. The Company believes that it provides working conditions and wages that compare favorably with those of its competition. The Company's employees are not covered by any collective bargaining agreements.

Trademarks

The Company has registered, among other marks, "Big Bowl", "Brinker International", "Chili's", "Chili's Bar & Bites", "Chili's Grill & Bar", "Chili's Margarita Bar", "Chili's Southwest Grill & Bar", "Chili's Too", "Corner Bakery", "Corner Bakery Cafe", "Cozymel's", "Cozymel's Coastal Mexican Grill", "Romano's Macaroni Grill", "Macaroni Grill", "Maggiano's Little Italy", "On The Border", "On The Border Mexican Cafe", and "Pizzaahhh!" as trademarks with the United States Patent and Trademark Office.

Risk Factors/Forward Looking Statements

The Company wishes to caution readers that the following important factors, among others, could cause the actual results of the Company to differ materially from those indicated by forward looking statements made in this report and from time to time in news releases, reports, proxy statements, registration statements and other written communications, as well as oral forward looking statements made from time to time by representatives of the Company. Such forward looking statements involve risks and uncertainties that may cause the Company's or the restaurant industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward looking statements. Factors that might cause actual events or results to differ materially from those indicated by these forward looking statements may include matters such as future economic performance, restaurant openings, operating margins, the availability of acceptable real estate locations for new restaurants, the sufficiency of the Company's cash balances and cash generated from operating and financing activities for the Company's future liquidity and capital resource needs, and other matters, and are generally accompanied by words such as "believes," "anticipates," "estimates," "predicts," "expects" and similar expressions that convey the uncertainty of future events or outcomes. An expanded discussion of various risk factors follows.

Competition may adversely affect the Company's operations and financial results.

The restaurant business is highly competitive with respect to price, service, restaurant location and food quality, and is often affected by changes in consumer tastes, economic conditions, population and traffic patterns. The Company competes within each market with locally owned restaurants as well as national and regional restaurant chains, some of which operate more restaurants and have greater financial resources and longer operating histories than the Company. There is active competition for management personnel and for attractive commercial real estate sites suitable for restaurants. In addition, factors such as inflation, increased food, labor and benefits costs, and difficulty in attracting hourly employees may adversely affect the restaurant industry in general and the Company's restaurants in particular.

The Company's sales volumes generally decrease in winter months.

The Company's sales volumes fluctuate seasonally, and are generally higher in the summer months and lower in the winter months, which may cause seasonal fluctuations in the Company's operating results.

Changes in governmental regulation may adversely affect the Company's ability to open new restaurants and the Company's existing and future operations.

Each of the Company's restaurants is subject to licensing and regulation by alcoholic beverage control, health, sanitation, safety and fire agencies in the state, county and/or municipality in which the restaurant is located. The Company has not encountered any difficulties or failures in obtaining the required licenses or approvals that could delay or prevent the opening of a new restaurant and although the Company does not, at this time, anticipate any occurring in the future, there can be no assurance that the Company will not experience material difficulties or failures that could delay the opening of restaurants in the future.

The Company is subject to federal and state

~~environmental regulations, and although these have not had a material negative effect on the Company's operations, there can be no assurance that there will not be a material negative effect in the future. More stringent and varied requirements of local and state governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations. The Company is subject to the Fair Labor Standards Act, which governs such matters as minimum wages, overtime and other working conditions, along with the Americans With Disabilities Act and various family leave mandates. Although the Company expects increases in payroll expenses as a result of federal and state mandated increases in the minimum wage, and although such increases are not expected to be material, there can be no assurance that there will not be material increases in the future. However, the Company's vendors may be affected by higher minimum wage standards, which may result in increases in the price of goods and services supplied to the Company.~~

~~Inflation may increase the Company's operating expenses.~~

~~The Company has not experienced a significant overall impact from inflation. As operating expenses increase, the Company, to the extent permitted by competition, recovers increased costs by increasing menu prices, by reviewing, then implementing, alternative products or processes, or by implementing other cost reduction procedures. There can be no assurance, however, that the Company will be able to continue to recover increases in operating expenses due to inflation in this manner.~~

~~Increased energy costs may adversely affect the Company's profitability.~~

~~The Company's success depends in part on its ability to absorb increases in utility costs. Various regions of the United States in which the Company operates multiple restaurants, particularly California, experienced significant increases in utility prices during the 2001 fiscal year. If these increases should recur, they will have an adverse effect on the Company's profitability.~~

~~If the Company is unable to meet its growth plan, the Company's profitability in the future may be adversely affected.~~

~~The Company's ability to meet its growth plan is dependent upon, among other things, its ability to identify available, suitable and economically viable locations for new restaurants, obtain all required governmental permits (including zoning approvals and liquor licenses) on a timely basis, hire all necessary contractors and subcontractors, and meet construction schedules. The costs related to restaurant and concept development include purchases and leases of land, buildings and equipment and facility and equipment maintenance, repair and replacement. The labor and materials costs involved vary geographically and are subject to general price increases. As a result, future capital expenditure costs of restaurant development may increase, reducing profitability. There can be no assurance that the Company will be able to expand its capacity in accordance with its growth objectives or that the new restaurants and concepts opened or acquired will be profitable.~~

~~Unfavorable publicity relating to one or more of the Company's restaurants in a particular brand may taint public perception of the brand.~~

~~Multi unit restaurant businesses can be adversely affected by publicity resulting from poor food quality, illness or other health concerns or operating issues stemming from one or a limited number of restaurants. In particular, since the Company depends heavily on the "Chili's" brand for a majority of its revenues, unfavorable publicity relating to one or more Chili's restaurants could have a material adverse effect on the Company's business, results of operations, and financial condition.~~

~~Other risk factors may adversely affect the Company's financial performance.~~

~~Other risk factors that could cause the Company's actual results to differ materially from those indicated in the forward-looking statements include, without limitation, changes in economic conditions, consumer perceptions of food safety, changes in consumer tastes, governmental monetary policies, changes in demographic trends, availability of employees, terrorist acts, and~~

weather and other acts of God.

Item 2. PROPERTIES.

Restaurant Locations

At June 26, 2002, the Company's system of company operated, jointly developed and franchised units included 1,268 restaurants located in forty nine states, Washington, D.C., Australia, Bahrain, Canada, Egypt, Great Britain, Guatemala, Indonesia, Kuwait, Lebanon, Malaysia, Mexico, Oman, Panama, Peru, Philippines, Puerto Rico, Qatar, Saudi Arabia, South Korea, Taiwan, United Arab Emirates, and Venezuela. The Company's portfolio of restaurants is illustrated below:

Chili's:	
Company Operated	629
Franchise	191
Macaroni Grill:	
Company Operated	177
Franchise	6
On The Border:	
Company Operated	111
Franchise	18
Corner Bakery:	
Company Operated	74
Franchise	2
Cozymel's	16
Maggiano's	20
Big Bowl	12
Rockfish	12
Total	1,268

The 820 Chili's restaurants include domestic locations in forty nine states and foreign locations in 22 countries. The 183 Macaroni Grill restaurants include domestic locations in 38 states and foreign locations in Canada, Great Britain, Mexico and Puerto Rico. The On The Border, Cozymel's, Maggiano's, Corner Bakery, and Big Bowl restaurants are located exclusively within the United States in 30, 9, 10 (and the District of Columbia), 8 (and the District of Columbia), and 5 states, respectively.

Restaurant Property Information

The following table illustrates the approximate average dining capacity for each current prototypical unit in the Company's primary restaurant concepts:

	Chili's	Macaroni Grill	On The Border	Cozymel	Maggiano's
Square Feet	4,500-5,500	6,800-7,600	6,500-7,200	9,400	14,000-18,000
Dining Seats	145-215	250-275	220-240	380	500-725
Dining Tables	35-50	55-70	55-60	85	100-150

Corner Bakery's size and dining capacity varies based upon whether it is an in-line or kiosk location. For a Corner Bakery located in a kiosk, the square footage ranges from 80 to 200 square feet, the number of dining seats varies from 0 to 40, and the number of dining tables varies from 0 to 15. For in-line Corner Bakery locations, the square footage ranges from 1,971 to 5,347, the number of dining seats ranges from 60 to 150, and the number of dining tables ranges from 20 to 50.

Certain of the Company's restaurants are leased for an initial term of five to thirty years, with renewal terms of one to thirty years. The leases typically provide for a fixed rental plus percentage rentals based on sales volume. At June 26, 2002, the Company owned the land and/or building for 728 of the 1,039 Company-operated restaurants. The Company considers that its properties are suitable, adequate, well-maintained and sufficient for the operations contemplated.

Other Properties

The Company leases warehouse space totalling approximately 39,150 square feet in Carrollton, Texas, which it uses for storage of equipment and supplies. The Company purchased an office building containing approximately 105,000 square feet for its corporate headquarters in July 1989. This office building was expanded in May 1997 by the addition of a 2,470 square foot facility used for menu development activities. In January 1996, the Company purchased an additional office complex containing three buildings and approximately 198,000 square feet for the expansion of its corporate headquarters. Approximately 151,860 square feet of this complex is currently utilized by the Company, with the remaining 46,140 square feet under lease, listed for lease to third party tenants, or reserved for future expansion of the Company headquarters. In November 1997, the Company sold the office complex and is leasing it back under a twenty year operating lease. The Company also leases office space in Arizona, California, Florida, Illinois, Missouri, New Jersey, North Carolina, Rhode Island and Texas for use as regional operation or real estate/construction offices. The size of these office leases range from 144 square feet to 3,600 square feet. The Company owns or leases warehouse space in California, Georgia, Illinois and Texas for use as commissaries for the preparation of bread and other food products for its Corner Bakery stores. The size of these commissaries range from 11,383 square feet to 20,000 square feet.

Item 3. LEGAL PROCEEDINGS.

The Company is engaged in various legal proceedings and has certain unresolved claims pending. The ultimate liability, if any, for the aggregate amounts claimed cannot be determined at this time. However, management of the Company, based upon consultation with legal counsel, is of the opinion that there are no matters pending or threatened which are expected to have a material adverse effect, individually or in the aggregate, on the Company's consolidated financial condition or results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "EAT". Bid prices quoted represent interdealer prices without adjustment for retail markup, markdown and/or commissions, and may not necessarily represent actual transactions. The following table sets forth the quarterly high and low closing sales prices of the common stock, as reported by the NYSE.

Fiscal Year ended June 26, 2002:

	High	Low
First Quarter	$27.41	$22.45
Second Quarter	$30.04	$22.51
Third Quarter	$35.45	$29.39
Fourth Quarter	$35.10	$30.03

Fiscal year ended June 27, 2001:

	High	Low
First Quarter	$23.08	$19.04
Second Quarter	$28.25	$20.08
Third Quarter	$31.00	$23.25
Fourth Quarter	$29.38	$21.56

On December 8, 2000, the Company declared a stock split, effected in the form of a 50% stock dividend ("Stock Dividend") to shareholders of record on January 3, 2001, payable on January 16, 2001. Stock prices in the preceding table and share numbers included or incorporated in this report have been restated to reflect the Stock Dividend.

As of September 9, 2002, there were 1,126 holders of record of the Company's common stock.

The Company has never paid cash dividends on its common stock and does not currently intend to do so as profits are reinvested into the Company to fund expansion of its restaurant business. Payment of dividends in the future will depend upon the Company's growth, profitability, financial condition and other factors, which the Board of Directors may deem relevant.

In October 2001, the Company issued $431.7 million aggregate principal amount at maturity of Zero Coupon Convertible Senior Debentures Due 2021 (the "Debentures"). The Debentures and the common stock issuable upon conversion of the Debentures were not registered under the

Securities Act of 1933, as amended. Banc of America Securities LLC and Salomon Smith Barney Inc. served as the joint book running managers for the offering. The Debentures were offered and sold only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act of 1933, as amended). The aggregate offering price for the Debentures was approximately $250.0 million and the aggregate underwriting discount of 2.125% was approximately $5.3 million. The Debentures are redeemable at the Company's option on October 10, 2004, and the holders of the Debentures may require the Company to redeem the Debentures on October 10, 2003, 2005, 2011 or 2016, and in certain other circumstances. In addition, each $1,000 Debenture is convertible into 18.08 shares of the Company's common stock if the stock's market price exceeds 120% of the accreted conversion price at specified dates, the Company exercises its option to redeem the Debentures, a credit rating of the Debentures is reduced below Baa3 and BBB , or upon the occurrence of certain specified corporate transactions. The accreted conversion price is equal to the issue price of the Debenture plus accrued original issue discount divided by 18.08 shares. The proceeds of the offering were used for repayment of existing indebtedness, restaurant acquisitions, purchases of outstanding common stock under the Company's stock repurchase plan, and for general corporate purposes.

Except as described in the immediately preceding paragraph, during the three year period ended on September 9, 2002, the Company issued no securities which were not registered under the Securities Act of 1933, as amended.

Item 6. SELECTED FINANCIAL DATA.

"Selected Financial Data" is incorporated herein by reference from the 2002 Annual Report to Shareholders and is presented on page F-1 of Exhibit 13 to this report.

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" is incorporated herein by reference from the 2002 Annual Report to Shareholders and is presented on pages F-2 through F-9 of Exhibit 13 to this report.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

"Quantitative and Qualitative Disclosures About Market Risk" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference from the 2002 Annual Report to Shareholders and is presented on page F-5 of Exhibit 13 to this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Reference is made to the Index to Financial Statements attached hereto on page 19 for a listing of all financial statements incorporated by reference from the 2002 Annual Report to Shareholders attached as part of Exhibit 13 to this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

"Election of Directors - Information About Nominees", "Board Organization", "Executive Officers", and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement to be dated on or about September 24, 2002, for the annual meeting of shareholders on November 14, 2002, are incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION.

"Executive Compensation" and "Report of the Compensation Committee" in the Company's Proxy Statement to be dated on or about September 24, 2002, for the annual meeting of shareholders on November 14, 2002, are incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

"Election of Directors - Stock Ownership of Directors", "Executive Compensation - Equity Compensation Plan Information", and "Stock Ownership of Certain Persons" in the Company's Proxy Statement to be dated on or about September 24, 2002, for the annual meeting of shareholders on November 14, 2002, are incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

"Compensation Committee Interlocks and Insider Participation" in the Company's Proxy Statement to be dated on or about September 24, 2002, for the annual meeting of shareholders on November 14, 2002, is incorporated herein by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) (1) Financial Statements.

Reference is made to the Index to Financial Statements attached hereto on page 19 for a listing of all financial statements attached as Exhibit 13 to this report.

(a) (2) Financial Statement Schedules.

None.

(a) (3) Exhibits.

Reference is made to the Exhibit Index preceding the exhibits attached hereto on page E-1 for a list of all exhibits filed as a part of this report.

(b) Reports on Form 8-K

The Company was not required to file a current report on Form 8-K during the fiscal quarter ended June 26, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BRINKER INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ Charles M. Sonsteby
Charles M. Sonsteby, Executive Vice President and Chief Financial Officer

Dated: September 24, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons of the registrant and in the capacities indicated on September 24, 2002.

Name	Title
/s/ Ronald A. McDougall Ronald A. McDougall	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)

/s/ Charles M. Sonsteby — Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Charles M. Sonsteby

/s/ Douglas H. Brooks — President, Chief Operating Officer and Director
Douglas H. Brooks

/s/ Dan W. Cook, III — Director
Dan W. Cook, III

/s/ Marvin G. Girouard — Director
Marvin J. Girouard

/s/ Frederick S. Humphries — Director
Frederick S. Humphries

/s/ Ronald Kirk — Director
Ronald Kirk

/s/ Jeffrey A. Marcus — Director
Jeffrey A. Marcus

/s/ James E. Oesterreicher — Director
James E. Oesterreicher

/s/ Cece Smith — Director
Cece Smith

/s/ Roger T. Staubach — Director
Roger T. Staubach

CERTIFICATIONS

I, Ronald A. McDougall, certify that:

1. I have reviewed this annual report on Form 10-K of Brinker International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 24, 2002

/s/ Ronald A. McDougall
Ronald A. McDougall,
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

I, Charles M. Sonsteby, certify that:

1. I have reviewed this annual report on Form 10-K of Brinker International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 24, 2002 /s/ Charles M. Sonsteby
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

INDEX TO FINANCIAL STATEMENTS

The following is a listing of the financial statements which are attached hereto as part of Exhibit 13.

All schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

INDEX TO EXHIBITS

Exhibit	
3(a)	Certificate of Incorporation of the Registrant, as amended. (1)
3(b)	Bylaws of the Registrant. (1)
4(a)	Form of Zero Coupon Convertible Senior Debenture Due 2021. (2)
4(b)	Indenture between the Registrant and SunTrust Bank, as Trustee. (2)
4(c)	Registration Rights Agreement by and among the Registrant and the initial purchasers of the Debentures. (3)
10(a)	Registrant's 1983 Incentive Stock Option Plan. (4)
10(b)	Registrant's 1991 Stock Option Plan for Non-Employee Directors and Consultants. (5)
10(c)	Registrant's 1992 Incentive Stock Option Plan. (5)
10(d)	Registrant's Stock Option and Incentive Plan. (6)
10(e)	Registrant's 1999 Stock Option and Incentive Plan for Non-Employee Directors and Consultants. (7)
13	2002 Annual Report to Shareholders. (8)
21	Subsidiaries of the Registrant. (9)

23 Independent Auditors' Consent. (9)

99(a) Proxy Statement of Registrant. (10)

99(b) Certification by Ronald A. McDougall, Chairman of the Board and Chief Executive Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (9)

99(c) Certification by Charles M. Sonsteby, Executive Vice President and Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (9)

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(1) Filed as an exhibit to annual report on Form 10-K for year ended June 28, 1995, and incorporated herein by reference.

(2) Filed as an exhibit to registration statement on Form S-3 filed December 11, 2001, SEC File No. 333-74902, and incorporated herein by reference.

(3) Filed as an exhibit to quarterly report on Form 10-Q for the quarterly period ended September 26, 2001, and incorporated herein by reference.

(4) Filed as an exhibit to annual report on Form 10-K for the year ended June 26, 1996, and incorporated herein by reference.

(5) Filed as an exhibit to annual report on Form 10-K for the year ended June 25, 1997, and incorporated herein by reference.

(6) Filed as an exhibit to annual report on Form 10-K for the year ended June 30, 1999 and incorporated herein by reference.

(7) Filed as an exhibit to annual report on Form 10-K for the year ended June 28, 2000, and incorporated herein by reference.

(8) Portions filed herewith, to the extent indicated herein.

(9) Filed herewith.

(10) To be filed on or about September 24, 2002.

EXHIBIT 13

BRINKER INTERNATIONAL, INC. SELECTED FINANCIAL DATA (In thousands, except per share amounts and number of restaurants)

	Fiscal Years				
	2002	2001	2000	1999(a)	1998
Income Statement Data:					
Revenues	$2,887,111	$2,406,874	$2,100,496	$1,818,008	$1,528,908
Operating Costs and Expenses:					
Cost of sales	796,714	663,357	575,570	507,103	426,558
Restaurant expenses	1,591,367	1,303,349	1,138,487	984,027	820,637
Depreciation and amortization	130,102	100,064	90,647	82,385	86,376
General and administrative	121,420	109,110	100,123	90,311	77,407
Total operating costs and expenses	2,639,603	2,175,880	1,904,827	1,663,826	1,410,978
Operating income	247,508	230,994	195,669	154,182	117,930
Interest expense	13,327	8,608	10,746	9,241	11,025
Other, net	2,332	459	3,381	14,402	1,447
Income before provision for income taxes and cumulative effect of accounting change	231,849	221,927	181,542	130,539	105,458
Provision for income taxes	79,136	76,779	63,702	45,297	36,383
Income before cumulative effect of accounting change	152,713	145,148	117,840	85,242	69,075
Cumulative effect of accounting change				6,407	
Net income	$152,713	$145,148	$117,840	$78,835	$69,075
Basic Earnings Per Share:					
Income before cumulative effect of accounting change	$1.56	$1.46	$1.20	$0.86	$0.70
Cumulative effect of accounting change				0.06	
Basic net income per share	$1.56	$1.46	$1.20	$0.80	$0.70
Diluted Earnings Per Share:					
Income before cumulative effect of accounting change	$1.52	$1.42	$1.17	$0.83	$0.68
Cumulative effect of accounting change				0.06	
Diluted net income per share	$1.52	$1.42	$1.17	$0.77	$0.68
Basic weighted average shares outstanding	97,862	99,101	98,445	98,888	98,648
Diluted weighted average shares outstanding	100,565	102,098	101,114	102,183	101,174
Balance Sheet Data (End of Period):					
Working capital deficit	$(160,266)	$(110,006)	$(127,377)	$(86,969)	$ (92,898)
Total assets	1,783,336	1,445,320	1,162,328	1,093,463	968,848
Long term obligations	504,020	294,803	169,120	234,086	197,577
Shareholders' equity	977,096	900,287	762,208	661,439	593,739
Number of Restaurants Open (End of Period):					
Company operated	1,039	899	774	707	624
Franchised/Joint Venture	229	244	264	226	182
Total	1,268	1,143	1,038	933	806

(a) Fiscal year 1999 consisted of 53 weeks while all other periods presented consisted of 52 weeks.

Note: During fiscal 2002, the Company reclassified sales incentives from restaurant expenses to revenues (see Note 1(b) to consolidated financial statements). Prior year balances have been reclassified to conform with the fiscal 2002 presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

For an understanding of the significant factors that influenced the performance of Brinker International, Inc. (the "Company") during the past three fiscal years, the following discussion should be read in conjunction with the consolidated financial statements and related notes found elsewhere in this annual report.

The Company has a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal years 2002, 2001 and 2000, which ended on June 26, 2002, June 27, 2001 and June 28, 2000, respectively, each contained 52 weeks.

RESULTS OF OPERATIONS FOR FISCAL YEARS 2002, 2001, AND 2000

The following table sets forth expenses as a percentage of total revenues for the periods indicated for revenue and expense items included in the consolidated statements of income:

	Percentage of Total Revenues		
	Fiscal Years		
	2002	2001	2000
Revenues	100.0%	100.0%	100.0%
Operating Costs and Expenses:			
Cost of sales	27.6%	27.6%	27.4%
Restaurant expenses	55.1%	54.1%	54.2%
Depreciation and amortization	4.5%	4.2%	4.3%
General and administrative	4.2%	4.5%	4.8%
Total operating costs and expenses	91.4%	90.4%	90.7%
Operating income	8.6%	9.6%	9.3%
Interest expense	0.5%	0.4%	0.5%
Other, net	0.1%		0.2%
Income before provision for income taxes	8.0%	9.2%	8.6%
Provision for income taxes	2.7%	3.2%	3.0%
Net income	5.3%	6.0%	5.6%

REVENUES

Revenue growth of 20.0% and 14.6% in fiscal 2002 and 2001, respectively, was attributable primarily to the increases in sales weeks driven by new unit expansion, acquisitions of units from former franchise partners and increases in comparable store sales. Revenues for fiscal 2002 increased due to a 19.1% increase in sales weeks and a 1.5% increase in comparable store sales. Revenues for fiscal 2001 increased due to a 9.9% increase in sales weeks and a 4.4% increase in comparable store sales. Menu price increases were 1.8% and 2.2% in fiscal 2002 and 2001, respectively.

COSTS AND EXPENSES (as a Percent of Revenues)

Cost of sales remained flat for fiscal 2002 due to unfavorable commodity price variances for dairy and cheese and product mix changes to menu items with higher percentage food costs, offset by menu price increases and favorable commodity price variances for seafood. Cost of sales increased for fiscal 2001 due to unfavorable commodity price variances for beef and seafood, produce, and beverages and product mix changes to menu items with higher percentage food costs. These unfavorable variances were partially offset by menu price increases and favorable commodity price variances for other commodities.

Restaurant expenses increased in fiscal 2002 due primarily to an approximate $11.0 million expense related to the settlement of certain California labor law issues, an approximate $8.7 million impairment charge related to the write off of a portion of the notes receivable from Eatzi's Corporation, and increased labor wage rates. These increases were partially offset by increased sales leverage and menu price increases. Restaurant expenses decreased in fiscal 2001 due primarily to increased sales leverage, menu price increases, and labor productivity gains, but were partially offset by increased labor wage rates and utility costs.

Depreciation and amortization increased in fiscal 2002 due primarily to new unit construction, ongoing remodel costs, the acquisition of previously leased equipment and certain real estate assets, and restaurants acquired during fiscal 2002 and 2001. These increases were partially offset by increased sales leverage, a declining depreciable asset base for older units, and the elimination of goodwill and certain other intangibles amortization in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142. Depreciation and amortization decreased in fiscal 2001 due primarily to increased sales leverage, utilization of equipment leasing facilities, and a declining depreciable asset base for older units. Partially offsetting these decreases were increases in depreciation and amortization related to new unit construction, ongoing remodel costs and restaurants acquired during fiscal 2001.

General and administrative expenses decreased in fiscal 2002 and fiscal 2001 as compared to the respective prior fiscal years as a result of the Company's continued focus on controlling corporate expenditures relative to increasing revenues and increased sales leverage resulting from new unit openings and acquisitions.

Interest expense increased for fiscal 2002 as compared to fiscal 2001 as a result of amortization of debt issuance costs and debt discounts on the Company's $431.7 million convertible debt. These increases were partially offset by lower interest rates on floating rate debt, a decrease in interest expense on senior notes due to a scheduled repayment, and an increase in interest capitalization related to new restaurant construction activity. Interest expense decreased for fiscal 2001 as compared to fiscal 2000 as a result of decreased average borrowings and interest rates on the Company's credit facilities, increased sales leverage, and a decrease in interest expense on senior notes due to a scheduled repayment. These decreases were partially offset by a decrease in the construction in progress balances subject to interest capitalization and an increase in borrowings related to restaurants acquired.

Other, net increased in fiscal 2002 as compared to fiscal 2001 due to a decrease in the market value of the Company's savings plan investments which are used to offset the savings plan obligation, partially offset by a reduction in the Company's share of losses in equity method investees. Other, net decreased in fiscal 2001 as a result of a reduction in the Company's share of losses in equity method investees, caused in part by the acquisition of the remaining interest in the Big Bowl restaurant concept, which is now consolidated in the accompanying financial statements, and the sale of the Wildfire restaurant concept.

INCOME TAXES

The Company's effective income tax rate was 34.1%, 34.6%, and 35.1% in fiscal 2002, 2001, and 2000, respectively. The decrease in fiscal 2002 is primarily due to the elimination of goodwill amortization in accordance with SFAS No. 142 and a decrease in the effective state tax rates. The decrease in fiscal 2001 is due to the receipt of a tax credit refund.

NET INCOME AND NET INCOME PER SHARE

Fiscal 2002 net income and diluted net income per share increased 5.2% and 7.0%, respectively, compared to fiscal 2001. Excluding the after tax effects of the California labor law settlement ($7.3 million) and Eatzi's impairment charge ($5.8 million), net income and diluted net income per share increased for fiscal 2002 by 14.3% and 16.2%, respectively, compared to fiscal 2001. The increase in both net income and diluted net income per share, excluding the one time charges, was primarily due to increasing revenues driven by increases in sales weeks and comparable store sales, decreases in general and administrative expenses and the elimination of goodwill amortization, partially offset by increases in restaurant expenses and depreciation and amortization as a percent of revenues.

Fiscal 2001 net income and diluted net income per share increased 23.2% and 21.4%, respectively, compared to fiscal 2000. The increase in both net income and diluted net income per share was primarily due to increasing revenues driven by increases in comparable store sales and sales weeks and decreases in restaurant expenses, depreciation and amortization expenses, and general and administrative expenses as a percent of revenues.

IMPACT OF INFLATION

The Company has not experienced a significant overall impact from inflation. As operating expenses increase, the Company, to the extent permitted by competition, recovers increased costs through a combination of menu price increases and reviewing, then implementing, alternative products or processes.

LIQUIDITY AND CAPITAL RESOURCES

The working capital deficit increased from $110.0 million at June 27, 2001 to $160.3 million at June 26, 2002, and net cash provided by operating activities increased from $246.8 million for fiscal 2001 to $390.0 million for fiscal 2002 due primarily to the timing of operational receipts and payments. The Company believes that its various sources of capital, including availability under existing credit facilities and cash flow from operating activities, are adequate to finance operations as well as the repayment of current debt obligations.

Long-term debt outstanding at June 26, 2002 consisted of $255.0 million of zero coupon convertible senior debentures ($431.7 million principal less $176.7 million representing an unamortized debt discount), $46.0 million of unsecured senior notes ($42.8 million principal plus $3.2 million representing the effect of changes in interest rates on the fair value of the debt), $43.5 million in assumed debt related to the acquisition of restaurants from a former franchise partner ($38.8 million principal plus $4.7 million representing a debt premium), $35.0 million in assumed capital lease obligations related to the acquisition of restaurants from a former franchise partner ($19.5 million principal plus $15.5 million representing a debt premium), $63.5 million of borrowings on credit facilities, and obligations under other capital leases. The Company has credit facilities totaling $375.0 million. At June 26, 2002, the Company had $311.5 million in available funds from these facilities.

In October 2001, the Company issued $431.7 million of zero coupon convertible senior debentures and received proceeds totaling approximately $250.0 million. The Company used the proceeds for repayment of existing indebtedness, restaurant acquisitions, purchases of outstanding common stock under the Company's stock repurchase plan and for general corporate purposes.

In July 2001, the Company made a $12.3 million capital contribution to Rockfish Seafood Grill ("Rockfish") in exchange for an approximate 40% ownership interest in the legal entities owning and developing Rockfish. Additionally, in June and November 2001, the Company acquired three On The Border and thirty nine Chili's restaurants from its franchise partners Hal Smith and Sydran, respectively, for $60.5 million. The Company financed these acquisitions through existing credit facilities, the zero coupon convertible senior debentures and cash provided by operations.

In February 2002, the Company acquired the remaining assets leased under its $80.0 million equipment leasing facilities and $75.0 million real estate leasing facility for $36.2 million and $56.8 million, respectively, and terminated the leasing arrangements. The acquisitions were primarily funded by utilizing amounts available under existing credit facilities.

Capital expenditures consist of purchases of land for future restaurant sites, the cost of new restaurant construction, purchases of new and replacement restaurant furniture and equipment, the acquisition of previously leased equipment and real estate assets, and ongoing remodeling programs. Capital expenditures, net of amounts funded under the respective equipment and real estate leasing facilities, were $371.1 million for fiscal 2002 compared to $205.2 million for fiscal 2001. The increase is due primarily to the acquisition of the remaining assets leased under the equipment and real estate leasing facilities and an increase in the number of new store openings. The Company estimates that its fiscal 2003 capital expenditures will approximate $335.0 million. These capital expenditures will be funded primarily from operations and existing credit facilities.

The Board of Directors authorized an increase in the stock repurchase plan of $100.0 million in August 2001 and an additional $100.0 million in April 2002, bringing the Company's total share repurchase program to $410.0 million. Pursuant to the Company's stock repurchase plan, approximately 5.1 million shares of its common stock were repurchased for $136.1 million during fiscal 2002. As of June 26, 2002, approximately 16.0 million shares had been repurchased for $327.6 million under the stock repurchase plan. The Company repurchases common stock to offset the dilutive effect of stock option exercises, satisfy obligations under its savings plans, and for other corporate purposes. The repurchased common stock is reflected as a reduction of shareholders' equity. The Company financed the repurchase program through a combination of cash provided by operations, drawdowns on its available credit facilities and the issuance of the zero coupon convertible senior debentures.

In August 2002, the Company entered into a letter of intent with Philip J. Romano and Eatzi's Corporation to divest its interest in the Eatzi's concept. As a result, an approximate $8.7 million impairment charge was recorded reducing the Eatzi's notes receivable to $11.0 million. The Company expects to collect the remaining balance of the notes in the second quarter of fiscal 2003.

The Company is not aware of any other event or trend which would potentially affect its liquidity. In the event such a trend develops, the Company believes that there are sufficient funds available under its credit facilities and from its strong internal cash generating capabilities to adequately manage the expansion of the business.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on debt and certain leasing facilities and from changes in commodity prices. A discussion of the Company's accounting policies for derivative instruments is included in the summary of significant accounting policies in the notes to the consolidated financial statements.

The Company may from time to time utilize interest rate swaps to manage overall borrowing costs and reduce exposure to adverse fluctuations in interest rates. The Company does not use derivative instruments for trading purposes and has procedures in place to monitor and control derivative use.

The Company is exposed to interest rate risk on short term and long-term financial instruments carrying variable interest rates. The Company's variable rate financial instruments, including the outstanding borrowings of credit facilities and notional amounts of interest rate swaps, totaled $224.1 million at June 26, 2002. The impact on the Company's annual results of operations of a one point interest rate change on the outstanding balance of these variable rate financial instruments as of June 26, 2002 would be approximately $2.2 million.

The Company purchases certain commodities such as beef, chicken, flour, and cooking oil. These commodities are generally purchased based upon market prices established with vendors. These purchase arrangements may contain contractual features that limit the price paid by establishing certain price floors or caps. The Company does not use financial instruments to hedge commodity prices because these purchase arrangements help control the ultimate cost paid and any commodity price aberrations are generally short term in nature.

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

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are disclosed in Note 1 to our consolidated financial statements. The following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results, and that require significant judgment. Property and Equipment Property and equipment are depreciated on a straight line basis over the estimated useful lives of the assets. The useful lives of the assets are based upon the Company's expectations for the period of time that the asset will be used to generate revenue. The Company periodically reviews the assets for changes in circumstances which may impact their useful lives. Impairment of Long Lived Assets The Company reviews property and equipment for impairment when events or circumstances indicate it might be impaired. The Company tests impairment using historical cash flows and other relevant facts and circumstances as the primary basis for its estimates of future cash flows. This process requires the use of estimates and assumptions which are subject to a high degree of judgment. In addition, at least annually the Company assesses the recoverability of goodwill and other intangible assets related to its restaurant concepts. These impairment tests require the Company to estimate fair values of its restaurant concepts by making assumptions regarding future cash flows and other factors. If these assumptions change in the future, the Company may be required to record impairment charges for these assets. Financial Instruments The Company enters into interest rate swaps to manage fluctuations in interest expense and to maintain the value of fixed rate debt. The fair value of these swaps is estimated using widely accepted valuation methods. The valuation of derivatives involves considerable judgment, including estimates of future interest rate curves. Changes in those estimates may materially affect the value of the Company's derivatives. Self Insurance The Company is self-insured for certain losses related to general liability and workers' compensation. The Company maintains stop loss coverage with third party insurers to limit its total exposure. The self insurance liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates, and is reviewed by the Company on a quarterly basis to ensure that the liability is appropriate. If actual trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed Of" and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the fundamental provisions of SFAS No. 121, but eliminates the requirement to allocate goodwill to long lived assets to be tested for impairment. This statement also requires discontinued operations to be carried at the lower of cost or fair value less costs to sell and broadens the presentation of discontinued operations to include a component of an entity rather than a segment of a business. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The Company will adopt SFAS No. 144 in the first quarter of fiscal 2003 and does not expect the adoption of this statement to have a material impact on its results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 supersedes Emerging Issues Task Force ("EITF") No. 94 3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS No. 146 eliminates the provisions of EITF No. 94 3 that required a liability to be recognized for certain exit or disposal activities at the date an entity committed to an exit plan. SFAS No. 146 requires a liability for costs associated with an exit or disposal activity to be recognized when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of this statement to have a material impact on its results of operations or financial position.

MANAGEMENT OUTLOOK

During fiscal 2002, the Company delivered another year of strong financial performance in a difficult economic environment. These results were achieved by disciplined capacity growth, opportunistic acquisitions, and diligent fiscal responsibility. Our passionate culinary culture that keeps the Company's menu offerings on the leading edge and our unwavering focus on guest satisfaction are key contributors to our continued success.

During fiscal 2003, the Company will continue to leverage many of the initiatives that drove fiscal 2002 performance. Positive lifestyle, demographic, and demand trends for food away from home help balance an

~~uncertain economic environment. Revenue growth will be driven by higher capacity as a result of the Company's recent acquisitions, continued brand development and an effective real estate strategy. The Company believes the ongoing efforts to enhance our guests' experience provide the best avenue to deliver long term shareholder value.~~

~~FORWARD LOOKING STATEMENTS~~

~~The Company wishes to caution readers that the following important factors, among others, could cause the actual results of the Company to differ materially from those indicated by forward looking statements made in this report and from time to time in news releases, reports, proxy statements, registration statements and other written communications, as well as oral forward looking statements made from time to time by representatives of the Company. Such forward looking statements involve risks and uncertainties that may cause the Company's or the restaurant industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward looking statements. Factors that might cause actual events or results to differ materially from those indicated by these forward looking statements may include matters such as future economic performance, restaurant openings, operating margins, the availability of acceptable real estate locations for new restaurants, the sufficiency of the Company's cash balances and cash generated from operating and financing activities for the Company's future liquidity and capital resource needs, and other matters, and are generally accompanied by words such as "believes," "anticipates," "estimates," "predicts," "expects" and similar expressions that convey the uncertainty of future events or outcomes. An expanded discussion of various risk factors follows.~~

~~Competition may adversely affect the Company's operations and financial results.~~

~~The restaurant business is highly competitive with respect to price, service, restaurant location and food quality, and is often affected by changes in consumer tastes, economic conditions, population and traffic patterns. The Company competes within each market with locally owned restaurants as well as national and regional restaurant chains, some of which operate more restaurants and have greater financial resources and longer operating histories than the Company. There is active competition for management personnel and for attractive commercial real estate sites suitable for restaurants. In addition, factors such as inflation, increased food, labor and benefits costs, and difficulty in attracting hourly employees may adversely affect the restaurant industry in general and the Company's restaurants in particular.~~

~~The Company's sales volumes generally decrease in winter months.~~

~~The Company's sales volumes fluctuate seasonally, and are generally higher in the summer months and lower in the winter months, which may cause seasonal fluctuations in the Company's operating results.~~

~~Changes in governmental regulation may adversely affect the Company's ability to open new restaurants and the Company's existing and future operations.~~

~~Each of the Company's restaurants is subject to licensing and regulation by alcoholic beverage control, health, sanitation, safety and fire agencies in the state, county and/or municipality in which the restaurant is located. The Company has not encountered any difficulties or failures in obtaining the required licenses or approvals that could delay or prevent the opening of a new restaurant and although the Company does not, at this time, anticipate any occurring in the future, there can be no assurance that the Company will not experience material difficulties or failures that could delay the opening of restaurants in the future.~~

~~The Company is subject to federal and state environmental regulations, and although these have not had a material negative effect on the Company's operations, there can be no assurance that there will not be a material negative effect in the future. More stringent and varied requirements of local and state governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations. The Company is subject to the Fair Labor Standards Act, which governs such matters as minimum wages, overtime and other working conditions, along with the Americans With Disabilities Act, family leave mandates and a variety of other laws enacted by the states that govern these and other employment law matters. Although the Company expects increases in payroll expenses as a result of federal and state mandated increases in the minimum wage, and although such increases are not expected to be material, there can be no assurance that there will not be material increases in the future. However, the Company's vendors may be affected by higher minimum wage standards, which may result in increases in the price of goods and services supplied to the Company.~~

~~Inflation may increase the Company's operating expenses.~~

~~The Company has not experienced a significant overall impact from inflation. As operating expenses increase, the Company, to the extent permitted by competition, recovers increased costs by increasing menu prices, by reviewing, then implementing, alternative products or processes, or by implementing other cost reduction procedures. There can be no assurance, however, that the Company will be able to continue to recover increases in operating expenses due to inflation in this manner.~~

Increased energy costs may adversely affect the Company's profitability.

The Company's success depends in part on its ability to absorb increases in utility costs. Various regions of the United States in which the Company operates multiple restaurants, particularly California, experienced significant increases in utility prices during the 2001 fiscal year. If these increases should recur, they will have an adverse effect on the Company's profitability.

If the Company is unable to meet its growth plan, the Company's profitability in the future may be adversely affected.

The Company's ability to meet its growth plan is dependent upon, among other things, its ability to identify available, suitable and economically viable locations for new restaurants, obtain all required governmental permits (including zoning approvals and liquor licenses) on a timely basis, hire all necessary contractors and subcontractors, and meet construction schedules. The costs related to restaurant and concept development include purchases and leases of land, buildings and equipment and facility and equipment maintenance, repair and replacement. The labor and materials costs involved vary geographically and are subject to general price increases. As a result, future capital expenditure costs of restaurant development may increase, reducing profitability. There can be no assurance that the Company will be able to expand its capacity in accordance with its growth objectives or that the new restaurants and concepts opened or acquired will be profitable.

Unfavorable publicity relating to one or more of the Company's restaurants in a particular brand may taint public perception of the brand.

Multi-unit restaurant businesses can be adversely affected by publicity resulting from poor food quality, illness or other health concerns or operating issues stemming from one or a limited number of restaurants. In particular, since the Company depends heavily on the "Chili's" brand for a majority of its revenues, unfavorable publicity relating to one or more Chili's restaurants could have a material adverse effect on the Company's business, results of operations and financial condition.

Other risk factors may adversely affect the Company's financial performance.

Other risk factors that could cause the Company's actual results to differ materially from those indicated in the forward looking statements include, without limitation, changes in economic conditions, consumer perceptions of food safety, changes in consumer tastes, governmental monetary policies, changes in demographic trends, availability of employees, terrorist acts, and weather and other acts of God.

BRINKER INTERNATIONAL, INC. CONSOLIDATED STATEMENTS OF INCOME (In thousands, except per share amounts)

	Fiscal Years		
	2002	2001	2000
Revenues	$2,887,111	$2,406,874	$2,100,496
Operating Costs and Expenses:			
Cost of sales	796,714	663,357	575,570
Restaurant expenses	1,591,367	1,303,349	1,138,487
Depreciation and amortization	130,102	100,064	90,647
General and administrative	121,420	109,110	100,123
Total operating costs and expenses	2,639,603	2,175,880	1,904,827
Operating income	247,508	230,994	195,669
Interest expense	13,327	8,608	10,746
Other, net	2,332	459	3,381
Income before provision for income taxes	231,849	221,927	181,542
Provision for income taxes	79,136	76,779	63,702
Net income	$152,713	$145,148	$117,840
Basic net income per share	$1.56	$1.46	$1.20
Diluted net income per share	$1.52	$1.42	$1.17
Basic weighted average shares outstanding	97,862	99,101	98,445
Diluted weighted average shares outstanding	100,565	102,098	101,114

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC. CONSOLIDATED BALANCE SHEETS (In thousands, except share and per share amounts)

	2002	2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,091	$ 13,312
Accounts receivable	22,613	31,438
Inventories	25,190	27,351
Prepaid expenses and other	66,727	57,809
Income taxes receivable	15,673	3,019
Deferred income taxes	1,660	7,295
Total current assets	141,954	140,224
Property and Equipment, at Cost:		
Land	254,000	201,013
Buildings and leasehold improvements	1,091,434	898,133
Furniture and equipment	635,403	478,847
Construction in progress	57,015	70,051
	2,037,852	1,648,044
Less accumulated depreciation and amortization	(682,435)	(563,320)
Net property and equipment	1,355,417	1,084,724
Other Assets:		
Goodwill	193,899	138,127
Other	92,066	82,245
Total other assets	285,965	220,372
Total assets	$1,783,336	$1,445,320
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current installments of long term debt	$17,292	$17,635
Accounts payable	118,418	98,175
Accrued liabilities	166,510	134,420
Total current liabilities	302,220	250,230
Long term debt, less current installments	426,679	236,060
Deferred income taxes	17,295	6,782
Other liabilities	60,046	51,961
Commitments and Contingencies (Notes 8 and 14)		
Shareholders' Equity:		
Common stock 250,000,000 authorized shares; $.10 par value; 117,500,054 shares issued and 97,440,391 shares outstanding at June 26, 2002, and 117,501,080 shares issued and 99,509,455 shares outstanding at June 27, 2001	11,750	11,750
Additional paid in capital	330,191	314,867
Retained earnings	954,701	801,988
	1,296,642	1,128,605
Less:		
Treasury stock, at cost (20,059,663 shares at June 26, 2002 and 17,991,625 shares at June 27, 2001)	(317,674)	(225,334)
Accumulated other comprehensive loss		(895)
Unearned compensation	(1,872)	(2,089)
Total shareholders' equity	977,096	900,287
Total liabilities and shareholders' equity	$1,783,336	$1,445,320

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC. CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock							
	Shares	Amount	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Unearned Compensation	Total
Balances at June 30, 1999	98,847	$11,722	$285,448	$539,011	$(174,742)	$	$	$661,439
Net income				117,840				117,840
Purchases of treasury stock	(3,668)				(60,707)			(60,707)
Issuances of common stock	3,291		(3,187)		33,832			30,645

Tax benefit from stock options exercised			10,837					10,837
Amortization of unearned compensation							2,124	2,124
Issuance of restricted stock, net of forfeitures	328	32	5,074	(11)	86		(5,151)	30
Balances at June 28, 2000	98,798	11,754	298,172	656,840	(201,531)		(3,027)	762,208
Net income				145,148				145,148
Change in fair value of derivatives, net of tax						(895)		(895)
Comprehensive income								144,253
Purchases of treasury stock	(2,841)				(65,578)			(65,578)
Issuances of common stock	3,541		(2,529)		41,194			38,665
Tax benefit from stock options exercised			19,430					19,430
Amortization of unearned compensation	-	-	-	-	-	-	1,307	1,307
Issuance of restricted stock, net of forfeitures	11	(4)	(206)		581		(369)	2
Balances at June 27, 2001	99,509	11,750	314,867	801,988	(225,334)	(895)	(2,089)	900,287
Net income				152,713				152,713
Reclassification adjustment to earnings, net of tax						895		895
Comprehensive income								153,608
Purchases of treasury stock	(5,058)				(136,069)			(136,069)
Issuances of common stock	2,890		(4,602)		42,394			37,792
Tax benefit from stock options exercised			18,826					18,826
Amortization of unearned compensation							1,594	1,594
Issuance of restricted stock, net of forfeitures	99		1,100		1,335		(1,377)	1,058
Balances at June 26, 2002	97,440	$11,750	$330,191	$954,701	$(317,674)	$	$(1,872)	$977,096

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

	Fiscal Years		
	2002	2001	2000
Cash Flows from Operating Activities:			
Net income	$152,713	$145,148	$117,840
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	130,102	100,064	90,647
Amortization of deferred costs	8,252	1,307	2,124
Deferred income taxes	24,166	3,213	1,985
Impairment of notes receivable	8,723		
Loss on sale of affiliate		387	
Changes in assets and liabilities, excluding effects of acquisitions and disposition:			
Receivables	6,138	(7,439)	1,109
Inventories	2,863	(9,732)	(1,398)
Prepaid expenses and other	(3,467)	(2,112)	(371)

Other assets	2,965	(5,156)	(4,032)
Current income taxes	(12,654)	(15,154)	14,234
Accounts payable	38,808	16,863	26,964
Accrued liabilities	29,006	18,812	10,520
Other liabilities	2,418	610	9,372
Net cash provided by operating activities	390,033	246,811	268,994
Cash Flows from Investing Activities:			
Payments for property and equipment	(371,052)	(205,160)	(165,397)
Payments for purchases of restaurants	(60,491)	(92,267)	
Proceeds from sale of affiliate	4,000	1,000	
Investments in equity method investees	(12,322)	(3,443)	(954)
Net repayments from affiliates	708	975	
Net cash used in investing activities	(439,157)	(298,895)	(166,351)
Cash Flows from Financing Activities:			
Net (payments) borrowings on credit facilities	(83,200)	94,900	(58,200)
Payments of long term debt	(16,908)	(14,934)	(14,635)
Net proceeds from issuance of long term debt	244,288		
Proceeds from issuances of treasury stock	37,792	38,665	30,645
Purchases of treasury stock	(136,069)	(65,578)	(60,707)
Net cash provided by (used in) financing activities	45,903	53,053	(102,897)
Net change in cash and cash equivalents	(3,221)	969	(254)
Cash and cash equivalents at beginning of year	13,312	12,343	12,597
Cash and cash equivalents at end of year	$10,091	$13,312	$12,343

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The consolidated financial statements include the accounts of Brinker International, Inc. and its wholly owned subsidiaries (the "Company"). All intercompany accounts and transactions have been eliminated in consolidation. The Company owns and operates, or franchises, various restaurant concepts principally located in the United States. Investments in unconsolidated affiliates in which the Company exercises significant influence, but does not control, are accounted for by the equity method, and the Company's share of the net income or loss of the investee is included in other, net in the consolidated statements of income.

The Company has a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal years 2002, 2001 and 2000, which ended on June 26, 2002, June 27, 2001 and June 28, 2000, respectively, each contained 52 weeks.

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform with fiscal 2002 presentation. These reclassifications have no effect on the Company's net income or financial position as previously reported.

(b) Revenue Recognition

The Company records revenue from the sale of food, beverage and alcohol as products are sold. Initial fees received from a franchisee to establish a new franchise are recognized as income when the Company has performed all of its obligations required to assist the franchisee in opening a new franchise restaurant, which is generally upon opening of such restaurant. Continuing royalties, which are a percentage of net sales of franchised restaurants, are accrued as income when earned. Proceeds from the sale of gift cards are recorded as deferred revenue and recognized as income when redeemed by the holder.

The Company adopted EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," effective March 28, 2002. EITF 01-9 concluded that sales incentives offered to customers to buy a product should be classified as a reduction of sales. The Company previously included sales incentives in restaurant expenses. Sales incentives reclassified from restaurant expenses to revenues totaled $79.5 million, $66.8 million, and $59.3 million in fiscal 2002, 2001, and 2000, respectively. These reclassifications have no effect on net income.

(c) Financial Instruments

The Company's policy is to invest cash in excess of operating requirements in income producing investments. Income producing investments with maturities of three months or less at the time of investment are reflected as cash equivalents.

~~The Company's financial instruments at June 26, 2002 and June 27, 2001 consist of cash equivalents, accounts receivable, notes receivable, and long term debt. The fair value of these financial instruments approximates the carrying amounts reported in the consolidated balance sheets. The following methods were used in estimating the fair value of each class of financial instrument: cash equivalents and accounts receivable approximate their carrying amounts due to the short duration of those items; notes receivable are based on the present value of expected future cash flows discounted at the interest rate currently offered by the Company which approximates rates currently being offered by local lending institutions for loans of similar terms to companies with comparable credit risk; and long term debt is based on the amount of future cash flows discounted using the Company's expected borrowing rate for debt of comparable risk and maturity.~~

~~The Company does not use derivative instruments for trading purposes and the Company has procedures in place to monitor and control their use. The Company's use of derivative instruments is currently limited to interest rate swaps, which are entered into with the intent of hedging exposures to changes in interest rates on the Company's debt and lease obligations. The Company records all derivative instruments in the consolidated balance sheet at fair value. The accounting for the gain or loss due to changes in fair value of the derivative instrument depends on whether the derivative instrument qualifies as a hedge. If the derivative instrument does not qualify as a hedge, the gains or losses are reported in earnings when they occur. However, if the derivative instrument qualifies as a hedge, the accounting varies based on the type of risk being hedged. Amounts receivable or payable under interest rate swaps related to the debt and lease obligations are recorded as adjustments to interest expense and restaurant expenses, respectively. Cash flows related to derivative transactions are included in operating activities. See Notes 6 and 7 for additional discussion of debt related agreements and derivative financial instruments and hedging activities.~~

~~(d) Inventories~~

~~Inventories, which consist of food, beverages, and supplies, are stated at the lower of cost (weighted average cost method) or market.~~

~~(e) Property and Equipment~~

~~Buildings and leasehold improvements are amortized using the straight-line method over the lesser of the life of the lease, including renewal options, or the estimated useful lives of the assets, which range from 5 to 20 years. Furniture and equipment are depreciated using the straight line method over the estimated useful lives of the assets, which range from 3 to 8 years.~~

~~The Company evaluates property and equipment held and used in the business for impairment whenever events or changes in circumstances indicate that the carrying amount of a restaurant's assets may not be recoverable. An impairment is determined by comparing estimated undiscounted future operating cash flows for a restaurant to the carrying amount of its assets. If an impairment exists, the amount of impairment is measured as the excess of the carrying amount over the estimated discounted future operating cash flows of the asset and the expected proceeds upon sale of the asset. Assets held for sale are reported at the lower of carrying amount or fair value less costs to sell.~~

~~(f) Capitalized Interest~~

~~Interest costs capitalized during the construction period of restaurants were approximately $4.5 million, $2.8 million, and $3.2 million during fiscal 2002, 2001, and 2000, respectively.~~

~~(g) Advertising~~

~~Advertising costs are expensed as incurred. Advertising costs were $116.6 million, $95.4 million, and $80.7 million in fiscal 2002, 2001, and 2000, respectively, and are included in restaurant expenses in the consolidated statements of income.~~

~~(h) Goodwill and Other Intangible Assets~~

~~Intangible assets include both goodwill and identifiable intangibles arising from the allocation of the purchase prices of assets acquired. Goodwill represents the residual purchase price after allocation to all other identifiable net assets acquired. Other intangibles consist mainly of reacquired development rights and intellectual property.~~

~~The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective June 28, 2001. SFAS No. 142 eliminates the amortization for goodwill and other intangible assets with indefinite lives. Intangible assets with lives restricted by contractual, legal, or other means will continue to be amortized over their useful lives. Goodwill and other intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. SFAS No. 142 requires a two-step process for testing impairment. First, the fair value of each reporting unit is compared to its carrying value to determine whether an indication of impairment exists. If an impairment is indicated, then the fair value of the reporting unit's goodwill is determined by allocating the unit's fair value to its assets and liabilities (including any unrecognized intangible~~

~~assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill and other intangible assets is measured as the excess of its carrying value over its fair value. No such impairment losses were recorded upon the initial adoption of SFAS 142. Prior to the adoption of SFAS No. 142, goodwill was being amortized on a straight line basis over 30 to 40 years.~~

~~Intangible assets subject to amortization under SFAS No. 142 consist primarily of intellectual property rights. Amortization expense is calculated using the straight line method over their estimated useful lives of 15 to 25 years. Intangible assets not subject to amortization consist primarily of reacquired development rights. See Note 3 for additional disclosures related to goodwill and other intangibles.~~

~~(i) Self Insurance Program~~

~~The Company utilizes a paid loss self insurance plan for general liability and workers' compensation coverage. Predetermined loss limits have been arranged with insurance companies to limit the Company's per occurrence cash outlay. Additionally, in fiscal 2002 and 2001, the Company entered into guaranteed cost agreements with an insurance company to eliminate all future general liability losses for those respective fiscal years. Accrued expenses and other liabilities include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims.~~

~~(j) Income Taxes~~

~~Deferred 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 bases. Deferred 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 tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.~~

~~(k) Stock Based Compensation~~

~~The Company uses the intrinsic value method for measuring employee stock based compensation cost. Under this method, compensation cost is measured as the excess, if any, of the quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's policy is to grant stock options at the market value of the underlying stock at the date of grant. Proceeds from the exercise of common stock options issued to officers, directors, and key employees under the Company's stock option plans are credited to common stock to the extent of par value and to additional paid in capital for the excess. Required pro forma disclosures of compensation expense determined under the fair value method prescribed by SFAS No. 123, "Accounting for Stock Based Compensation," are presented in Note 9.~~

~~(l) Comprehensive Income~~

~~Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non owner sources. Comprehensive income consists of net income and the effective unrealized portion of changes in the fair value of the Company's cash flow hedges.~~

~~(m) Net Income Per Share~~

~~Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options determined using the treasury stock method. For all periods presented, there were no other securities excluded from the calculation of diluted earnings per share because their effect on the periods presented was antidilutive. The Company's contingently convertible debt securities are not considered for purposes of diluted earnings per share unless the required conversion criteria have been met as of the end of the reporting period.~~

~~(n) Segment Reporting~~

~~Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company identifies operating segments based on management responsibility and believes it meets the criteria for aggregating its operating segments into a single reporting segment.~~

~~(o) Use of Estimates~~

~~The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and costs and expenses~~

during the reporting period. Actual results could differ from those estimates.

2. BUSINESS COMBINATIONS AND INVESTMENT IN UNCONSOLIDATED ENTITIES

In November 2001, the Company acquired from its franchise partner, Sydran Group, LLC and Sydran Food Services III, L.P. (collectively, "Sydran"), thirty nine Chili's restaurants for approximately $53.9 million. As part of the acquisition, the Company assumed $35.5 million in capital lease obligations ($19.9 million principal plus $15.6 million representing a debt premium) and recorded goodwill totaling approximately $52.5 million. The operations of the restaurants are included in the Company's consolidated results of operations from the date of the acquisition.

In July 2001, the Company formed a partnership with Rockfish, a privately held Dallas-based restaurant company with twelve locations currently in operation. The Company made a $12.3 million capital contribution to Rockfish in exchange for an approximate 40% ownership interest in the legal entities owning and developing the restaurant concept.

In June 2001, the Company acquired from its franchise partner, Hal Smith Restaurant Group, three On The Border restaurants for approximately $6.6 million. Goodwill of approximately $2.9 million was recorded in connection with the acquisition. The operations of the restaurants are included in the Company's consolidated results of operations from the date of the acquisition.

In April 2001, the Company acquired from its franchise partner, NE Restaurant Company, Inc. ("NERCO"), forty Chili's, three Chili's sites under construction, and seven On The Border locations. Total consideration was approximately $93.5 million, of which approximately $40.9 million represented the assumption of mortgage loan obligations and approximately $9.0 million was for certain other liabilities and transaction costs. Goodwill of approximately $20.5 million was recorded in connection with the acquisition. The operations of the restaurants are included in the Company's consolidated results of operations from the date of the acquisition.

In February 2001, the Company acquired the remaining 50% interest in the Big Bowl restaurant concept from its joint venture partner for approximately $38.0 million. The Company originally invested $20.8 million in the joint venture prior to February 1, 2001 and accounted for the joint venture under the equity method. Goodwill of approximately $48.9 million was recorded in connection with the acquisition. The operations of the restaurants are included in the Company's consolidated results of operations from the date of the acquisition.

In February 2001, the Company sold its interest in the Wildfire restaurant concept for $5.0 million, of which $4.0 million was included in accounts receivable in the Company's consolidated balance sheet at June 27, 2001. During fiscal 2002, the remaining balance of $4.0 million was collected.

The pro forma effects of these acquisitions on the Company's historical results of operations are not material.

3. GOODWILL AND OTHER INTANGIBLES

The gross carrying amount of intellectual property rights subject to amortization totaled $6.4 million at June 26, 2002 and June 27, 2001. Accumulated amortization related to these intangible assets totaled approximately $1.2 million and $960,000 at June 26, 2002 and June 27, 2001, respectively. The carrying amount of reacquired development rights not subject to amortization totaled $4.4 million at June 26, 2002 and June 27, 2001.

The changes in the carrying amount of goodwill for the fiscal year ended June 26, 2002 are as follows (in thousands):

Balance, June 27, 2001	$138,127
Goodwill arising from acquisitions	55,473
Other adjustments	299
Balance, June 26, 2002	$193,899

The pro forma effects of the adoption of SFAS No. 142 on net income is as follows (in thousands, net of taxes):

	2002	2001	2000
Net income, as reported	$152,713	$145,148	$117,840
Intangible amortization		2,349	1,843
Net income, pro forma	$152,713	$147,497	$119,683

The pro forma effects of the adoption of SFAS No. 142 on basic and diluted earnings per share is as follows:

	2002	2001	2000
Basic net income per share, as reported	$1.56	$1.46	$1.20
Basic net income per share, pro forma	1.56	1.49	1.22
Diluted net income per share, as reported	1.52	1.42	1.17
Diluted net income per share, pro forma	1.52	1.44	1.18

4. ACCRUED AND OTHER LIABILITIES

Accrued liabilities consist of the following (in thousands):

	2002	2001
Payroll	$70,121	$61,713
Gift cards	27,141	17,425
Sales tax	16,841	14,180
Property tax	13,624	12,149
Other	38,783	28,953
	$166,510	$134,420

Other liabilities consist of the following (in thousands):

Retirement plan (see Note 11)	$29,869	$27,371
Other	30,177	24,590
	$60,046	$51,961

5. INCOME TAXES

The provision for income taxes consists of the following (in thousands):

	2002	2001	2000
Current income tax expense:			
Federal	$47,228	$62,609	$52,958
State	6,819	10,269	8,166
Foreign	923	688	593
Total current income tax expense	54,970	73,566	61,717
Deferred income tax expense:			
Federal	22,088	2,989	1,835
State	2,078	224	150
Total deferred income tax expense	24,164	3,213	1,985
	$79,136	$76,779	$63,702

A reconciliation between the reported provision for income taxes and the amount computed by applying the statutory Federal income tax rate of 35% to income before provision for income taxes is as follows (in thousands):

	2002	2001	2000
Income tax expense at statutory rate	$81,147	$77,674	$63,540
FICA tax credit	(9,002)	(7,029)	(5,993)
State income taxes, net of Federal benefit	5,783	6,822	5,405
Other	1,208	(688)	750
	$79,136	$76,779	$63,702

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities as of June 26, 2002 and June 27, 2001 are as follows (in thousands):

	2002	2001
Deferred income tax assets:		
Insurance reserves	$7,099	$6,665
Employee benefit plans	12,243	10,443
Leasing transactions	8,564	8,479
Other, net	13,077	15,921
Total deferred income tax assets	40,983	41,508
Deferred income tax liabilities:		

	2002	2001
Depreciation and capitalized interest on property and equipment	34,326	28,847
Prepaid expenses	7,928	4,792
Goodwill and other amortization	5,371	2,926
Other, net	8,993	4,430
Total deferred income tax liabilities	56,618	40,995
Net deferred income tax liability (asset)	$15,635	$(513)

6. DEBT

Long term debt consists of the following (in thousands):

	2002	2001
Convertible debt	$254,948	$ -
Senior notes	45,953	59,966
Credit facilities	63,500	146,700
Capital lease obligations (see Note 8)	36,047	1,398
Mortgage loan obligations	43,523	45,631
	443,971	253,695
Less current installments	(17,292)	(17,635)
	$426,679	$236,060

In October 2001, the Company issued $431.7 million of zero coupon convertible senior debentures (the "Debentures"), maturing on October 10, 2021, and received proceeds totaling approximately $250.0 million prior to debt issuance costs. The Debentures require no interest payments and were issued at a discount representing a yield to maturity of 2.75% per annum. The Debentures are redeemable at the Company's option on October 10, 2004, and the holders of the Debentures may require the Company to redeem the Debentures on October 10, 2003, 2005, 2011 or 2016, and in certain other circumstances. In addition, each $1,000 Debenture is convertible into 18.08 shares of the Company's common stock if the stock's market price exceeds 120% of the accreted conversion price at specified dates, the Company exercises its option to redeem the Debentures, the credit rating of the Debentures is reduced below both Baa3 and BBB , or upon the occurrence of certain specified corporate transactions. The accreted conversion price is equal to the issue price of the Debenture plus accrued original issue discount divided by 18.08 shares.

The $46.0 million of unsecured senior notes bear interest at an annual rate of 7.8%. Interest is payable semi-annually and principal of $14.3 million is due annually through fiscal 2004 with the remaining unpaid balance due in fiscal 2005.

The Company has credit facilities aggregating $375.0 million at June 26, 2002. A revolving credit facility of $275.0 million bears interest at LIBOR (1.855% at June 26, 2002) plus a maximum of 1.375% (0.50% at June 26, 2002) and expires in fiscal 2006. At June 26, 2002, $60.0 million was outstanding under this facility. The remaining credit facilities bear interest based upon the lower of the banks' "Base" rate, certificate of deposit rate, negotiated rate, or LIBOR rate plus 0.375%, and expire at various times beginning in fiscal 2003. Unused credit facilities available to the Company were approximately $311.5 million at June 26, 2002. Obligations under the Company's credit facilities, which require short term repayments, have been classified as long term debt, reflecting the Company's intent and ability to refinance these borrowings through the existing credit facilities.

Pursuant to the acquisition of NERCO (see Note 2), the Company assumed $43.5 million in mortgage loan obligations. The obligations require monthly principal and interest payments, mature on various dates from September 2002 through March 2020, and bear interest at rates ranging from 8.44% to 10.75% per year. The obligations are collateralized by the acquired restaurant properties.

Excluding capital lease obligations (see Note 8), the Company's long term debt maturities for the five years following June 26, 2002 are as follows (in thousands):

Fiscal Year	
2003	$16,456
2004	18,145
2005	18,073
2006	65,890
2007	2,261
Thereafter	287,099
	$407,924

7. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into interest rate swaps to manage fluctuations in interest expense and to maintain the value of fixed rate debt (senior notes). The fixed rate debt is exposed to changes in fair value as market based interest rates fluctuate. The Company entered into two interest rate swaps in April 2000 with a total notional value of $42.8 million at June 26, 2002. This fair value hedge changes the fixed rate interest on the entire balance of the Company's senior notes to variable rate interest. Under the terms of the hedges (which expire in fiscal 2005), the Company pays semi-annually a variable interest rate based on 90-Day LIBOR (1.86% at June 26, 2002) plus 0.530% for one of the swaps and 180-Day LIBOR (1.91% at June 26, 2002) plus 0.395% for the other swap, in arrears, compounded at three month intervals. The Company receives semi-annually the fixed interest rate of 7.8% on the senior notes. The estimated fair value of these agreements at June 26, 2002 was approximately $3.2 million, which is included in other assets in the Company's consolidated balance sheet at June 26, 2002. The Company's interest rate swap hedges meet the criteria for the "short cut method" under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Accordingly, the changes in fair value of the swaps are offset by a like adjustment to the carrying value of the debt and no hedge ineffectiveness is assumed.

The Company entered into three interest rate swaps in December 2001 with a total notional value of $117.8 million at June 26, 2002. These fair value hedges change the fixed rate interest component of an operating lease commitment for certain real estate properties entered into in November 1997 to variable rate interest. Under the terms of the hedges (which expire in fiscal 2018), the Company pays monthly a variable rate based on 30-Day LIBOR (1.84% at June 26, 2002) plus 1.26%. The Company receives monthly the fixed interest rate of 7.156% on the lease. The estimated fair value of these agreements at June 26, 2002 was an asset of approximately $5.7 million. The fair value hedges were fully effective during the fiscal year ended June 26, 2002. Accordingly, the change in fair value of the swaps was recorded in other liabilities.

8. LEASES

(a) Capital Leases

The Company leases certain buildings under capital leases. The asset values of $26.4 million at June 26, 2002 and $6.5 million at June 27, 2001, respectively, and the related accumulated amortization of $6.8 million and $6.1 million at June 26, 2002 and June 27, 2001, respectively, are included in property and equipment. Amortization of assets under capital lease is included in depreciation and amortization expense. As part of the Sydran acquisition in November 2001, the Company recorded $19.9 million in capital lease assets.

(b) Operating Leases

The Company leases restaurant facilities, office space, and certain equipment under operating leases having terms expiring at various dates through fiscal 2095. The restaurant leases have renewal clauses of 1 to 35 years at the option of the Company and have provisions for contingent rent based upon a percentage of gross sales, as defined in the leases. Rent expense for fiscal 2002, 2001, and 2000 was $100.4 million, $89.2 million, and $81.8 million, respectively. Contingent rent included in rent expense for fiscal 2002, 2001, and 2000 was $9.7 million, $8.9 million, and $7.2 million, respectively.

In fiscal 1998 and 2000, the Company entered into equipment leasing facilities totaling $55.0 million and $25.0 million, respectively. The leasing facilities were accounted for as operating leases and had expiration dates of 2004 and 2006, respectively. The Company guaranteed a residual value of approximately 87% of the total amount funded under the leases. The Company had the option to purchase all of the leased equipment for an amount equal to the unamortized lease balance, which could not exceed 75% of the total amount funded through the leases. In February 2002, the Company acquired the remaining assets leased under the equipment leasing facilities for $36.2 million and terminated the lease arrangements.

In fiscal 2000, the Company entered into a $50.0 million real estate leasing facility. During fiscal 2001, the Company increased the facility to $75.0 million. The real estate facility was accounted for as an operating lease and was to expire in fiscal 2007. The Company guaranteed a residual value of approximately 87% of the total amount funded under the lease. The Company had the option to purchase all of the leased real estate for an amount equal to the unamortized lease balance. In February 2002, the Company acquired the remaining assets leased under the real estate leasing facility for $56.8 million and terminated the lease arrangement.

(c) Commitments

At June 26, 2002, future minimum lease payments on capital and operating leases were as follows (in thousands):

Fiscal Year	Capital Leases	Operating Leases
2003	$3,506	$85,656
2004	3,469	83,512
2005	3,200	81,453

2006	3,165	77,618
2007	3,243	72,605
Thereafter	48,436	427,822
Total minimum lease payments	65,019	$828,666
Imputed interest (average rate of 8%)	(28,972)	
Present value of minimum lease payments	36,047	
Less current installments	(836)	
Capital lease obligations noncurrent	$35,211	

At June 26, 2002, the Company had entered into other lease agreements for restaurant facilities currently under construction or yet to be constructed. Classification of these leases as capital or operating has not been determined as construction of the leased properties has not been completed.

9. STOCK OPTION PLANS

The Company has adopted the disclosure only provisions of SFAS No. 123. Had the Company adopted the fair value based accounting method for stock compensation expense prescribed by SFAS No. 123, the Company's diluted net income per common and equivalent share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

	2002	2001	2000
Net income as reported	$152,713	$145,148	$117,840
Net income pro forma	137,803	132,963	108,503
Diluted net income per share as reported	1.52	1.42	1.17
Diluted net income per share pro forma	1.37	1.30	1.07

The weighted average fair value of option grants was $10.66, $10.90, and $7.25 during fiscal 2002, 2001 and 2000, respectively. The fair value is estimated using the Black Scholes option pricing model with the following weighted average assumptions:

	2002	2001	2000
Expected volatility	35.5%	34.1%	40.8%
Risk free interest rate	4.1%	5.9%	5.9%
Expected lives	5 years	5 years	5 years
Dividend yield	0.0%	0.0%	0.0%

The pro forma disclosures provided are not likely to be representative of the effects on reported net income for future years due to future grants.

(a) 1983, 1992, and 1998 Employee Incentive Stock Option Plans

In accordance with the Incentive Stock Option Plans adopted in October 1983, November 1992, and October 1998, options to purchase approximately 40.2 million shares of Company common stock may be granted to officers, directors, and eligible employees, as defined. Options are granted at the market value of the underlying common stock on the date of grant, are exercisable beginning one to two years from the date of grant, with various vesting periods, and expire 10 years from the date of grant.

In October 1993, the 1983 Incentive Stock Option Plan (the "1983 Plan") expired. Consequently, no options were granted under the 1983 Plan subsequent to fiscal 1993. Options granted prior to the expiration of the 1983 Plan remain exercisable through April 2003.

In October 1998, the 1998 Stock Option and Incentive Plan (the "1998 Plan") was adopted and no additional options were granted under the 1992 Incentive Stock Option Plan (the "1992 Plan"). Options granted under the 1992 Plan prior to the adoption of the 1998 Plan remain exercisable through March 2008.

Transactions during fiscal 2002, 2001, and 2000 were as follows (in thousands, except option prices):

	Number of Company Options			Weighted Average Share Exercise Price		
	2002	2001	2000	2002	2001	2000
Options outstanding at beginning of year	10,759	11,997	13,342	$16.91	$13.03	$11.58
Granted	2,512	2,808	2,508	27.90	26.96	16.13
Exercised	(2,892)	(3,373)	(3,229)	13.09	11.01	9.28
Forfeited	(435)	(673)	(624)	23.38	19.18	13.79
Options outstanding at end of year	9,944	10,759	11,997	$20.50	$16.91	$13.03

Options exercisable at end of year	4,091	4,788	5,502	$13.38	$11.64	$10.53

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
$7.42 $11.58	1,733	4.09	$8.71	1,719	$8.69
$12.89 $18.67	3,363	6.41	16.59	2,372	16.78
$25.50 $33.02	4,848	8.88	27.43		
	9,944	7.21	$20.50	4,091	$13.38

(b) 1991 and 1999 Non Employee Stock Option Plans

In accordance with the Stock Option Plan for Non Employee Directors and Consultants adopted in May 1991, options to purchase 881,250 shares of Company common stock were authorized for grant. In fiscal 2000, the 1991 Stock Option Plan for Non Employee Directors and Consultants was replaced by the 1999 Stock Option and Incentive Plan for Non Employee Directors and Consultants which authorized the issuance of up to 450,000 shares of Company common stock. The authority to issue the remaining stock options under the 1991 Stock Option Plan for Non Employee Directors and Consultants has been terminated. Options are granted at the market value of the underlying common stock on the date of grant, vest one third each year beginning two years from the date of grant, and expire 10 years from the date of grant.

Transactions during fiscal 2002, 2001, and 2000 were as follows (in thousands, except option prices):

	Number of Company Options			Weighted Average Share Exercise Price		
	2002	2001	2000	2002	2001	2000
Options outstanding at beginning of year	351	468	521	$13.96	$11.65	$11.42
Granted	82	38	9	30.06	23.96	15.67
Exercised	(70)	(155)	(62)	11.24	9.44	10.32
Forfeited	(10)			30.06		
Options outstanding at end of year	353	351	468	$17.79	$13.96	$11.65
Options exercisable at end of year	199	208	278	$12.61	$11.71	$10.23

At June 26, 2002, the range of exercise prices for options outstanding was $8.33 to $30.06 with a weighted average remaining contractual life of 6.63 years.

(c) On The Border 1989 Stock Option Plan

In accordance with the Stock Option Plan for On The Border employees, options to purchase 550,000 shares of On The Border's preacquisition common stock were authorized for grant. Effective May 18, 1994, the 376,000 unexercised On The Border stock options became exercisable immediately in accordance with the provisions of the Stock Option Plan, and were converted to approximately 186,000 Company stock options and expire 10 years from the date of original grant. At June 26, 2002, there were approximately 37,000 options exercisable and outstanding at an exercise price of $13.18 with a weighted average remaining contractual life of 1.21 years.

10. SHAREHOLDERS' EQUITY

(a) Stockholder Protection Rights Plan

The Company maintains a Stockholder Protection Rights Plan (the "Plan"). Upon implementation of the Plan, the Company declared a dividend of one right on each outstanding share of common stock. The rights are evidenced by the common stock certificates, automatically trade with the common stock, and are not exercisable until it is announced that a person or group has become an Acquiring Person, as defined in the Plan. Thereafter, separate rights certificates will be distributed and each right (other than rights beneficially owned by any Acquiring Person) will entitle, among other things, its holder to purchase, for an exercise price of $40, a number of shares of Company common stock having a market value of twice the exercise price. The rights may be redeemed by the Board of Directors for $0.01 per right prior to the date of the announcement that a person or group has become an Acquiring Person.

(b) Preferred Stock

The Company's Board of Directors is authorized to provide for the issuance of 1,000,000 preferred shares with a par value of $1.00 per share, in one or more series, and to fix the voting rights, liquidation preferences, dividend rates, conversion rights, redemption rights, and terms, including sinking fund provisions, and certain other rights and preferences. As of June 26, 2002, no preferred shares were issued.

(c) Treasury Stock

In August 2001 and April 2002, the Board of Directors authorized increases in the stock repurchase plan of an additional $100.0 million each, bringing the Company's total share repurchase program to $410.0 million. Pursuant to the Company's stock repurchase plan, the Company repurchased approximately 5.1 million shares of its common stock for $136.1 million during fiscal 2002, resulting in a cumulative repurchase total of approximately 16.0 million shares of its common stock for $327.6 million. The Company's stock repurchase plan is used by the Company to offset the dilutive effect of stock option exercises, satisfy obligations under its savings plans, and for other corporate purposes. The repurchased common stock is reflected as a reduction of shareholders' equity.

(d) Restricted Stock

Pursuant to shareholder approval in November 1999, the Company implemented the Executive Long Term Incentive Plan for certain key employees, one component of which is the award of restricted common stock. During fiscal 2002 and 2001, respectively, approximately 100,000 and 57,000 shares of restricted common stock were awarded, the majority of which vests over a three year period. Unearned compensation was recorded as a separate component of shareholders' equity at the date of the award based on the market value of the shares and is being amortized to compensation expense over the vesting period.

(e) Stock Split

On December 8, 2000, the Board of Directors declared a three for two stock split, effected in the form of a 50% stock dividend, to shareholders of record on January 3, 2001, payable on January 16, 2001. As a result of the split, 39.2 million shares of common stock were issued on January 16, 2001. All references to number of shares and per share amounts of common stock have been restated to reflect the stock split. Shareholders' equity accounts have been restated to reflect the reclassification of an amount equal to the par value of the increase in issued common shares from the retained earnings account to the common stock account.

11. SAVINGS PLANS

The Company sponsors a qualified defined contribution retirement plan ("Plan I") covering salaried and hourly employees who have completed one year of service and have attained the age of twenty-one. Plan I allows eligible employees to defer receipt of up to 20% of their compensation and 100% of their eligible bonuses, as defined in the plan, and contribute such amounts to various investment funds. The Company matches in Company common stock 25% of the first 5% a salaried employee contributes. Hourly employees do not receive matching contributions. Employee contributions vest immediately while Company contributions vest 25% annually beginning on the participant's second anniversary of employment. In fiscal 2002, 2001, and 2000, the Company contributed approximately $828,000, $788,000, and $731,000, respectively.

The Company sponsors a non-qualified defined contribution retirement plan ("Plan II") covering highly compensated employees, as defined in the plan. Plan II allows eligible employees to defer receipt of up to 50% of their base compensation and 100% of their eligible bonuses, as defined in the plan. The Company matches in Company common stock 25% of the first 5% of non-officer contributions while officers' contributions are matched at the same rate with cash. Employee contributions vest immediately while Company contributions vest 25% annually beginning on the participant's second anniversary of employment. In fiscal 2002, 2001, and 2000, the Company contributed approximately $657,000, $655,000, and $543,000, respectively. At the inception of Plan II, the Company established a Rabbi Trust to fund Plan II obligations. The market value of the trust assets is included in other assets and the liability to Plan II participants is included in other liabilities.

12. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes is as follows (in thousands):

	2002	2001	2000
Interest, net of amounts capitalized	$8,229	$8,904	$10,192
Income taxes, net of refunds	48,801	68,597	36,646

Non cash investing and financing activities are as follows (in thousands):

	2002	2001	2000
Restricted common stock issued, net of forfeitures	$2,435	$371	$5,181
Increase in fair value of interest rate	286	2,867	

swaps and debt		
Decrease in fair value of forward rate agreements included in other comprehensive income		895
Increase in fair value of interest rate swaps on real estate leasing facility	5,667	

During 2002, the Company purchased certain assets and assumed certain liabilities in connection with the acquisition of restaurants. The fair values of the acquired assets and liabilities recorded at the date of acquisition are as follows (in thousands):

Property and equipment acquired	$36,312
Goodwill	55,473
Other assets acquired	8,585
Capital lease obligations assumed	(35,480)
Other liabilities assumed	(4,399)
Net cash paid	$60,491

13. RELATED PARTY TRANSACTION

The Company has secured notes receivable from Eatzi's Corporation ("Eatzi's") with a carrying value of approximately $11.0 million and $20.6 million at June 26, 2002 and June 27, 2001, respectively. Approximately $6.0 million of the notes receivable is convertible into nonvoting Series A Preferred Stock of Eatzi's at the option of the Company and matures on December 28, 2006. The remaining note receivable matures on September 28, 2005.

Interest on the convertible note receivable is 10.5% per year with payments due on a quarterly basis until the principal balance and all accrued and unpaid interest have been paid in full. Interest on the remaining notes receivable balance is prime rate plus 1.5% per year with payments due on a quarterly basis until the principal balance and all accrued and unpaid interest have been paid in full. The notes receivable are included in other assets in the accompanying consolidated balance sheets.

During fiscal 2002 and 2001, certain scheduled payments were not made as the Company continued negotiations with Eatzi's to restructure the notes receivable. A letter of intent was signed on August 6, 2002 to divest the Company of its interest in the concept. Under the terms of the letter, Eatzi's has agreed to pay the Company $11.0 million in cash and to execute a $4.0 million promissory note in consideration for its interest in the concept. The promissory note will be unsecured and payable only upon the closing of an initial public offering by Eatzi's. Due to the uncertainty of collecting the $4.0 million promissory note, the Company will establish a reserve for the entire principal balance. As a result of the divesture, in fiscal 2002 an approximate $8.7 million impairment charge was recorded in restaurant expenses to reduce the notes to their net realizable value.

14. CONTINGENCIES

During fiscal 2002, the Company recorded an approximate $11.0 million charge to restaurant expenses stemming from an agreement reached with the California Department of Labor Standards Enforcement ("DLSE"). The DLSE's primary allegation involved the Company's documentation policies related to breaks provided to employees. The Company believes it has been in substantial compliance with the California labor laws related to employee breaks and other employee related matters, but was unable to document all issues to the DLSE's satisfaction. The Company agreed to the settlement to avoid a potentially costly and protracted litigation.

The Company is engaged in various legal proceedings and has certain unresolved claims pending. The ultimate liability, if any, for the aggregate amounts claimed cannot be determined at this time. However, management of the Company, based upon consultation with legal counsel, is of the opinion that there are no matters pending or threatened which are expected to have a material adverse effect, individually or in the aggregate, on the Company's consolidated financial condition or results of operations.

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2002 and 2001 (in thousands, except per share amounts):

	Fiscal Year 2002 Quarters Ended			
	Sept. 26	Dec. 26	March 27	June 26
Revenues	$672,655	$685,752	$745,786	$782,918
Income before provision for income taxes	60,695	52,960	51,617	66,577
Net income	39,634	34,636	34,170	44,273

Basic net income per share	0.40	0.35	0.35	0.45
Diluted net income per share	0.39	0.35	0.34	0.44
Basic weighted average shares outstanding	98,963	97,718	97,694	97,675
Diluted weighted average shares outstanding	101,572	100,131	100,652	100,491

	Fiscal Year 2001			
	Quarters Ended			
	Sept. 27	Dec. 27	March 28	June 27
Revenues	$573,925	$567,546	$608,192	$657,211
Income before provision for income taxes	54,311	49,714	53,801	64,101
Net income	35,194	32,215	34,863	42,876
Basic net income per share	0.36	0.33	0.35	0.43
Diluted net income per share	0.35	0.32	0.34	0.42
Basic weighted average shares outstanding	98,753	98,497	99,450	99,800
Diluted weighted average shares outstanding	101,570	101,718	102,498	102,577

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Brinker International, Inc.:

We have audited the accompanying consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 26, 2002 and June 27, 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three year period ended June 26, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brinker International, Inc. and subsidiaries as of June 26, 2002 and June 27, 2001, and the results of their operations and their cash flows for each of the years in the three year period ended June 26, 2002 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Dallas, Texas
July 31, 2002, except for Note 13,
as to which the date is August 6, 2002

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based upon our estimate and judgments, as required. The consolidated financial statements have been audited and reported on by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that the representations made to the independent auditors were valid and appropriate.

The Company maintains a system of internal controls over financial reporting designed to provide reasonable assurance of the reliability of the consolidated financial statements. The Company's internal audit function monitors and reports on the adequacy of the compliance with the internal control system and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is comprised solely of outside directors, provides oversight to the financial reporting process through periodic meetings with our independent auditors, internal auditors, and management. Both our independent auditors and internal auditors have free access to the Audit Committee. Although no cost effective internal control system will preclude all errors and irregularities, we believe our controls as of and for the year ended June 26, 2002 provide reasonable assurance that the consolidated financial statements are reliable.

~~RONALD A. MCDOUGALL~~
~~Chairman of the Board and Chief Executive Officer~~

~~CHARLES M. SONSTEBY~~
~~Executive Vice President and Chief Financial Officer~~

~~EXHIBIT 21~~

~~BRINKER INTERNATIONAL, INC., A DELAWARE CORPORATION~~

~~SUBSIDIARIES~~

~~REGISTRANT'S subsidiaries operate full service restaurants in various locations throughout the United States under the names Chili's Grill & Bar, Romano's Macaroni Grill, On The Border Mexican Grill & Cantina, Cozymel's Coastal Grill, Maggiano's Little Italy, Corner Bakery Cafe, and Big Bowl.~~

~~BRINKER RESTAURANT CORPORATION, a Delaware corporation~~
~~MAGGIANO'S/CORNER BAKERY, INC., an Illinois corporation~~
~~BRINKER ALABAMA, INC., a Delaware corporation~~
~~BRINKER ARKANSAS, INC., a Delaware corporation~~
~~BRINKER OF CARROLL COUNTY, INC., a Maryland corporation~~
~~BRINKER CONNECTICUT CORPORATION, a Delaware corporation~~
~~BRINKER DELAWARE, INC., a Delaware corporation~~
~~BRINKER OF FREDERICK COUNTY, INC., a Maryland corporation~~
~~BRINKER FLORIDA, INC., a Delaware corporation~~
~~BRINKER GEORGIA, INC., a Delaware corporation~~
~~BRINKER INDIANA, INC., a Delaware corporation~~
~~BRINKER IOWA, INC., a Delaware corporation~~
~~BRINKER KENTUCKY, INC., a Delaware corporation~~
~~BRINKER LOUISIANA, INC., a Delaware corporation~~
~~BRINKER MASSACHUSETTS CORPORATION, a Delaware corporation~~
~~BRINKER MISSISSIPPI, INC., a Delaware corporation~~
~~BRINKER MISSOURI, INC., a Delaware corporation~~
~~BRINKER OF MONTGOMERY COUNTY, INC., a Maryland corporation~~
~~BRINKER NEVADA, INC., a Nevada corporation~~
~~BRINKER NEW JERSEY, INC., a Delaware corporation~~
~~BRINKER NORTH CAROLINA, INC., a Delaware corporation~~
~~BRINKER OHIO, INC., a Delaware corporation~~
~~BRINKER OKLAHOMA, INC., a Delaware corporation~~
~~BRINKER SOUTH CAROLINA, INC., a Delaware corporation~~
~~BRINKER UK CORPORATION, a Delaware corporation~~
~~BRINKER VIRGINIA, INC., a Delaware corporation~~
~~BRINKER TEXAS, L.P., a Texas limited partnership~~
~~CHILI'S BEVERAGE COMPANY, INC., a Texas corporation~~
~~CHILI'S, INC., a Tennessee corporation~~
~~CHILI'S OF MINNESOTA, INC., a Minnesota corporation~~
~~CHILI'S OF KANSAS, INC., a Kansas corporation~~
~~BRINKER PENN TRUST, a Pennsylvania business trust~~
~~CHILI'S OF WEST VIRGINIA, INC., a West Virginia corporation~~
~~CHILI'S OF WISCONSIN, INC., a Wisconsin corporation~~
~~BRINKER FREEHOLD, INC., a New Jersey corporation~~
~~MAGGIANO'S OF TYSON'S, INC., a Virginia corporation~~
~~ROMANO'S OF ANNAPOLIS, INC., a Maryland corporation~~
~~CHILI'S OF BEL AIR, INC., a Maryland corporation~~
~~CHILI'S OF MARYLAND, INC., a Maryland corporation~~
~~BRINKER OF BALTIMORE COUNTY, INC., a Maryland corporation~~
~~BRINKER OF HOWARD COUNTY, INC., a Maryland corporation~~
~~BRINKER RHODE ISLAND, INC., a Rhode Island corporation~~
~~BRINKER OF D.C., INC., a Delaware corporation~~
~~CHILI'S, INC., a Delaware corporation~~
~~MAGGIANO'S/CORNER BAKERY BEVERAGE COMPANY, a Texas corporation~~
~~MAGGIANO'S/CORNER BAKERY HOLDING CORPORATION, a Delaware corporation~~
~~MAGGIANO'S/CORNER BAKERY, L.P., a Texas limited partnership~~
~~BIG BOWL HOLDING CORPORATION, a Delaware corporation~~
~~BIG BOWL, INC., an Illinois corporation~~
~~BIG BOWL TEXAS, L.P., a Texas limited partnership~~
~~BRINKER VERMONT, INC., a Vermont corporation~~
~~BRINKER NEW ENGLAND I, LLC, a Delaware limited liability company~~
~~BRINKER NEW ENGLAND II, LLC, a Delaware limited liability company~~

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Brinker International, Inc.:

We consent to incorporation by reference in Registration Statement Nos. 33-61594, 33-56491, 333-02201, 333-93755, and 333-42224 on Form S-8 and 333-74902 on Form S-3 of Brinker International, Inc. of our report dated July 31, 2002, except for Note 13, as to which the date is August 6, 2002, relating to the consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 26, 2002 and June 27, 2001 and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 26, 2002, which report is incorporated by reference in the June 26, 2002 annual report on Form 10-K of Brinker International, Inc.

/KPMG LLP

Dallas, Texas
September 20, 2002

EXHIBIT 99(b)

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Brinker International, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended June 26, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 24, 2002

By: /s/ Ronald A. McDougall
Name: Ronald A. McDougall
Title: Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 99(c)

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Brinker International, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended June 26, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 24, 2002

By: /s/ Charles M. Sonsteby
Name: Charles M. Sonsteby
Title: Executive Vice President
and Chief Financial Officer
(Principal Executive Officer)