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 30, 2004 Commission File No. 1-10275

BRINKER INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes _X_ No ___

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. $2,920,282,280.00.

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 August 24, 2004
Common Stock, $0.10 par value	89,834,485 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Shareholders for the fiscal year ended June 30, 2004, 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 4, 2004, to be dated on or about September 13, 2004, 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"), Maggiano's Little Italy ("Maggiano's"), On The Border Mexican Grill & Cantina ("On The Border"), Corner Bakery Cafe ("Corner Bakery"), and Big Bowl Asian Kitchen ("Big Bowl") restaurant concepts. Additionally, in July 2001, the Company acquired a 40% interest in the legal entities owning and developing Rockfish Seafood Grill ("Rockfish"). In October 2002, the Company made an additional capital contribution to Rockfish increasing its ownership interest to approximately 43%. 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, Maggiano's, Corner Bakery and Big Bowl in November 1989, May 1994, August 1995, August 1995, and February 2001, respectively.

Primary Restaurant Concepts

Chili's Grill & Bar

Chili's is a full-service restaurant, featuring a casual atmosphere and a varied menu of chicken, beef and seafood entrees, steaks, fajitas, sandwiches, salads, appetizers, desserts, and its legendary Big Mouth Burgers and Baby Back Ribs, all prepared fresh daily according to special Chili's recipes. The full-service Margarita Bar is available at each Chili's restaurant, with a variety of specialty margaritas, including the Presidente Margarita, offered as the concept's signature drink. Emphasis is placed on serving substantial portions of fresh, flavorful, and high quality food at modest prices.

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, t-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.

Entree selections range in menu price from $5.89 to $14.99, with the average revenue per meal, including alcoholic beverages, approximating $11.68 per person. During the year ended June 30, 2004, food and non-alcoholic beverage sales constituted approximately 86.6% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 13.4%.

Romano's Macaroni Grill

Macaroni Grill is a quality, casual, fun Italian restaurant full of the sights, sounds and aromas of Italy today. Guests enjoy Italian culinary masterpieces from regions all over Italy as well as a few American Italian favorites. These selections include signature pastas, grilled features, seafood, salads and pizza from Rome, Sicily, Portofino, Milan, Bologna and Naples - all prepared by talented chefs in open kitchens. Macaroni Grill features wood burning ovens, festive string lights, fresh flowers, a broad selection 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. 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 $17.99 with monthly chef features priced separately. The average revenue per meal, including alcoholic beverages, is approximately $14.26 per person. During the year ended June 30, 2004, 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%.

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 $7.95 to $37.95, with the average revenue per meal, including alcoholic beverages, approximating $26.31 per person. During the year ended June 30, 2004, food and non-alcoholic beverage sales constituted approximately 79.4% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 20.6%.

On The Border Mexican Grill & Cantina

On The Border is a full-service, national, casual-dining Mexican restaurant chain. On The Border's menu offers a wide variety of Mexican favorites and is best known for its fajitas and margaritas. On The Border also offers a variety of innovative menu items that allow guests to "Explore the Best of Mexico", from Guacamole Live! to Shaken Margarita Shrimp Cocktail to a Red Chili Ribeye. As a full service restaurant, On The Border offers full bar service, in-restaurant dining and patio dining in all locations. On The Border also offers the convenience of a To-Go menu and To-Go entrance to expedite take-out service in all locations. In addition to To Go, On The Border offers catering service from simple drop-off delivery to full-service event planning.

Entree selections range in menu price from $5.99 to $13.99, with the average revenue per meal, including alcoholic beverages, approximating $12.75 per person. During the year ended June 30, 2004, food and non-alcoholic beverage sales constituted approximately 80.5% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 19.5%.

Corner Bakery Cafe

Evolving over the years from one true bakery to a collection of destinations for people in their communities, Corner Bakery Cafe has grown into one of America's premiere quick-casual bakery cafes. Beneath recognizable black and white awnings, Corner Bakery Cafe serves breakfast, lunch, dinner and everything in between. Breakfast choices include egg scramblers, breakfast pastries and mixed-berry parfaits. Lunch and dinner feature hearty soups, fresh salads, delicious sandwiches, hot panini and decadent desserts. Corner Bakery Cafe's atmosphere allows guests to sit and relax or get their food to go quickly. Most cafes have both indoor seating and inviting outdoor patios. Corner Bakery Cafe's catering offers a wide variety of breakfast treats, fresh salads and unique sandwich choices for any size meeting or social event.

Prices for menu items range from $1.00 to $6.99 with the average revenue per meal approximating $7.44 per person. During the fiscal year ended June 30, 2004, food and non-alcoholic beverage sales constituted over 99% of the concept's total restaurant revenues. Catering sales constituted approximately 20.3% of sales.

Big Bowl Asian Kitchen

Big Bowl Asian Kitchen is a full-service, casual dining concept with a menu featuring appetizers and entrees inspired and influenced by the varied cuisines and flavor profiles of Asia, ranging from the classic and familiar Chinese and Japanese, to the bold and innovative Thai and Vietnamese. Staying true to these varied culinary origins, all of Big Bowl's food is crafted with attention to detail, using fresh ingredients, an assortment of authentic sauces and condiments, all served with a variety of noodles and jasmine rice. The stir fry bar allows guests to make choices from a tremendous assortment of fresh vegetables, sauces with vibrant flavor profiles, and wok-seared meats. Complementing the menu, Big Bowl offers an assortment of non-alcoholic beverages, like its signature ginger soda, as well as cocktails and Asian beers. Big Bowl's atmosphere is casual and evocative, with decor elements built on the color palette and icons of the Far East. The staff-members are well-trained to escort diners through the menu and the experience, delivering friendly, knowledgeable service.

Entree selections range in menu price from $6.95 to $12.95, and appetizer prices range from $3.95 to $7.25. The average revenue per meal, including alcoholic beverages is approximately $13.15 per person. During the year ended June 30, 2004, food and non-alcoholic beverage sales constituted approximately 90.2% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 9.8%.

Jointly-Developed Concept

Rockfish Seafood Grill

Rockfish offers 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 chalkboard specials featuring various items, including, when in-season, Copper River Salmon, are also very popular with diners. Friendly, attentive servers clad in Rockfish t-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 $5.63 to $16.75 with chalkboard specials priced on a daily basis. The average revenue per meal, including alcoholic beverages, is approximately $14.37 per person. During the year ended June 30, 2004, food and non-alcoholic beverage sales constituted approximately 86.7% of the concept's total revenues, with alcoholic beverage sales accounting for the remaining 13.3%.

Business Development

The Company's long-term objective is to continue most of its 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 in order to improve 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 non-traditional 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, including: 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 entertainment 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 eighty-seven restaurants, including thirty-five in fiscal 2004, which were performing below the Company's standards primarily due to declining or shifting 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 2004 and the planned openings in fiscal 2005:

	Fiscal 2004 Openings	Fiscal 2005 Projected Openings
Chili's:		
Company-Operated	71	75-80
Franchise	24	25-30
Macaroni Grill:		
Company-Operated	18	18-20
Franchise	2	3-6
Maggiano's	3	4-5
On The Border:		
Company-Operated	3	10-13
Franchise	0	0-1
Corner Bakery:		
Company-Operated	5	8-10
Franchise	0	0-1
Big Bowl	3	1-2
Rockfish	5	0-1
Total	134	144-169

The Company anticipates that some of the fiscal 2005 projected restaurant openings may be constructed pursuant to "build-to-suit" agreements, in which the lessor contributes some 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	Maggiano's	On The Border	Big Bowl	Corner Bakery
Land	$ 700,000	$ 950,000	$2,500,000	$ 800,000	$850,000	$ 600,000
Building	1,100,000	1,300,000	3,150,000	1,300,000	1,100,000	615,000
Furniture & Equipment	450,000	520,000	1,200,000	520,000	450,000	325,000
Other	70,000	80,000	150,000	80,000	50,000	25,000
Total	$2,320,000	$2,850,000	$7,000,000	$2,700,000	$2,450,000	$1,565,000

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 30, 2004, forty-two total joint venture or franchise development agreements existed. During the year ended June 30, 2004, twenty Chili's franchised restaurants were opened, four company-owned Chili's were sold to a franchisee, and two Macaroni Grill franchised restaurants were opened.

In fiscal 2004, the first franchised Chili's opened on an international United States Air Force base at Kadena Air Force Base in Okinawa, Japan. Another opening is planned for Ramstein Air Force Base in Germany during early fiscal 2005. United States Air Force Services is the Company's franchisee for these locations. Additionally, in fiscal 2004 the Company sold four company-owned Chili's restaurants in Northeast Ohio to Strang Management Corporation and received a commitment from Strang Management Corporation to build sixteen more Chili's restaurants over a six year period. The Company also entered into a franchise development agreement limited exclusively to small town Chili's development with Bonnaroo Restaurant Group for selected small towns in South Carolina and Georgia.

The Company intends to selectively pursue domestic and 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. The Company's ownership interest in the legal entities owning the Rockfish restaurants is approximately 43%. At June 30, 2004, twenty-five Rockfish restaurants were operating, located in the states of Arizona, New Mexico, North Carolina, and 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 overseeing specifically identified areas.

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 and operating procedures.

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 to be delivered to the Company's restaurants. 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 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 30, 2004, the Company employed approximately 96,600 persons, of whom approximately 1,100 were corporate personnel, 5,900 were restaurant area directors, managers or trainees and 89,600 were employed in non-management restaurant positions. The executive officers of the Company have an average of over 20 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 and/or has pending, among other marks, "Big Bowl", "Big Bowl Asian Kitchen", "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", "Romano's Macaroni Grill", "Macaroni Grill", "Maggiano's", "Maggiano's Little Italy", "On The Border", "On The Border Mexican Cafe", and "On The Border Mexican Grill & Cantina", 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 verbal 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 some of these 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, nutritional and dietary trends 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 generally has not encountered any material 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, the Company cannot ensure 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, various family leave mandates and a variety of other laws enacted, or rules and regulations promulgated, by federal, state and local governmental authorities that govern these and other employment matters. The Company expects increases in payroll expenses as a result of federal, state and local mandated increases in the minimum wage, and although such increases are not expected to be material, the Company cannot assure that there will not be material increases in the future. In addition, the Company's vendors may be affected by higher minimum wage standards, which may increase 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, have experienced significant and temporary increases in utility prices. If these increases should recur, they will have an adverse effect on the Company's profitability.

Successful mergers, acquisitions, divestitures and other strategic transactions are important to the future growth and profitability of the Company

The Company intends to evaluate potential mergers, acquisitions, joint venture investments, and divestitures as part of its strategic planning initiative. These transactions involve various inherent risks, including accurately assessing the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates; the Company's ability to achieve projected economic and operating synergies; unanticipated changes in business and economic conditions affecting an acquired business; and the ability of the Company to complete divestitures on acceptable terms and at or near the prices estimated as attainable by the Company.

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 Chili's brand, and consequently on the Company's business, financial condition and results of operations.

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 attacks, and weather and other acts of God.

Available Information

The Company maintains an internet website with the address of http://www.brinker.com. Copies of the Company's reports filed with, or furnished to, the Securities and Exchange Commission on Forms 10-K, 10-Q, and 8-K and any amendments to such reports are available for viewing and copying at such internet website, free of charge, as soon as reasonably practicable after filing such material with, or furnishing it to, the Securities and Exchange Commission. In addition, copies of the Company's corporate governance materials, including, Corporate Governance Guidelines, Governance and Nominating Committee Charter, Audit Committee Charter, Compensation Committee Charter, Executive Committee Charter, Code of Conduct and Ethical Business Policy, and Problem Resolution Procedure/Whistle Blower Policy, are available for viewing and copying at the website, free of charge.

Item 2. PROPERTIES.

Restaurant Locations

At June 30, 2004, the Company's system of company-operated, jointly-developed and franchised units included 1,476 restaurants located in forty-nine states, Washington, D.C., Australia, Bahrain, Canada, Egypt, Great Britain, Guatemala, Indonesia, Japan, Kuwait, Lebanon, Malaysia, Mexico, Oman, 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	752
Franchise	227
Macaroni Grill:	
Company-Operated	206
Franchise	9
Maggiano's	28
On The Border:	
Company-Operated	111
Franchise	18
Corner Bakery:	
Company-Operated	83
Franchise	3
Big Bowl	14
Rockfish	25
Total	1,476

The 979 Chili's restaurants include domestic locations in 49 states and foreign locations in 22 countries. The 215 Macaroni Grill restaurants include domestic locations in 40 states and foreign locations in Canada, Great Britain, Mexico and Puerto Rico. The Maggiano's, On The Border, Corner Bakery, and Big Bowl restaurants are located exclusively within the United States in 13 (and the District of Columbia), 31, 8 (and the District of Columbia), and 6 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	Maggiano's	On The Border	Big Bowl
Square Feet	4,000 - 5,700	6,300 - 7,000	12,000 - 18,000	5,200 - 6,200	5,500 - 5,700
Dining Seats	150 - 220	235 - 280	500 - 725	195 - 265	195 - 200
Dining Tables	35 - 50	50 - 70	100 - 150	45 - 65	45 - 50

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 5 to 30 years, with renewal terms of 1 to 35 years. The leases typically provide for a fixed rental plus percentage rentals based on sales volume. At June 30, 2004, the Company owned the land and/or building for 861 of the 1,194 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 totaling approximately 39,150 square feet in Carrollton, Texas, which it uses for storage of equipment and supplies. The Company owns an office building containing approximately 108,021 square feet which it uses for part of its corporate headquarters and menu development activities. The Company leases an additional office complex containing approximately 198,000 square feet for the remainder of its corporate headquarters, of which approximately 151,860 square feet is currently utilized by the Company, and the remaining 46,140 square feet is under lease, listed for lease to third party tenants, or reserved for future expansion of the Company headquarters. The Company also leases office space in Arizona, California, Colorado, 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 4,049 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 primarily 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.

In January 1996, the Company entered into a Tip Reporting Alternative Commitment agreement (the "Contract") with the Internal Revenue Service (the "IRS"). The Contract required the Company, among other things, to implement tip reporting educational programs for its hourly restaurant employees and to establish tip reporting procedures. The IRS has alleged that the Company did not meet the requirements of the Contract and has retroactively and unilaterally revoked it. As a result of the revocation, the IRS commenced an examination during fiscal 2004 of the Company's 2000 through 2002 calendar years, which involved interviews of current and former employees for the purpose of assessing employer-only Federal Insurance Contributions Act ("FICA") taxes on estimated unreported cash tips. In connection with this examination, the IRS has also alleged that some portion of these unreported tips should have been treated as service charges subject to employment taxes. On August 30, 2004, the IRS notified the Company that it intends to issue a notice and demand, on or after September 29, 2004, for the employer's share of FICA taxes on unreported tips. The Company believes it has complied and continues to comply with all of the terms of the Contract and with the law pertaining to the employment tax treatment of service charges. The Company intends to vigorously contest the accuracy of any assessment that may be proposed with respect to either unreported tips or service charges and, in the case of tips, to assert that the Contract precludes the retroactive assessment of employer-only FICA taxes. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any, with respect to either issue.

The Company is engaged in various other 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, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

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 30, 2004:

	High	Low
First Quarter	$36.96	$30.31
Second Quarter	$34.30	$29.60
Third Quarter	$39.54	$32.47
Fourth Quarter	$39.52	$34.12

Fiscal year ended June 25, 2003:

	High	Low
First Quarter	$32.60	$25.12
Second Quarter	$32.25	$25.64
Third Quarter	$32.95	$26.40
Fourth Quarter	$36.68	$30.30

As of August 24, 2004, there were 1,176 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; however, the Company subsequently filed a registration statement covering the resale of these securities by the holders thereof. 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 beginning on October 10, 2004, and the holders of the Debentures may require the Company to redeem the Debentures on October 10, 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.

In May 2004, the Company issued $300.0 million in the aggregate principal amount at maturity of 5.75% Notes due 2014 (the "Unregistered Notes"). The Unregistered Notes were not registered under the Securities Act of 1933, as amended. Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. served as the joint book-running managers for the offering. The Unregistered Notes were offered and sold only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act of 1933, as amended), and, outside the United States, to non-U.S. persons in reliance on Regulation S under the Securities Act. The Unregistered Notes are redeemable at the Company's option at any time, in whole or in part. The proceeds of the offering were and will be used for general corporate purposes, including the repurchase of the Company's common stock pursuant to its share repurchase program.

In September 2004, the Company completed an exchange offer (the "Exchange Offer") in the aggregate principal amount of $300.0 million pursuant to which all of the holders of the Unregistered Notes exchanged the Unregistered Notes for new 5.75% notes due 2014 (the "Registered Notes"). The Registered Notes are on substantially the same terms as the Unregistered Notes except that the Registered Notes have been registered under the Securities Act and are freely tradeable. The Company did not receive any new proceeds from the issuance of the Registered Notes.

Except as described in the immediately preceding paragraphs, during the three-year period ended on August 24, 2004, the Company issued no securities which were not registered under the Securities Act of 1933, as amended.

Shares repurchased during the fourth quarter of fiscal 2004 are as follows (in thousands, except share and per share amounts):

	Total Number of Shares Purchased (a)	**Average Price Paid per Share**	**Maximum Dollar Value that May Yet be Purchased Under the Program**
March 25, 2004 through April 28, 2004	501,000	$38.06	$493,600,321.00
April 29, 2004 through May 26, 2004	1,820,300	$36.76	$426,604,870.00
May 27, 2004 through June 30, 2004	3,714,000	$35.31	$295,323,157.00
Total	6,035,300	$35.98	

(a) All of the shares purchased during the fourth quarter of fiscal 2004 were purchased as part of the publicly announced program described in "Liquidity and Capital Resources" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" which is incorporated by reference from the 2004 Annual Report to Shareholders and is presented on pages F-5 through F-7 of Exhibit 13 to this report.

Item 6. SELECTED FINANCIAL DATA.

"Selected Financial Data" is incorporated herein by reference from the 2004 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 2004 Annual Report to Shareholders and is presented on pages F-2 through F-11 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 2004 Annual Report to Shareholders and is presented on pages F-7 through F-8 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 20 for a listing of all financial statements incorporated by reference from the 2004 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.

None.

Item 9A. CONTROLS AND PROCEDURES.

An evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures [as defined in rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")], as of the end of the period covered by this report. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective in timely making known to them material information relating to the Company required to be disclosed in the Company's reports filed or submitted under the Exchange Act.

There were no significant changes in the Company's internal control over financial reporting or in other factors that could significantly affect this control during the quarter ended June 30, 2004, that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

"Election of Directors - Information About Nominees", "Governance Of The Company", "Executive Officers", and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement to be dated on or about September 13, 2004, for the annual meeting of shareholders on November 4, 2004, are incorporated herein by reference.

The Company has adopted a code of ethics that applies to all members of Board of Directors and employees of the Company, including, the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Company has posted a copy of the code on the Company's internet website at the internet address: http://www.brinker.com/corp_gov/ethical_business_policy_pf.asp. Copies of the code may be obtained free of charge from the Company's website at the above internet address.

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 13, 2004, for the annual meeting of shareholders on November 4, 2004, 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 13, 2004, for the annual meeting of shareholders on November 4, 2004, 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 13, 2004, for the annual meeting of shareholders on November 4, 2004, is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

"Report of the Audit Committee" in the Company's Proxy Statement to be dated on or about September 13, 2004, for the annual meeting of shareholders on November 4, 2004, is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) (1) Financial Statements.

Reference is made to the Index to Financial Statements attached hereto on page 20 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.

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 13, 2004

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 13, 2004.

Name	Title
/s/ Douglas H. Brooks Douglas H. Brooks	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Charles M. Sonsteby Charles M. Sonsteby	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Ronald A. McDougall	Chairman of the Board
Dan W. Cook, III	Director
Robert M. Gates	Director
/s/ Marvin J. Girouard Marvin J. Girouard	Director
/s/ Ronald Kirk Ronald Kirk	Director
George R. Mrkonic	Director
/s/ Erle Nye Erle Nye	Director
/s/ James E. Oesterreicher James E. Oesterreicher	Director
/s/ Cece Smith Cece Smith	Director
/s Roger T. Staubach Roger T. Staubach	Director

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. (2)
4(a)	Form of Zero Coupon Convertible Senior Debenture Due 2021. (3)
4(b)	Indenture between the Registrant and SunTrust Bank, as Trustee. (3)
4(c)	Form of 5.75% Note due 2014. (4)
4(d)	Indenture between the Registrant and Citibank, N.A., as Trustee. (2)
4(e)	Registration Rights Agreement by and among the Registrant, Citigroup Global Marketing, Inc., and J.P. Morgan Securities, Inc., as representatives of the initial named purchasers of the Notes. (2)
10(a)	Registrant's 1991 Stock Option Plan for Non-Employee Directors and Consultants. (5)
10(b)	Registrant's 1992 Incentive Stock Option Plan. (5)
10(c)	Registrant's Stock Option and Incentive Plan. (6)
10(d)	Registrant's 1999 Stock Option and Incentive Plan for Non-Employee Directors and Consultants. (7)
10(e)	Transition Agreement dated June 5, 2003, by and among Registrant, Brinker International Payroll Company, L.P. and Mr. Ronald A. McDougall. (6)
10(f)	Consulting Agreement dated August 26, 2004, by and between Registrant and Mr. Ronald A. McDougall. (8)
13	2004 Annual Report to Shareholders. (9)
21	Subsidiaries of the Registrant. (8)
23	Consent of Independent Registered Public Accounting Firm. (8)
31(a)	Certification by Douglas H. Brooks, President and Chief Executive Officer of the Registrant, pursuant to 17 CFR 240.13a - 14(a) or 17 CFR 240.15d - 14(a). (8)
31(b)	Certification by Charles M. Sonsteby, Executive Vice President and Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a - 14(a) or 17 CFR 240.15d - 14(a). (8)
32(a)	Certification by Douglas H. Brooks, President 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. (8)
32(b)	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. (8)

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

____

(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-4 filed June 25, 2004, SEC File No. 333-116879, and incorporated herein by reference.

(3) 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.

(4) Included in exhibit 4(d) to this annual report on Form 10-K for year ended June 30, 2004.

(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 25, 2003, 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) Filed herewith

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

(10) To be filed on or about September 13, 2004.

EXHIBIT 10(F)

CONSULTING AGREEMENT

This Consulting Agreement (the "Agreement") is entered into as of the 26th day of August, 2004 by and between Brinker International, Inc., a Delaware corporation (the "Company"), and Ronald A. McDougall ("McDougall").

McDougall is currently serving as the Chairman of the Board of the Company. The Company and McDougall wish to make arrangements for McDougall's continued service to the Company after November 4, 2004, at which time McDougall will cease to be a Director of the Company.

In consideration of the mutual undertakings of the parties contained herein, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and McDougall hereby agree as follows:

1. **Consulting Services to be Provided**. Beginning November 4, 2004 (Commencement Date) McDougall shall provide such consulting services to the Company, as the Board of Directors of the Company or the Chief Executive Officer shall reasonably request. McDougall shall devote such time to the performance of such services as shall be reasonably necessary. The parties acknowledge that the amount of time necessary will vary with the nature of the services requested. If McDougall becomes less than fully disabled (as determined pursuant to the procedure set forth in Section 5(c) hereof), McDougall agrees to use his best efforts to perform such duties, as his partial disability will allow.

2. **Term**. The "term" shall commence on November 4, 2004 and, unless earlier terminated pursuant to Section 5. hereof, shall terminate on November 3, 2006 (the "Term").

3. **Compensation**. McDougall's compensation shall be $150,000 per annum, payable in quarterly installments commencing November 4, 2004.

4. **Expense Reimbursement**. After the Commencement Date, McDougall will be reimbursed by the Company for all reasonable, properly documented out-of-pocket expenses actually incurred or paid by McDougall during the Term in the performance of McDougall's consulting services under this Agreement, including entertainment of employees and franchisees, provided same is done in accordance with the guidelines of the Company

5. **Termination of Consulting Services**. The provision of consulting services by McDougall pursuant to this Agreement will terminate upon the occurrence of any of the following events:

a. Termination of Consulting Services Upon Death. The provision of consulting services hereunder by McDougall shall terminate upon his death. Upon termination due to death, McDougall's right to all compensation and benefits hereunder shall terminate as of the date of death, except that McDougall's estate shall be entitled to receive the compensation described in Section 3 hereof earned and accrued, and reimbursement for expenses incurred, prior to the date of death.

b. Termination of Consulting Services for Cause. The provision of consulting services hereunder by McDougall may be terminated by the Company "For Cause" if McDougall (i) is convicted by a court of law or jury, after all appeals, of a felony, any crime involving moral turpitude under federal, state, or local laws, or any crime involving the Company, (ii) upon the recommendation of the Compensation Committee of the Board of Directors, is found by the Board of Directors of the Company (after McDougall and his attorney are provided a full and complete opportunity to hear the evidence against him and present his defense) (A) to have engaged in either willful and repeated failure to perform his duties hereunder or gross neglect as defined in the laws of the State of Texas or (B) to have repeated and willfully engaged in acts which might, beyond a reasonable doubt, bring the Company into disrepute, contempt, scandal and ridicule, (iii) is convicted, after all appeals, of fraud, misappropriation or embezzlement in the performance of his duties hereunder, or (iv) breaches any of the covenants contained in Section 6 or Section 7 of this Agreement. In the case of Section 5.(b)(ii) hereof, McDougall shall have an opportunity, prior to termination, to participate in a full hearing before the Board of Directors of the Company, and shall have the right to appeal any adverse decision by the Board of Directors to a court of law. In the event of the occurrence of any of the events described above, the effective date of the termination of McDougall's consulting services with the Company ("For Cause Termination Date") shall be that date which is thirty (30) days after written notice of the termination of consulting services pursuant to this Section 5.(b) is provided by the Company to McDougall. In the event of a termination of McDougall's employment For Cause, McDougall's right to receive all compensation and benefits hereunder shall terminate as of the For Cause Termination Date; provided, however, that McDougall shall be entitled to receive the compensation described in Section 3(a) hereof and other benefits earned and accrued, and to receive reimbursement for expenses incurred, on or prior to the For Cause Termination Date.

c. Termination of Consulting Services Upon Disability. If McDougall becomes permanently disabled as mutually agreed upon by the Board of Directors of the Company and McDougall (or, if the Board of Directors and McDougall cannot agree upon such permanent disability, a determination of permanent disability is made by a medical doctor selected jointly by the Company and McDougall), McDougall's consulting services with the Company shall terminate on the date on which the determination of permanent disability is reached (the "Disability Termination Date"). If McDougall's consulting services are terminated due to a permanent disability, McDougall shall continue to receive the compensation and benefits described in Section 3 hereof until November 3, 2006, unless earlier terminated as provided in Section 5(g) hereof.

d. Termination of Consulting Services Without Cause. If the Board of Directors, for reason other than death, permanent disability, or For Cause, desires to terminate McDougall's consulting services, such services shall terminate on that date which is ten (10) calendar days after the occurrence of such events. If McDougall's consulting services are so terminated, McDougall shall continue to receive the compensation and benefits described in Section 3 hereof until November 3, 2006.

e. Voluntary Termination of Consulting Services. In the event that McDougall voluntarily terminates in writing his consulting services hereunder, McDougall's right to all compensation and benefits hereunder shall terminate as of the date of such termination (the "Voluntary Termination Date"), except that McDougall shall be entitled to receive the compensation described in Section 3 hereof and other benefits earned and accrued and reimbursement for expenses incurred, prior to the Voluntary Termination Date.

f. Liquidated Damages. McDougall and the Company agree that upon the termination of McDougall's consulting services as set forth in this Section 5. for any reason whatsoever, any payments received or receivable by McDougall pursuant to this Agreement shall constitute liquidated damages payable to McDougall. McDougall expressly waives any right that he might have to additional damages relating to such termination of consulting services whether actual, consequential, punitive or otherwise.

g. Conflict. In the event that after a termination of McDougall's consulting services pursuant to Section 5(c) or 5(d) hereof, there is then an act or occurrence which would have allowed the Company to terminate McDougall's consulting services pursuant to Section 5(b) hereof had McDougall been serving as a consultant hereunder at the date of the act or occurrence, then McDougall's right to receive all compensation and benefits hereunder shall terminate as of that date which is thirty (30) days after written notice of such termination is provided by the Company to McDougall (the "Subsequent Termination Date"); provided, however, that McDougall shall be entitled to receive the compensation and benefits described in Section 5(c) or 5(d) hereof and earned and accrued, and to receive reimbursement for expenses incurred, on or prior to the Subsequent Termination Date.

6. **Confidential Information.**

a. As further consideration for the promises of the Company contained in this Agreement, McDougall agrees not to use or cause to be used for McDougall's own benefit or for the benefit of any third parties or to disclose to any third party in any manner, directly or indirectly, any information of a confidential or proprietary nature, trade secrets, or any other knowledge or information, except that which is public knowledge, of or relating to the Company's business at any time during or after the Term, unless the Company has consented in writing to such use or disclosure. McDougall further acknowledges that compliance with these restrictions is necessary to protect the Company's business and goodwill and that a breach may irreparably damage the Company, for which money damages may not be adequate. Consequently, if McDougall breaches or threatens to breach any of these covenants, in addition to any other remedies which may be available to the Company, the Company shall be entitled to seek appropriate relief, and a court of law and/or jury shall determine what injunctive relief and/or damages, if any, will apply after a hearing with prior notice of both parties hereof.

b. As further consideration for the promises of the Company contained in this Agreement, McDougall agrees that during the Term and thereafter, except as may be required in the performance of McDougall's duties hereunder, McDougall will not utilize for McDougall's own benefit or that of any third party, and will not disclose to any third party, McDougall's knowledge of or any information concerning the Company's internal organization, business structure, or the work assignments or capabilities of any of the Company's officers or employees without the Company's express prior written consent.

7. **Restriction on Other Employment**.

a. As further consideration for the promises of the Company contained in this Agreement, McDougall agrees that during the Term, McDougall shall not directly or indirectly perform any services for any business, profession, or other endeavor, which is in the restaurant or foodservice business anywhere in the World. Furthermore, for a period of three (3) years after the expiration of the Term, McDougall shall not directly or indirectly perform any services for any business, profession or other endeavor which is in the restaurant or foodservice business anywhere in the United States or any other country in which there is a restaurant owned and operated by the Company or one of its franchisees or licensees, or for which a development agreement has been signed providing for the development of a restaurant by a franchisee or a licensee. The restrictions contained in this Section 7(a) shall also prohibit McDougall, without the prior written consent of the Company and during all stated time periods, from hiring, soliciting, or in any manner attempting to influence or induce any employee of the Company to leave the employment of the Company. McDougall will not perform such services either as an employee, agent, independent contractor, owner, consultant or otherwise, except that McDougall may make passive, non-controlling investments in an entity in the restaurant or foodservice business in an amount not to exceed (i) five percent (5%) of the total equity interests in any publicly-traded entity and (ii) two percent (2%) of the total equity interests in any other such entity. If while McDougall is receiving any compensation or other benefits pursuant to this Agreement, McDougall directly or indirectly performs any services for any business, profession or other endeavor which is in the restaurant of foodservice business anywhere in the United States or any other country in which there is a restaurant owned and operated by the Company or one of its franchisees or licensees, or for which a development agreement has been signed providing for the development of a restaurant by a franchisee or licensee, McDougall's right to receive such compensation and benefits hereunder shall terminate on that date which is thirty (30) days after written notice of the termination is provided by the Company to McDougall (the "Competition Termination Date") and McDougall's right to receive all compensation and benefits hereunder shall terminate as of the Competition Termination Date; provided, however, that McDougall shall be entitled to received the compensation and benefits earned and accrued and to receive reimbursement for expenses incurred, on or prior to the Competition Termination Date.

b. McDougall acknowledges that his right to compete has been limited only to the extent necessary to protect the Company from unfair competition. The parties acknowledge, however, that reasonable people may differ in making this determination. Therefore, if this restrictive covenant's scope or enforceability is disputed, a court, jury or other trier of fact (including an arbitrator, if the parties so agree in writing) may modify and enforce the covenant to the extent that it believes to be reasonable under the circumstances existing at that time and as may be necessary to render the covenant enforceable under applicable law.

c. McDougall further acknowledges that compliance with these restrictions is necessary to protect the Company's business and goodwill and that a breach may irreparably damage the Company, for which money damages may not be adequate. Consequently, if McDougall breaches or threatens to breach any of these covenants, in addition to any other remedies which may be available to the Company, the Company shall be entitled to seek appropriate relief, and a court of law and/or jury shall determine what injunctive relief and/or damages, if any, will apply after a hearing with prior notice to both parties hereto.

8. **GOVERNING LAW. THIS AGREEMENT SHALL BE SUBJECT TO AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND APPLICABLE FEDERAL LAW, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.**

9. **Assignment**. McDougall may not assign his rights and duties under this Agreement. In the event of the sale by the Company of all or substantially all of its assets, the Company agrees that this Agreement and all of the obligations of Company hereunder shall be assumed by the purchaser of such assets.

10. **Notices**. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission, sent by certified, registered or express mail, postage prepaid, or sent by overnight courier. Any such notice shall be deemed given when (a) so delivered personally, telegraphed, telexed or sent by facsimile transmission, (b) if mailed, five (5) days after the date of deposit in the United States mail, or (c) one (1) business day after such item is deposited with Federal Express or other generally recognized overnight courier, shipping charges prepaid, addressed to the appropriate party as follows:

If to McDougall:

Ron McDougall
40274 N. 105th Place
Scottsdale, Arizona 85262

If to the Company:

Brinker International, Inc.
6820 LBJ Freeway
Dallas, Texas 75240
Attn: General Counsel

11. **Entire Agreement**. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto. This Agreement shall be binding upon the parties and their respective successors, heirs and permitted assigns.

12. **Waivers and Amendments**. This Agreement may be amended, superseded, cancelled, renewed or extended, and the terms hereof may be waived, only by written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

13. **Taxes**. Each party shall be responsible to pay such taxes as are required to be paid and/or withheld, as applicable, by each party pursuant to such laws. In addition, each party shall be responsible to comply with all reporting, filing and other requirements in respect of such payments which are applicable to such party and neither party shall have any obligation or liability to the other party with respect to such other party's obligations hereunder, each party hereby agreeing to hold harmless and indemnify the other party from any claims made relating to the other party's failure to comply with such requirements.

14. **Survival**. The Company and McDougall agree that all terms and provisions of this Agreement that are expressly intended to survive the Term of this Agreement shall so survive and continue in full force and effect notwithstanding the expiration of the Term.

15. **Headings**. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

16. **Counterpart Execution**. This Agreement may be executed in several counterparts, each of which shall be fully effective as an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date and year appearing in the first paragraph hereof.

/s/ Ronald A. McDougall
Ronald A. McDougall

BRINKER INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ Douglas H. Brooks
Douglas H. Brooks
President and Chief Executive Officer

EXHIBIT 13

Brinker International, Inc.
Selected Financial Data
(In thousands, except per share amounts and number of restaurants)

	Fiscal Years				
	2004(a)	**2003**	**2002**	**2001**	**2000**
Income Statement Data:					
Revenues	$3,707,486	$3,285,394	$2,887,111	$2,406,874	$2,100,496
Operating Costs and Expenses:					
Cost of sales	1,024,724	900,379	796,714	663,357	575,570
Restaurant expenses	2,028,569	1,798,752	1,582,644	1,303,349	1,138,487
Depreciation and amortization	175,449	158,153	130,102	100,064	90,647
General and administrative	153,231	131,763	121,420	109,110	100,123
Restructure charges and other impairments	74,237	29,744	8,723	-	-
Total operating costs and expenses	3,456,210	3,018,791	2,639,603	2,175,880	1,904,827
Operating income	251,276	266,603	247,508	230,994	195,669
Interest expense	11,603	12,449	13,327	8,608	10,746
Other, net	1,742	567	2,332	459	3,381
Income before provision for income taxes	237,931	253,587	231,849	221,927	181,542
Provision for income taxes	83,970	84,951	79,136	76,779	63,702
Net income	$ 153,961	$ 168,636	$ 152,713	$ 145,148	$ 117,840
Basic net income per share	$ 1.60	$ 1.74	$ 1.56	$ 1.46	$ 1.20
Diluted net income per share	$ 1.57	$ 1.70	$ 1.52	$ 1.42	$ 1.17
Basic weighted average shares outstanding	96,072	97,096	97,862	99,101	98,445
Diluted weighted average shares outstanding	97,939	99,135	100,565	102,098	101,114
Balance Sheet Data (End of Period):					
Working capital (deficit)	$ 21,758	$ (143,744)	$ (160,266)	$ (110,006)	$ (127,377)
Total assets	2,211,791	1,944,690	1,783,336	1,445,320	1,162,328
Long-term obligations	806,556	492,829	504,020	294,803	169,120
Shareholders' equity	1,026,073	1,140,250	977,096	900,287	762,208
Number of Restaurants Open (End of Period):					
Company-operated	1,194	1,145	1,039	899	774
Franchised/Joint venture	282	257	229	244	264
Total	1,476	1,402	1,268	1,143	1,038

(a) Fiscal year 2004 consisted of 53 weeks while all other periods presented consisted of 52 weeks.

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 year 2004, which ended on June 30, 2004, contained 53 weeks while fiscal years 2003 and 2002, which ended on June 25, 2003 and June 26, 2002, respectively, each contained 52 weeks.

RESULTS OF OPERATIONS FOR FISCAL YEARS 2004, 2003, AND 2002

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		
	2004	**2003**	**2002**
Revenues	100.0%	100.0%	100.0%
Operating Costs and Expenses:			
Cost of sales	27.6%	27.4%	27.6%
Restaurant expenses	54.7%	54.8%	54.8%
Depreciation and amortization	4.7%	4.8%	4.5%
General and administrative	4.2%	4.0%	4.2%
Restructure charges and other impairments	2.0%	0.9%	0.3%
Total operating costs and expenses	93.2%	91.9%	91.4%
Operating income	6.8%	8.1%	8.6%
Interest expense	0.3%	0.4%	0.5%
Other, net	0.1%	-	0.1%
Income before provision for income taxes	6.4%	7.7%	8.0%
Provision for income taxes	2.3%	2.6%	2.7%
Net income	4.1%	5.1%	5.3%

OVERVIEW

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"), Maggiano's Little Italy ("Maggiano's"), On The Border Mexican Grill & Cantina ("On The Border"), Corner Bakery Cafe ("Corner Bakery"), and Big Bowl Asian Kitchen ("Big Bowl") restaurant concepts. In addition, the Company is involved in the ownership and development of Rockfish Seafood Grill. At June 30, 2004, the Company owned, operated, franchised, or was involved in the ownership of 1,476 restaurants. The Company's core concepts accounted for 82.8% of the total units and included 979 Chili's, 215 Macaroni Grill, and 28 Maggiano's restaurants.

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

The restaurant industry is a highly competitive business, which is sensitive to changes in economic conditions, trends in lifestyles and fluctuating costs. Operating margins for restaurants are susceptible to fluctuations in prices of commodities, which include among other things, beef, chicken, seafood, dairy, cheese, produce and other necessities to operate a restaurant such as natural gas or other energy supplies. Additionally, the restaurant industry is characterized by a high initial capital investment, coupled with high labor costs.

Revenues for the first quarter of fiscal 2005 are estimated to increase by 5% to 7% compared to the same quarter in fiscal 2004, driven primarily by capacity gains of 4% to 5%. Cost of sales is estimated to be 0.3% to 0.4% higher than last year due to the impact of higher beef, chicken and dairy costs. Restaurant expenses are estimated to be 0.4% to 0.5% higher than last year as a result of increased utility costs. General and administrative expenses are estimated to be 0.2% higherdue primarily to increased costs related to consumer research. The effective tax rate during the first quarter is estimated to be approximately 32.3%.

REVENUES

Revenues for fiscal 2004 increased to $3,707.5 million, 12.8% over the $3,285.4 million generated for fiscal 2003. Revenues for fiscal 2003 increased 13.8% from fiscal 2002 revenues of $2,887.1 million. The increases were primarily attributable to a net increase of 49 and 106 company-owned restaurants in fiscal 2004 and 2003, respectively, and an increase in comparable store sales. Revenues for fiscal 2004 increased due to a 10.5% increase in capacity (as measured by average-weighted sales weeks), of which 2.1% was due to the additional week in fiscal 2004, and a 2.3% increase in comparable store sales. Revenues for fiscal 2003 increased due to a 12.3% increase in capacity and a 1.5% increase in comparable store sales. Menu prices in the aggregate increased 1.8% and 1.3% in fiscal 2004 and 2003, respectively.

COSTS AND EXPENSES

Cost of sales, as a percent of revenues, increased 0.2% in fiscal 2004 due to a 0.5% increase in commodity prices for meat, seafood, dairy and cheese, and a 0.7% unfavorable product mix shift for poultry and produce, partially offset by a 0.3% decrease in commodity prices for poultry, a 0.2% favorable product mix shift for meat and seafood, and a 0.5% increase in menu prices. Cost of sales, as a percent of revenues, decreased 0.2% in fiscal 2003 due primarily to a 0.9% decrease in commodity prices for meat and cheese, a 0.4% favorable product mix shift for beverages, and a 0.1% increase in menu prices, partially offset by a 1.0% unfavorable product mix shift for meat and produce, and a 0.2% increase in commodity prices for beverages.

Restaurant expenses, as a percent of revenues, decreased 0.1% in fiscal 2004. The decrease was primarily due to increased sales leverage from the additional week in fiscal 2004 and decreases in pre-opening costs due to a lower number of store openings in fiscal 2004 as compared to fiscal 2003, partially offset by higher labor and training costs related to new service initiatives, higher payroll taxes resulting from increased tip reporting, and increases in utility costs, property taxes, and health, workers compensation and general liability insurance. Also contributing to the decrease was a $2.4 million gain as a result of the sale of four Chili's restaurants to a franchise partner and the sale of one real estate property. Restaurant expenses, as a percent of revenues, remained flat in fiscal 2003. Increases in wage rates, payroll taxes, and health and workers compensation insurance were offset by an approximate $11.0 million expense related to the settlement of certain California labor matters recorded in fiscal 2002.

Depreciation and amortization increased $17.3 million and $28.1 million in fiscal 2004 and 2003, respectively. The increases were due primarily to new unit construction and ongoing remodel costs, partially offset by a declining depreciable asset base for older units. The increase in fiscal 2003 was also due to the acquisition of previously leased equipment and certain real estate assets, and restaurants acquired during fiscal 2002.

General and administrative expenses increased $21.5 million and $10.3 million in fiscal 2004 and 2003, respectively. The increases were due primarily to an increase in payroll costs resulting from an increase in headcount and wage rates. The increase in fiscal 2004 was also attributable to increased costs related to consumer research.

Restructure charges and other impairments recorded during fiscal 2004 primarily relate to the Company's decision to close thirty restaurants, including six Chili's, five Macaroni Grill, six On The Border, six Corner Bakery, and seven Big Bowl restaurants. The decision to close the restaurants was the result of a comprehensive analysis that examined restaurants not meeting minimum return on investment thresholds and certain other operating performance criteria, and resulted in a $39.5 million charge. As a result of the seven Big Bowl closings and a review of the brand's competitive positioning and future development plans, the earnings forecast was revised and the Company recorded a goodwill impairment charge of $27.0 million. In addition, the Company recorded a $7.7 million charge related to the final disposition of the Cozymel's Coastal Grill ("Cozymel's") restaurants. Restructure charges and other impairments recorded during fiscal 2003 include a $20.2 million charge related to the Company's decision to discontinue growth and sell all sixteen of its Cozymel's restaurants, $5.4 million in charges resulting from the decision to close nine restaurants and to write down the assets of one under-performing restaurant, and a $4.1 million impairment of intellectual property rights.

Interest expense decreased $846,000 in fiscal 2004 due primarily to debt issuance costs related to the convertible debt being fully amortized in the second quarter of fiscal 2004, lower average outstanding balances on the senior notes and revolving lines-of-credit, and a $2.4 million gain related to an interest rate lock settled in May 2004. These decreases were partially offset by interest expense related to the 5.75% notes issued in May 2004 (the "Notes") and a decrease in capitalized interest due to lower interest rates. Interest expense decreased by $878,000 in fiscal 2003 due primarily to decreased average borrowings and interest rates on the Company's revolving lines-of-credit, a decrease in interest expense on the senior notes due to a scheduled repayment, and an increase in interest capitalization related to increased new restaurant construction activity. These decreases were partially offset by the amortization of debt issuance costs and debt discounts on the Company's convertible debt.

Other, net increased $1.2 million in fiscal 2004 due primarily to gains from life insurance proceeds recorded in fiscal 2003 totaling $3.5 million, partially offset by a $1.0 million decrease in the Company's share of losses in equity method investees and an increase in interest income associated with the investment of proceeds received from the issuance of the Notes. Other, net decreased $1.8 million in fiscal 2003 due primarily to the previously mentioned gains from life insurance proceeds, partially offset by a $1.1 million increase in the Company's share of losses in equity method investees.

INCOME TAXES

The Company's effective income tax rate was 35.3%, 33.5%, and 34.1% in fiscal 2004, 2003, and 2002, respectively. The increase in fiscal 2004 was primarily due to the Big Bowl goodwill impairment charge, which is not deductible for tax purposes, partially offset by an increase in the FICA tax credit resulting from increased tip reporting. The decrease in fiscal 2003 is primarily due to the increase in the FICA tax credit resulting from increased tip reporting and the non-taxable gains from life insurance proceeds, partially offset by the non-deductible loss resulting from the impairment of Cozymel's goodwill.

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

Working capital increased to $21.8 million at June 30, 2004 from a deficit of $143.7 million at June 25, 2003, primarily due to $298.4 million in cash received from the issuance of the 5.75% Notes in May 2004. Net cash provided by operating activities increased to $481.2 million for fiscal 2004 from $448.9 million for fiscal 2003 due to increased profitability before restructuring charges and other impairments, the additional week in fiscal 2004, and the timing of operational receipts and payments. The Company believes that its various sources of capital, including availability under existing credit facilities, ability to raise additional financing, and cash flow from operating activities, are adequate to finance operations as well as the repayment of current debt obligations.

Payments of the Company's contractual obligations under outstanding indebtedness, purchase obligations as defined by the Securities and Exchange Commission, and the expiration of credit facilities as of June 30, 2004 are as follows:

Payments Due by Period (in thousands)

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
5.75% notes	$298,449	$ -	$ -	$ -	$298,449
Convertible debt(a)	269,233	-	-	-	269,233
Senior notes	14,851	14,851	-	-	-
Capital leases	60,952	3,390	6,808	7,157	43,597
Mortgage loan obligations	38,931	2,344	4,733	4,349	27,505
Operating leases	881,928	104,356	199,034	174,026	404,512
Purchase obligations(b)	107,905	22,169	51,104	34,632	-

Amount of Credit Facility Expiration by Period (in thousands)

	Total Commitment	Less than 1 year(d)	1-3 Years	3-5 Years	More than 5 Years
Credit facilities(c)	$325,000	$50,000	$275,000	$ 0	$ 0

(a) The convertible debt was issued at a discount representing a yield to maturity of 2.75% per annum. The $269.2 million balance is the accreted carrying value of the debt at June 30, 2004. The convertible debt will continue to accrete at 2.75% per annum and, if outstanding to maturity in October 2021, the obligation will total $431.7 million.

(b) A "purchase obligation" is defined as an agreement to purchase goods or services that is enforceable and legally binding on the Company and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The Company's purchase obligations primarily consist of long-term obligations for the purchase of telecommunication services and certain non-alcoholic beverages and exclude agreements that are cancellable without significant penalty.

(c) There were no amounts outstanding under the credit facilities as of June 30, 2004.

(d) The portion of the credit facilities that expires in less than one year is an uncommitted obligation giving the lenders the option not to extend the Company funding. Should any or all of these obligations not be extended, the Company has adequate capacity under the committed facility, which does not expire until fiscal 2006.

Capital expenditures consist of purchases of land for future restaurant sites, new restaurants under construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures were $305.9 million in fiscal 2004 compared to $326.5 million in fiscal 2003. The Company estimates that its fiscal 2005 capital expenditures will approximate $396.0 million. These capital expenditures will be funded entirely from operations and existing credit facilities.

In May 2004, the Company issued $300.0 million of 5.75% Notes and received proceeds totaling approximately $298.4 million prior to debt issuance costs. The Notes require semi-annual interest payments and mature in June 2014. The proceeds will primarily be used to repurchase common stock under the Company's stock repurchase plan.

In fiscal 2004, the Company closed one Cozymel's restaurant and sold the remaining fifteen restaurants. In connection with the disposition, the Company received cash proceeds totaling $16.0 million.

In fiscal 2004, the Company's note agreement with the legal entities (collectively, the "Rockfish Partnership") owning and developing Rockfish Seafood Grill was amended and restated, increasing the amount available under the note to $6.8 million, extending the maturity date to December 2005, and increasing the interest rate to the prime rate plus 1.5% (5.5% at June 30, 2004). The note requires quarterly interest payments until maturity. At June 30, 2004, the Company's note receivable from Rockfish Partnership totaled $6.8 million.

In August 2004, the Company sold nine of its Chili's restaurants to a franchise partner and received cash proceeds totaling $12.8 million.

In connection with the closing of thirty restaurants in fiscal 2004, the Company expects to generate cash of approximately $13.0 million in fiscal 2005 primarily related to the sale of real estate.

In April 2004, the Board of Directors authorized an increase in the stock repurchase plan of $500.0 million, bringing the total to $1,010.0 million. Pursuant to the Company's stock repurchase plan, the Company repurchased approximately 9.3 million shares of its common stock for $322.6 million during fiscal 2004. As of June 30, 2004, approximately 27.5 million shares had been repurchased for $714.7 million under the stock repurchase plan. The Company's stock repurchase plan will be used to minimize the dilutive impact of a potential conversion of the convertible debt and stock option exercises. The repurchased common stock is reflected as a reduction of shareholders' equity.

In July 2004, the Company began entering into forward purchase contracts to repurchase its common stock. The contracts require the Company to prepay the cost of the common stock at the inception of each contract and require physical settlement of the common stock at any time prior to June 29, 2005. The Company also has the option to extend the maturity date of the contract for a nominal fee. The shares repurchased under the contracts are intended to be used to offset the potential dilutive impact of the convertible debt. The Company expects to enter into forward purchase contracts of approximately $150.0 million during fiscal 2005.

The Company is not aware of any other event or trend that 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 internal cash generating capabilities to adequately manage the expansion of its 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 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, consisting of the notional amounts of interest rate swaps, totaled $129.4 million at June 30, 2004. 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 30, 2004 would be approximately $1.3 million. 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 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 that the carrying amount of a restaurant's assets may not be recoverable. The Company tests for 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 profits and cash flows, expected growth rates, terminal values, and other factors. In the event that 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 maintain the value of certain fixed-rate debt and lease obligations. 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 amounts recognized in the balance sheet for the Company's derivatives and interest costs in future periods.

Self-Insurance

The Company is self-insured for certain losses related to health, 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 and unpaid 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.

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 verbal 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 some of these 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, nutritional and dietary trends 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 generally has not encountered any material 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, the Company cannot ensure 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, various family leave mandates and a variety of other laws enacted, or rules and regulations promulgated, by federal, state and local governmental authorities that govern these and other employment matters. The Company expects increases in payroll expenses as a result of federal, state and local mandated increases in the minimum wage, and although such increases are not expected to be material, the Company cannot assure that there will not be material increases in the future. In addition, the Company's vendors may be affected by higher minimum wage standards, which may increase 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, have experienced significant and temporary increases in utility prices. If these increases should recur, they will have an adverse effect on the Company's profitability.

Successful mergers, acquisitions, divestitures and other strategic transactions are important to the future growth and profitability of the Company.

The Company intends to evaluate potential mergers, acquisitions, joint venture investments, and divestitures as part of its strategic planning initiative. These transactions involve various inherent risks, including accurately assessing the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates; the Company's ability to achieve projected economic and operating synergies; unanticipated changes in business and economic conditions affecting an acquired business; and the ability of the Company to complete divestitures on acceptable terms and at or near the prices estimated as attainable by the Company.

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 Chili's brand, and consequently on the Company's business, financial condition, and results of operations.

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		
	2004	**2003**	**2002**
Revenues	$3,707,486	$3,285,394	$2,887,111
Operating Costs and Expenses:			
Cost of sales	1,024,724	900,379	796,714
Restaurant expenses	2,028,569	1,798,752	1,582,644
Depreciation and amortization	175,449	158,153	130,102
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Total operating costs and expenses	3,456,210	3,018,791	2,639,603
Operating income	251,276	266,603	247,508
Interest expense	11,603	12,449	13,327
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Provision for income taxes	83,970	84,951	79,136
Net income	$ 153,961	$ 168,636	$ 152,713
Basic net income per share	$ 1.60	$ 1.74	$ 1.56
Diluted net income per share	$ 1.57	$ 1.70	$ 1.52
Basic weighted average shares outstanding	96,072	97,096	97,862
Diluted weighted average shares outstanding	97,939	99,135	100,565

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 226,762	$ 33,492
Accounts receivable	37,934	36,019
Inventories	38,113	24,403
Prepaid expenses and other	74,764	73,686
Deferred income taxes	23,347	267
Total current assets	400,920	167,867
Property and Equipment, at Cost:		
Land	283,777	269,212
Buildings and leasehold improvements	1,354,671	1,245,546
Furniture and equipment	666,415	588,815
Construction-in-progress	72,818	71,913
	2,377,681	2,175,486
Less accumulated depreciation and amortization	(810,835)	(675,914)
Net property and equipment	1,566,846	1,499,572
Other Assets:		
Goodwill	158,068	185,068
Other	85,957	92,183
Total other assets	244,025	277,251
Total assets	$2,211,791	$1,944,690
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current installments of long-term debt	$ 18,099	$ 17,629
Accounts payable	96,795	108,068
Accrued liabilities	227,225	177,983
Income taxes payable	37,043	7,931
Total current liabilities	379,162	311,611
Long-term debt, less current installments	639,291	353,785
Deferred income taxes	81,902	55,096
Other liabilities	85,363	83,948
Commitments and Contingencies (Notes 9 and 15)		
Shareholders' Equity:		
Common stock - 250,000,000 authorized shares; $.10 par value; 117,499,541 shares issued and 90,647,745 shares outstanding at June 30, 2004, and 117,499,541 shares issued and 97,854,952 shares outstanding at June 25, 2003	11,750	11,750
Additional paid-in capital	357,444	344,486
Accumulated other comprehensive income	737	609
Retained earnings	1,277,298	1,123,337
	1,647,229	1,480,182
Less:		
Treasury stock, at cost (26,851,796 shares at June 30, 2004 and 19,644,589 shares at June 25, 2003)	(619,806)	(337,946)
Unearned compensation	(1,350)	(1,986)
Total shareholders' equity	1,026,073	1,140,250
Total liabilities and shareholders' equity	$2,211,791	$1,944,690

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Unearned Compensation	Total
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
Net income	-	-	-	168,636	-	-	-	168,636
Change in fair value of investments, net of tax	-	-	-	-	-	609	-	609
Comprehensive income								169,245
Purchases of treasury stock	(2,208)	-	-	-	(64,477)	-	-	(64,477)
Issuances of common stock	2,492	-	(1,748)	-	42,048	-	-	40,300
Tax benefit from stock options exercised	-	-	13,710	-	-	-	-	13,710
Amortization of unearned compensation	-	-	-	-	-	-	2,101	2,101
Issuance of restricted stock, net of forfeitures	131	-	2,333	-	2,157	-	(2,215)	2,275
Balances at June 25, 2003	97,855	11,750	344,486	1,123,337	(337,946)	609	(1,986)	1,140,250
Net income	-	-	-	153,961	-	-	-	153,961
Change in fair value of investments, net of tax	-	-	-	-	-	128	-	128
Comprehensive income								154,089
Purchases of treasury stock	(9,326)	-	-	-	(322,615)	-	-	(322,615)
Issuances of common stock	2,053	-	2,049	-	39,538	-	-	41,587
Tax benefit from stock options exercised	-	-	9,752	-	-	-	-	9,752
Amortization of unearned compensation	-	-	-	-	-	-	1,770	1,770
Issuance of restricted stock, net of forfeitures	66	-	1,157	-	1,217	-	(1,134)	1,240
Balances at June 30, 2004	90,648	$11,750	$ 357,444	$1,277,298	$(619,806)	$ 737	$ (1,350)	$1,026,073

See accompanying notes to consolidated financial statements.

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

	Fiscal Years		
	2004	2003	2002
Cash Flows from Operating Activities:			
Net income	$ 153,961	$ 168,636	$ 152,713
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	175,449	158,153	130,102
Restructure charges and other impairments	74,237	29,744	8,723
Deferred income taxes	3,329	39,194	24,166
Amortization of deferred costs	9,318	11,721	8,252
Gain on sale of assets	(2,452)	-	-
Changes in assets and liabilities, excluding effects of acquisitions and dispositions:			
Receivables	(2,515)	(8,956)	6,138
Inventories	(14,047)	(2,726)	2,863
Prepaid expenses and other	2,182	392	(3,467)
Other assets	(3,146)	2,474	3,640
Current income taxes	38,864	37,314	6,172
Accounts payable	(11,273)	(10,350)	19,982
Accrued liabilities	43,645	14,603	29,006
Other liabilities	13,671	8,672	2,418
Net cash provided by operating activities	481,223	448,871	390,708
Cash Flows from Investing Activities:			
Payments for property and equipment	(305,863)	(326,525)	(371,052)
Proceeds from sale of assets	22,235	-	-
Issuance of loan to affiliate	(2,800)	(4,000)	(1,000)
Net repayments of advances to affiliates	548	372	708
Repayment of notes receivable from affiliate	-	11,000	325
Investments in equity method investee	-	(1,750)	(12,322)
Payments for purchases of restaurants	-	-	(60,491)
Proceeds from sale of affiliate	-	-	4,000
Net cash used in investing activities	(285,880)	(320,903)	(439,832)
Cash Flows from Financing Activities:			
Net proceeds from issuance of debt	296,075	-	244,288
Payments of long-term debt	(17,120)	(16,890)	(16,908)
Purchases of treasury stock	(322,615)	(64,477)	(136,069)
Proceeds from issuances of treasury stock	41,587	40,300	37,792
Net payments on credit facilities	-	(63,500)	(83,200)
Net cash (used in) provided by financing activities	(2,073)	(104,567)	45,903
Net change in cash and cash equivalents	193,270	23,401	(3,221)
Cash and cash equivalents at beginning of year	33,492	10,091	13,312
Cash and cash equivalents at end of year	$ 226,762	$ 33,492	$ 10,091

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, franchises, and is involved in the ownership of 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 investees 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 year 2004, which ended on June 30, 2004, contained 53 weeks while fiscal years 2003 and 2002, which ended on June 25, 2003 and June 26, 2002, respectively, each contained 52 weeks.

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform with fiscal 2004 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 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.

(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 30, 2004 and June 25, 2003 consist of cash equivalents, accounts receivable, notes receivable, and long-term debt. The fair value of the Company's convertible debt, based on quoted market prices, totaled approximately $287.0 million and $308.3 million at June 30, 2004 and June 25, 2003, respectively. The fair value of all other financial instruments approximates the carrying amounts reported in the consolidated balance sheets. The following methods were used in estimating the fair value of financial instruments other than the convertible debt: 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's use of derivative instruments is primarily related to interest rate swaps, which are entered into with the intent of hedging exposures to changes in value of certain fixed-rate 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 hedged 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 7 and 8 for additional discussion of debt-related agreements 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 4 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 10 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 $3.4 million, $5.6 million, and $4.5 million during fiscal 2004, 2003, and 2002, respectively.

(g) Advertising

Advertising costs are expensed as incurred. Advertising costs were $151.3 million, $135.2 million, and $116.6 million in fiscal 2004, 2003, and 2002, 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.

Goodwill and other intangible assets with indefinite lives are not subject to amortization but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," 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. Intangible assets not subject to amortization consist primarily of reacquired development rights. Intangible assets with lives restricted by contractual, legal, or other means are amortized over their useful lives and consist primarily of intellectual property. Amortization expense is calculated using the straight-line method over their estimated useful lives of 15 to 20 years. See Note 4 for additional disclosures related to goodwill and other intangibles.

(i) Self-Insurance Program

The Company utilizes a paid loss self-insurance plan for health, 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, the Company entered into a guaranteed cost agreement with an insurance company to eliminate all future general liability losses for that fiscal year. 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 accounts for its stock based compensation under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations ("APB 25"), and has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB 25, no stock-based compensation cost is reflected in net income for grants of stock options to employees because the Company grants stock options with an exercise price equal to the market value of the stock on the date of grant. Had the Company used the fair value based accounting method for stock compensation expense prescribed by SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro-forma amounts illustrated as follows (in thousands, except per share amounts):

	2004	2003	2002
Net income - as reported	$153,961	$168,636	$152,713
Add: Reported stock-based compensation expense, net of taxes	1,756	1,863	2,285
Deduct: Fair value based compensation expense, net of taxes	(18,663)	(17,697)	(17,195)
Net income - pro forma	$137,054	$152,802	$137,803
Earnings per share:			
Basic - as reported	$ 1.60	$ 1.74	$ 1.56
Basic - pro forma	$ 1.43	$ 1.57	$ 1.41
Diluted - as reported	$ 1.57	$ 1.70	$ 1.52
Diluted - pro forma	$ 1.40	$ 1.54	$ 1.35

The weighted average fair value of option grants was $11.38, $10.76, and $10.66 during fiscal 2004, 2003, and 2002, respectively. The fair value is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2004	2003	2002
Expected volatility	33.0%	34.0%	35.5%
Risk-free interest rate	3.4%	3.0%	4.1%
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.

(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. Fiscal 2004 and 2003 comprehensive income consists of net income and the unrealized portion of changes in the fair value of the Company's investments in mutual funds. Fiscal 2002 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. The Company had approximately 700,000, 1.4 million, and 1.9 million stock options outstanding at June 30, 2004, June 25, 2003, and June 26, 2002, respectively, that were not included in the dilutive earnings per share calculation because the effect would have been 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.

(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 COMBINATION AND INVESTMENT IN EQUITY METHOD INVESTEE

In November 2001, the Company acquired from its franchise partner, Sydran Group, LLC and Sydran Food Services III, L.P., 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. The pro-forma effect of this acquisition on the Company's historical results of operations is not material.

In July 2001, the Company made a $12.3 million capital contribution to Rockfish Partnership in exchange for an approximate 40% ownership interest. In October 2002, the Company made an additional $1.8 million capital contribution to Rockfish Partnership increasing its ownership interest to approximately 43%.

3. RESTRUCTURE CHARGES AND OTHER IMPAIRMENTS

In fiscal 2004, the Company recorded a $39.5 million charge resulting from the decision to close thirty restaurants, including six Chili's, five Macaroni Grill, six On The Border, six Corner Bakery, and seven Big Bowl restaurants. The decision to close the restaurants was the result of a comprehensive analysis that examined restaurants not meeting minimum return on investment thresholds and certain other operating performance criteria. The charge consists of long-lived asset impairments totaling $31.2 million, lease obligation charges totaling $6.2 million, and the write-off of inventory and other supplies totaling $2.1 million. The remaining carrying values of the long-lived assets associated with the closed stores totaled approximately $13.0 million at June 30, 2004. In addition, the Company made lease payments related to the closed stores totaling $800,000 during fiscal 2004, reducing the lease obligation included in accrued liabilities to $5.4 million at June 30, 2004.

As a result of the seven Big Bowl closings and a review of the brand's competitive positioning and future development plans, the earnings forecast was revised and the Company recorded a goodwill impairment charge of $27.0 million. The fair value of Big Bowl was estimated using the present value of expected future cash flows.

In fiscal 2003, the Company evaluated the results of its efforts to reposition Cozymel's. Based on the performance of recent openings, the Company decided the brand no longer met the growth characteristics needed to remain in the Company's portfolio. As a result, the Company entered into negotiations during the fourth quarter of fiscal 2003 to sell all sixteen of its Cozymel's restaurants. The decision to discontinue growth and sell the brand required the Company to record asset impairment charges totaling $20.2 million ($13.7 million for property and equipment and $6.5 million for the remaining carrying value of goodwill). The carrying values of the assets to be sold were approximately $23.8 million as of June 25, 2003 and consisted primarily of property and equipment. In fiscal 2004, the Company closed one Cozymel's restaurant and finalized the sale of the remaining fifteen restaurants. In connection with the disposition, the Company received cash proceeds totaling $16.0 million and recorded an additional impairment charge totaling $7.7 million.

In fiscal 2003, the Company recorded a $5.4 million charge for long-lived asset impairments and exit costs resulting from the decision to close nine restaurants and to write down the assets of one under-performing restaurant. Substantially all of the assets were fully impaired.

In fiscal 2003, the Company closed one of the two remaining PIZZAAHHH! restaurant locations and cancelled all future development plans for the concept. As a result of this decision, a $4.1 million impairment charge was recorded, representing the remaining net book value of the intellectual property rights associated with the PIZZAAHHH! concept.

In fiscal 2002, the Company recorded an approximate $8.7 million charge to reduce its notes receivable from Eatzi's Corporation to their net realizable value (see Note 14 for additional discussion).

4. GOODWILL AND OTHER INTANGIBLES

The changes in the carrying amount of goodwill for the fiscal years ended June 30, 2004 and June 25, 2003 are as follows (in thousands):

	2004	2003
Balance at beginning of year	$185,068	$193,899
Impairment of goodwill (see Note 3)	(27,000)	(6,501)
Purchase allocation adjustments	-	(2,330)
Balance at end of year	$158,068	$185,068

The gross carrying amount of intellectual property subject to amortization totaled $1.2 million at June 30, 2004 and June 25, 2003. Accumulated amortization related to these intangible assets totaled approximately $359,000 and $308,000 at June 30, 2004 and June 25, 2003, respectively.

The carrying amount of reacquired development rights not subject to amortization totaled $4.4 million at June 30, 2004 and June 25, 2003.

5. ACCRUED AND OTHER LIABILITIES

Accrued liabilities consist of the following (in thousands):

	2004	2003
Payroll	$ 84,776	$ 73,916
Gift cards	43,550	36,013
Sales tax	28,254	20,606
Property tax	21,404	14,901
Other	49,241	32,547
	$227,225	$177,983

Other liabilities consist of the following (in thousands):

	2004	2003
Retirement plan (see Note 12)	$ 38,473	$ 33,086
Other	46,890	50,862
	$ 85,363	$ 83,948

6. INCOME TAXES

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

	2004	2003	2002
Current income tax expense:			
Federal	$ 65,977	$ 36,761	$ 47,228
State	12,885	8,107	6,819
Foreign	1,098	889	923
Total current income tax expense	79,960	45,757	54,970
Deferred income tax expense:			
Federal	3,534	37,279	22,088
State	476	1,915	2,078
Total deferred income tax expense	4,010	39,194	24,166
	$ 83,970	$ 84,951	$ 79,136

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):

	2004	2003	2002
Income tax expense at statutory rate	$ 83,275	$ 88,755	$ 81,147
FICA tax credit	(17,506)	(13,236)	(9,002)
State income taxes, net of Federal benefit	8,685	6,514	5,783
Goodwill impairment	9,450	2,275	-
Other	66	643	1,208
	$ 83,970	$ 84,951	$ 79,136

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities as of June 30, 2004 and June 25, 2003 are as follows (in thousands):

	2004	2003
Deferred income tax assets:		
Restructuring charges and other impairments	$ 17,399	$ 5,149
Employee benefit plans	13,863	13,387
Leasing transactions	8,912	8,902
Insurance reserves	4,717	3,966
Other, net	22,513	14,716
Total deferred income tax assets	67,404	46,120
Deferred income tax liabilities:		
Depreciation and capitalized interest on property and equipment	88,509	72,390
Prepaid expenses	10,456	9,969
Goodwill and other amortization	11,887	9,106
Other, net	15,107	9,484
Total deferred income tax liabilities	125,959	100,949
Net deferred income tax liability	$ 58,555	$ 54,829

7. DEBT

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

	2004	2003
5.75% notes	$298,449	$ -
Convertible debt	269,233	262,086
Senior notes	14,851	30,969
Capital lease obligations (see Note 9)	35,926	37,004
Mortgage loan obligations	38,931	41,355
	657,390	371,414
Less current installments	(18,099)	(17,629)
	$639,291	$353,785

In May 2004, the Company issued $300.0 million of 5.75% Notes and received proceeds totaling approximately $298.4 million prior to debt issuance costs. The Notes require semi-annual interest payments and mature in June 2014.

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 beginning on October 10, 2004. If redeemed by the Company, the holders of the Debentures may elect to receive payment in cash or common stock. The holders may require the Company to redeem the Debentures on October 10, 2005, 2011 or 2016, and in certain other circumstances. If the holders exercise their redemption rights, the Company may choose to pay in cash, common stock, or a combination of the two. In addition, each $1,000 Debenture is convertible into 18.08 shares (7.8 million shares in total) of the Company's common stock if the stock's market price exceeds 120% of the accreted conversion price for at least 20 trading days during the first 30 trading days of each quarter, 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 market price of the Company's common stock has not exceeded 120% of the accreted conversion price for any quarter, including the first quarter of fiscal 2005, since the issuance of the Debentures. The conversion trigger price for the Company's second quarter of fiscal 2005 is $41.81.

The $14.9 million of unsecured senior notes bear interest at an annual rate of 7.8%. Interest is payable semi-annually and the remaining principal is due in fiscal 2005.

The Company has credit facilities aggregating $325.0 million at June 30, 2004. A revolving credit facility of $275.0 million bears interest at LIBOR (1.61% at June 30, 2004) plus a maximum of 1.375% (0.65% at June 30, 2004) and expires in fiscal 2006. The remaining credit facility is uncommitted and bears interest based upon the lower of the banks' "Base" rate, certificate of deposit rate, negotiated rate, or LIBOR rate plus 0.375%, and expires in fiscal 2005. Unused credit facilities available to the Company totaled $325.0 million at June 30, 2004.

The mortgage loan obligations require monthly principal and interest payments, mature on various dates through March 2020, and bear interest at rates ranging from 8.44% to 10.75% per year. The obligations are collateralized by the underlying restaurant properties.

The Company's debt agreements contain various restrictive covenants that, among other things, require the maintenance of certain fixed charge, net worth, and leverage ratios. The Company is currently in compliance with all covenants.

Excluding capital lease obligations (see Note 9), the Company's long-term debt maturities for the five years following June 30, 2004 are as follows (in thousands):

Fiscal Year	
2005	$ 17,195
2006	2,431
2007	2,302
2008	2,139
2009	2,210
Thereafter	595,187
	$621,464

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company entered into two interest rate swaps in April 2000 with a total notional value of $14.2 million at June 30, 2004. These fair value hedges change the fixed-rate interest on the 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 (1.61% at June 30, 2004) plus 0.530% for one of the swaps and 180-Day LIBOR (1.94% at June 30, 2004) 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 values of these agreements at June 30, 2004 and June 25, 2003 were approximately $700,000 and $2.5 million, respectively, which are included in other assets in the Company's consolidated balance sheets. 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, changes in the 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 $115.2 million at June 30, 2004. 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 (1.37% at June 30, 2004) plus 1.26%. The Company receives monthly the fixed interest rate of 7.156% on the lease. The estimated fair values of these agreements at June 30, 2004 and June 25, 2003 were assets of approximately $7.7 million and $21.4 million, respectively. There was no hedge ineffectiveness during fiscal 2004, 2003, or 2002. Changes in the fair value of the swaps are recorded in other assets with a like adjustment in other liabilities.

9. LEASES

(a) Capital Leases

The Company leases certain buildings under capital leases. The asset values of $27.5 million at June 30, 2004 and June 25, 2003, and the related accumulated amortization of $9.5 million and $8.2 million at June 30, 2004 and June 25, 2003, respectively, are included in property and equipment. Amortization of assets under capital leases is included in depreciation and amortization expense.

(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, in some cases, have provisions for contingent rent based upon a percentage of gross sales, as defined in the leases. Rent expense for fiscal 2004, 2003, and 2002 was $118.2 million, $107.2 million, and $100.4 million, respectively. Contingent rent included in rent expense for fiscal 2004, 2003, and 2002 was $11.6 million, $10.3 million, and $9.7 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 30, 2004, future minimum lease payments on capital and operating leases were as follows (in thousands):

Fiscal Year	Capital Leases	Operating Leases
2005	$ 3,390	$ 104,356
2006	3,361	101,778
2007	3,447	97,256
2008	3,534	91,241
2009	3,623	82,785
Thereafter	43,597	404,512
Total minimum lease payments	60,952	$ 881,928
Imputed interest (average rate of 7%)	(25,026)	
Present value of minimum lease payments	35,926	
Less current installments	(904)	
	$ 35,022	

At June 30, 2004, 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.

10. STOCK OPTION PLANS

(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 were exercisable through April 2003.

In October 1998, the 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 2004, 2003, and 2002 were as follows (in thousands, except option prices):

	Number of Company Options			Weighted Average Share Exercise Price		
	2004	2003	2002	2004	2003	2002
Options outstanding at beginning of year	9,611	9,944	10,759	$24.07	$20.50	$16.91
Granted	2,879	2,639	2,512	32.53	30.68	27.90
Exercised	(1,978)	(2,477)	(2,892)	20.54	16.05	13.09
Forfeited	(653)	(495)	(435)	29.08	27.54	23.38
Options outstanding at end of year	9,859	9,611	9,944	$26.92	$24.07	$20.50
Options exercisable at end of year	3,918	3,809	4,091	$20.64	$16.69	$13.38

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
$ 7.42-$11.58	655	2.56	$ 8.52	655	$ 8.52
$13.58-$18.67	1,377	4.90	17.09	1,377	17.09
$25.50-$37.25	7,827	8.22	30.19	1,886	27.45
	9,859	7.38	$26.92	3,918	$20.64

(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 (the "1991 Plan"), options to purchase 881,250 shares of Company common stock were authorized for grant. In fiscal 2000, the 1991 Plan 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 Plan 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 2004, 2003, and 2002 were as follows (in thousands, except option prices):

	Number of Company Options			Weighted Average Share Exercise Price		
	2004	2003	2002	2004	2003	2002
Options outstanding at beginning of year	440	353	351	$21.21	$17.79	$13.96
Granted	83	102	82	32.80	32.18	30.06
Exercised	(35)	(15)	(70)	10.60	15.36	11.24
Forfeited	-	-	(10)	-	-	30.06
Options outstanding at end of year	488	440	353	$23.90	$21.21	$17.79
Options exercisable at end of year	244	238	199	$16.24	$13.57	$12.61

At June 30, 2004, the range of exercise prices for options outstanding was $8.33 to $33.26 with a weighted average remaining contractual life of 6.48 years.

11. 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 1.0 million 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 30, 2004, no preferred shares were issued.

(c) Treasury Stock

In April 2004, the Board of Directors authorized an increase in the stock repurchase plan of $500.0 million, bringing the total to $1,010.0 million. Pursuant to the Company's stock repurchase plan, the Company repurchased approximately 9.3 million shares of its common stock for $322.6 million during fiscal 2004. As of June 30, 2004, approximately 27.5 million shares had been repurchased for $714.7 million under the stock repurchase plan. The Company's stock repurchase plan will be used to minimize the dilutive impact of a potential conversion of the convertible debt and stock option exercises. 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 stock. During fiscal 2004 and 2003, respectively, approximately 66,000 and 131,000 shares of restricted 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.

12. SAVINGS PLANS

The Company sponsors a qualified defined contribution retirement plan ("Plan I") covering salaried employees who have attained the age of twenty-one and hourly employees who have completed one year of service and have attained the age of twenty-one. Plan I allows eligible employees to contribute, subject to Internal Revenue Service limitations on total annual contributions, up to 50% of their base compensation and 100% of their eligible bonuses, as defined in the plan, to various investment funds. The Company matches in cash at a rate of 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 in the participant's second year of eligibility. In fiscal 2004, 2003, and 2002, the Company contributed approximately $797,000, $889,000, and $828,000, 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 cash at a rate of 25% of the first 5% of contributions. Employee contributions vest immediately while Company contributions vest 25% annually beginning in the participant's second year of eligibility. In fiscal 2004, 2003, and 2002, the Company contributed approximately $799,000, $724,000, and $657,000, 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.

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2004	2003	2002
Income taxes, net of refunds	$40,677	$7,553	$48,801
Interest, net of amounts capitalized	3,977	3,215	8,229

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

	2004	2003	2002
Retirement of fully depreciated assets	$14,235	$164,509	$10,487
Net (decrease) increase in fair value of interest rate swaps	(15,523)	15,063	5,953
Restricted common stock issued, net of forfeitures	2,374	4,490	2,435

14. RELATED PARTY TRANSACTIONS

The Company entered into a note agreement with Rockfish Partnership in December 2002. During fiscal 2004, the note was amended and restated, increasing the amount available under the note to $6.8 million, extending the maturity date to December 2005, and increasing the interest rate to the prime rate plus 1.5% (5.5% at June 30, 2004). The note requires quarterly interest payments until maturity. At June 30, 2004, the Company's note receivable from Rockfish Partnership totaled $6.8 million.

In fiscal 2002, the Company recorded an approximate $8.7 million charge to reduce its notes receivable from Eatzi's Corporation ("Eatzi's") to their net realizable value of $11.0 million. In November 2002, the Company completed the divestiture of Eatzi's and received an $11.0 million cash payment and a $4.0 million promissory note. The promissory note is unsecured and payable only upon the closing of an initial public offering by Eatzi's. Due to the uncertainty of collecting the promissory note, the Company has established a reserve for the entire principal balance.

Notes receivable are included in other assets in the accompanying consolidated balance sheets.

15. CONTINGENCIES

In January 1996, the Company entered into a Tip Reporting Alternative Commitment agreement (the "Contract") with the Internal Revenue Service (the "IRS"). The Contract required the Company, among other things, to implement tip reporting educational programs for its hourly restaurant employees and to establish tip reporting procedures. The IRS has alleged that the Company did not meet the requirements of the Contract and has retroactively and unilaterally revoked it. As a result of the revocation, the IRS commenced an examination during fiscal 2004 of the Company's 2000 through 2002 calendar years, which involved interviews of current and former employees for the purpose of assessing employer-only Federal Insurance Contributions Act ("FICA") taxes on estimated unreported cash tips. In connection with this examination, the IRS has also alleged that some portion of these unreported tips should have been treated as service charges subject to employment taxes.

On August 30, 2004, the IRS notified the Company that it intends to issue a notice and demand, on or after September 29, 2004, for the employer's share of FICA taxes on unreported tips. The Company believes that it has complied and continues to comply with all of the terms of the Contract and with the law pertaining to the employment tax treatment of service charges. The Company intends to vigorously contest the accuracy of any assessment that may be proposed with respect to either unreported tips or service charges and, in the case of tips, to assert that the Contract precludes the retroactive assessment of employer-only FICA taxes. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any, with respect to either issue.

The Company is engaged in various other 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 other 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.

16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2004 and 2003 (in thousands, except per share amounts):

	Fiscal Year 2004 Quarters Ended			
	Sept. 24	Dec. 24	March 24	June 30
Revenues	$870,898	$886,490	$931,922	$1,018,176
Income before provision for income taxes	$ 65,872	$ 65,157	$ 12,854	$ 94,048
Net income	$ 44,595	$ 44,111	$ 738	$ 64,517
Basic net income per share	$ 0.46	$ 0.46	$ 0.01	$ 0.68
Diluted net income per share	$ 0.45	$ 0.45	$ 0.01	$ 0.67
Basic weighted average shares outstanding	97,404	96,156	95,973	94,854
Diluted weighted average shares outstanding	99,367	97,731	98,007	96,806

	Fiscal Year 2003 Quarters Ended			
	Sept. 25	Dec. 25	March 26	June 25
Revenues	$773,892	$794,510	$840,776	$876,216
Income before provision for income taxes	$ 67,777	$ 55,809	$ 69,205	$ 60,796
Net income	$ 45,004	$ 37,225	$ 46,160	$ 40,247
Basic net income per share	$ 0.46	$ 0.38	$ 0.48	$ 0.41
Diluted net income per share	$ 0.45	$ 0.38	$ 0.47	$ 0.40
Basic weighted average shares outstanding	97,177	96,784	97,025	97,405
Diluted weighted average shares outstanding	99,235	98,848	98,901	99,579

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Brinker International, Inc.:

We have audited the accompanying consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 30, 2004 and June 25, 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 30, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 30, 2004 and June 25, 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Dallas, Texas
August 5, 2004, except for Note 15,
as to which the date is as of August 30, 2004

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 30, 2004 provide reasonable assurance that the consolidated financial statements are reliable.

/s/ Douglas H. Brooks
DOUGLAS H. BROOKS
President and Chief Executive Officer

/s/ Charles M. Sonsteby
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, 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
BRINKER OF CHARLES COUNTY, INC., a Maryland corporation
BRINKER CORNER BAKERY, L.P., a Texas limited partnership
BRINKER CORNER BAKERY I, LLC, a Delaware limited liability company
BRINKER CORNER BAKERY II, LLC, a Delaware limited liability company
BRINKER MICHIGAN, INC., a Delaware corporation

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Brinker International, Inc.:

We consent to the incorporation by reference in Registration Statement Nos. 33-61594, 33-56491, 333-02201, 333-93755, 333-42224 and 333-105720 on Form S-8, 333-74902 on Form S-3 and 333-116879 on Form S-4 of Brinker International, Inc. of our report dated August 5, 2004, except for Note 15, as to which the date is as of August 30, 2004, relating to the consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 30, 2004 and June 25, 2003 and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 30, 2004, which report is incorporated by reference in the June 30, 2004 annual report on Form 10-K of Brinker International, Inc.

KPMG LLP

Dallas, Texas
September 13, 2004

Exhibit 31a

CERTIFICATION

I, Douglas H. Brooks, certify that:

1. I have reviewed this Annual Report on Form 10-K of Brinker International, Inc.;

2. Based on my knowledge, this 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 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;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 13, 2004

/s/ Douglas H. Brooks
Douglas H. Brooks
President and
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 13, 2004

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

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 30, 2004 (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 13, 2004

By: /s/ Douglas H. Brooks
Name: Douglas H. Brooks
Title: President and
Chief Executive Officer
(Principal Executive Officer)

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 30, 2004 (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 13, 2004

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