# 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 29, 2011** | **Commission File No. 1-10275**

# BRINKER INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

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

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

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

| Title of Each Class |
|---|
| Common Stock, $0.10 par value |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ 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. $1,737,188,902.

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 12, 2011 |
|---|---|
| Common Stock, $0.10 par value | 82,677,559 shares |

## DOCUMENTS INCORPORATED BY REFERENCE

We have incorporated portions of our Annual Report to Shareholders for the fiscal year ended June 29, 2011 into Part II hereof, to the extent indicated herein. We have also incorporated by reference portions of our Proxy Statement for our annual meeting of shareholders on November 3, 2011, to be dated on or about September 15, 2011, into Part III hereof, to the extent indicated herein.

## PART I

### Item 1. BUSINESS.

***General***

References to “Brinker,” “the Company,” “we,” “us,” and “our” in this Form 10-K are references to Brinker International, Inc. and its subsidiaries and any predecessor companies of Brinker International, Inc.

We own, develop, operate and franchise the Chili’s Grill & Bar (“Chili’s”) and Maggiano’s Little Italy (“Maggiano’s”) restaurant brands. 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, which was organized in August 1977. We completed the acquisition of Maggiano’s in August 1995. We sold Romano’s Macaroni Grill to Mac Acquisition LLC, an affiliate of San Francisco-based Golden Gate Capital, in December 2008 and currently hold a 15.6% ownership interest in the new entity.

***Restaurant Brands***

*Chili’s Grill & Bar*

Chili’s, a recognized leader in the Bar & Grill category of casual dining, has been operating restaurants for 36 years. Chili’s also enjoys a global presence with locations in 30 foreign countries and two U.S. territories around the world. Consistent in all locations, whether domestic or international and company-owned or franchised, Chili’s passion is making our guests feel special. Our Team Members, referred to as ChiliHeads, take special pride in serving America’s Favorites…Like No Place Else.

Chili’s varied menu features America’s favorites boldly flavored and freshly prepared, including several signature items such as Baby Back Ribs smoked in-house, Big Mouth Burgers, Sizzling Fajitas, hand-battered Chicken Crispers and house-made Chips and Salsa. The all-day menu offers our guests a generous selection of appetizers, entrees and desserts at affordable prices. A special lunch section is available on weekdays. In addition to our flavorful food, Chili’s offers a full selection of alcoholic beverages available from the bar, with Margaritas and draft beer being favorites of our guests. For guests seeking convenience, Chili’s offers To Go service that can be ordered via phone or on-line and most Chili’s offer a separate To Go entrance for service.

During the year ending June 29, 2011, at our company-owned restaurants, entrée selections ranged in menu price from $6.00 to $17.49. The average revenue per meal, including alcoholic beverages, was approximately $13.52 per person. During this same year, food and non-alcoholic beverage sales constituted approximately 86.4% of Chili’s total restaurant revenues, with alcoholic beverage sales accounting for the remaining 13.6%. Our average annual sales volume per Chili’s restaurant during this same year was $2.9 million.

*Maggiano’s Little Italy*

Maggiano’s is a full-service, national, casual dining Italian restaurant brand with a passion for making people feel special. The exterior of each Maggiano’s restaurant varies to reflect local architecture, however, the interior of all locations transport our guests back to a classic Italian-American restaurant in the style of New York’s Little Italy in the 1940s. Our Maggiano’s restaurants feature individual and family-style menus, and our restaurants also have extensive banquet facilities designed to host large party business or social events. We have a full lunch and dinner menu offering chef-prepared, classic Italian-American fare in the form of appetizers, entrées with bountiful portions of pasta, chicken, seafood, veal and prime steaks, and desserts. Our Maggiano's restaurants also offer a full range of alcoholic beverages, including a selection of premium wines. In addition, Maggiano's offers a full carryout menu as well as local delivery services.

During the year ending June 29, 2011, entrée selections ranged in menu price from $12.95 to $39.95. The average revenue per meal, including alcoholic beverages, was approximately $25.56 per person. During this same year, food and non-alcoholic beverage sales constituted approximately 82.5% of Maggiano's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 17.5%. Sales from events at our banquet facilities made up 19.5% of our total restaurant revenues for the year. Our average annual sales volume per Maggiano's restaurant during this same year was $8.5 million.

***Business Strategy***

We are committed to strategies and initiatives that are centered on long-term sales and profit growth, enhancing the guest experience and team member engagement. These strategies are intended to differentiate our brands from the competition, reduce the costs associated with managing our restaurants and establish a strong presence for our brands in key markets around the world. We will continue to maintain a strong balance sheet and financial flexibility to support our strategic initiatives and to provide stability in all operating environments.

Economic conditions have been turbulent over the last year and have provided a challenging operating environment for the Company and the casual dining industry. Key economic factors such as total employment, consumer confidence and spending levels have been soft this year. More recently, the political environment and soaring governmental deficits in the United States and abroad have negatively impacted consumer confidence. In addition, higher gas prices and the potential for near term commodity price increases may negatively impact the industry. We anticipate that market conditions will continue to affect our business and consumers will remain cautious as the economy slowly rebounds. We will continue to evaluate our business and implement initiatives designed to mitigate risk, improve short-term sales and profitability and provide opportunities for long-term growth.

Our current initiatives are designed to drive profitable sales growth and improve the guest experience in our restaurants. We have implemented an improved service model at Chili's which has resulted in labor efficiencies and better guest feedback. Additional labor savings were achieved through improved food preparation procedures, a component of our kitchen retrofit initiative which was implemented at an accelerated pace in the second quarter. Another component of this initiative is the modification of our kitchens to include improved technology and equipment to provide a more consistent, high quality product at a faster pace, while generating substantial labor cost savings; this component is in early stages of rollout and implementation. We are also in the process of implementing new restaurant information systems which we anticipate will increase profits through increased kitchen efficiency and better inventory control. In addition to executing these operational strategies, we have repurchased shares of our common stock in order to return value to our shareholders and recently executed a revised credit facility to increase our financial flexibility while taking advantage of more favorable financing costs. We believe that the successful implementation of these operational and financial initiatives will help drive sales growth and operational efficiency while strengthening our competitive advantage and enhancing shareholder value.

We plan to leverage our improved business model and elevated guest experience by implementing multiple initiatives that will further enhance guest traffic and sales. We continually evaluate our menu at Chili's to improve quality, freshness and value by introducing new items and improving existing favorites. Our new lunch menu items are focused on value and pace to drive our lunch daypart sales. Additionally, we have introduced new items and promotions to enhance our dinner and happy hour business. We will continue to utilize promotional activities as a tool to drive incremental sales; however, this is only one aspect of our overall sales strategy. We are committed to offering a compelling everyday menu that provides items our guests prefer at a solid value. We intend to remodel a significant number of company-owned restaurants in fiscal 2012, revitalizing

Chili's in a way which modernizes the brand and raises guest expectations regarding the quality of the experience. Improvements at Chili's will have the most significant impact on the business; however, our results will also benefit through additional contributions from Maggiano's and our global business. Maggiano's sales trends and traffic continue to improve significantly, driven by offering guests a great value with classic pasta, new menu items and direct marketing. We believe our unique food and signature drinks, improved service and updated atmospheres will result in stronger brands and sustainable sales and profit growth through increased guest loyalty and traffic.

Global expansion allows further diversification which is intended to enable us to build strength in a variety of markets and economic conditions. This expansion will come through joint venture arrangements, equity investments and franchise relationships, taking advantage of demographic and eating trends that will accelerate in the international market over the next decade. Our growing percentage of franchise operations, both domestically and internationally, enable us to improve margins as royalty payments impact the bottom line.

The casual dining industry is a competitive business which is sensitive to changes in economic conditions, trends in lifestyles and fluctuating costs. Our priority remains increasing profitable growth over time in all operating environments. We have designed both operational and financial strategies to achieve this goal and in our opinion, improve shareholder value. Success with our initiatives to improve sales trends and operational effectiveness will enhance the profitability of our restaurants and strengthen our competitive position. The effective execution of our financial strategies, including repurchasing shares of our common stock, disciplined use of capital and efficient management of operating expenses, will further enhance our profitability and return value to our shareholders. We remain confident in the financial health of our company, the long-term prospects of the industry as well as our ability to perform effectively in a competitive marketplace and a variety of economic environments.

***Franchise Development***

In fulfilling our long-term vision, our restaurant brands will continue to expand primarily through our franchisees and joint venture partners.

As part of our strategy to expand through our franchisees, our franchise operations (domestically and internationally) increased in fiscal 2011. The following table illustrates the percentages of franchise operations (versus total restaurants) as of June 29, 2011 for the Company and by restaurant brand:

| | Percentage of Franchise Operated Restaurants | |
|---|---|---|
| | Domestic | International |
| Brinker | 30% | 15% |
| Chili's | 31% | 15% |
| Maggiano's | — | 2% |

*International*

We continue our international growth through development agreements with new and existing franchisees and joint venture partners introducing our brands into new countries, as well as expanding them in existing countries. At June 29, 2011, we had 32 total development arrangements. During the fiscal year 2011, our international franchisees and joint venture partners opened 26 Chili's restaurants. In the same year, we entered into new or renewed development agreements with four franchisees for the development of 49 Chili's restaurants. The areas of development for these locations include all or portions of the following countries: Brazil, Colombia, Guatemala, India, Kuwait, Malaysia, and Taiwan.

Notably, we entered into an agreement with BTTO Participacoes Ltda to joint invest in a new company to develop Chili's in portions of Brazil. The new company anticipates developing approximately five restaurants over the next five years. The first restaurant is projected to open in the first quarter of fiscal 2012.

As we develop our brands internationally, we will selectively pursue expansion through various means, including franchising and joint ventures. A typical international franchise development agreement provides for payment of development fees and franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. We expect future development agreements to remain limited to enterprises having significant experience as restaurant operators and proven financial ability to support and develop multi-unit, as well as, in some instances, multi-brand operations.

*Domestic*

Domestic expansion is focused primarily through growth in our number of franchised restaurants. We are accomplishing this part of our growth through existing, new or renewed development obligations with new or existing franchisees. In addition, we have from time to time also sold and may sell company-owned restaurants to our franchisees (new or existing). At June 29, 2011, 15 total domestic development arrangements existed. Similar to our international franchise agreements, a typical domestic franchise development agreement provides for payment of development and initial franchise fees in addition to subsequent royalty and advertising fees based on the gross sales of each restaurant. We expect future domestic franchise development agreements to remain limited to enterprises having significant experience as restaurant operators and proven financial ability to support and develop multi-unit operations. In some instances, we have and may enter into development agreements for multiple brands with the same franchisee.

Domestic expansion efforts continue to focus not only on major metropolitan areas in the United States but also on smaller market areas and non-traditional locations (such as airports, college campuses, toll plazas and food courts) that can adequately support our restaurant brands.

During the year ended June 29, 2011, not including any restaurants we sold to our franchisees, our domestic franchisees opened 11 Chili’s restaurants.

***Company Development***

Our near-term focus continues to be less on domestic development of new company-operated restaurants allowing us to focus on our other strategic initiatives and areas of focus. We will continue to evaluate the development of new company-operated restaurants.

The following table illustrates the system-wide restaurants opened in fiscal 2011 and the planned openings in fiscal 2012:

| | Fiscal 2011 Openings(1) | Fiscal 2012 Projected Openings |
|---|---|---|
| Chili’s: | | |
| Company-operated | — | — |
| Franchise(2) | 11 | 3 |
| Maggiano’s | — | — |
| International: | | |
| Company-operated(3) | — | — |
| Franchise(3) | 26 | 35-40 |
| Total | 37 | 38-43 |

(1) The numbers in this column are the total of new restaurant openings and openings of relocated restaurants during fiscal 2011.

(2) The numbers on this line for fiscal 2012 are projected domestic franchise openings.

(3) The numbers on this line are for Chili’s and Maggiano’s.

We periodically reevaluate company-owned restaurant sites to ensure that site attributes have not deteriorated below our minimum standards. In the event site deterioration occurs, each brand 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 brand considers relocation to a proximate, more desirable site, or evaluates closing the restaurant if the brand's measurement criteria, such as return on investment and area demographic trends, do not support relocation. We closed three company-owned restaurants in fiscal 2011. We perform a comprehensive analysis that examines restaurants not performing at a required rate of return. A portion of these closed restaurants were performing below our standards or were near or at the expiration of their lease term. Our strategic plan is targeted to support our long-term growth objectives, with a focus on continued development of those restaurant brands that have the greatest return potential for the Company and our shareholders.

***Restaurant Management***

Our Chili's and Maggiano's brands have separate designated teams that support each brand for operations, finance, franchise, marketing, peopleworks and culinary. We believe these strategic, brand-focused teams foster the identities of the individual and uniquely positioned brands. To maximize efficiencies, brands continue to utilize common and shared infrastructure, including, among other services, accounting, information technology, purchasing, legal and restaurant development.

At the restaurant level, management structure varies by brand. A typical restaurant is led by a management team including a general manager, two to six additional managers, and for Maggiano's, an additional three to four chefs. The level of restaurant supervision depends upon the operating complexity and sales volume of individual locations.

We believe that there is a high correlation between the quality of restaurant management and the long-term success of a brand. In that regard, we encourage increased experience at all management positions through various short and long-term incentive programs, which may include equity ownership. These programs, coupled with a general management philosophy emphasizing quality of life, have enabled us to attract and retain key team members.

We ensure consistent quality standards in all brands through the issuance of operations manuals covering all elements of operations and food and beverage manuals, which provide guidance for preparation of brand-formulated recipes. Routine visitation to the restaurants by all levels of supervision enforces strict adherence to our overall brand standards and operating procedures. Each brand is responsible for maintaining their operational training program. The training program typically includes a two-to four-month training period for restaurant management trainees. We also provide reoccurring management training for managers and supervisors to improve effectiveness or prepare them for more responsibility.

***Supply Chain***

Our ability to maintain consistent quality throughout each of our restaurant brands depends upon acquiring products from reliable sources. Our pre-approved suppliers and our restaurants are required to adhere to strict product and safety specifications established through our quality assurance and culinary programs. These requirements ensure that high quality products are served in each of our restaurants. We strategically negotiate directly with major suppliers to obtain competitive prices. We also use purchase commitment contracts when appropriate to stabilize the potentially volatile pricing associated with certain commodity items. All essential products are available from pre-qualified distributors to be delivered to any of our restaurant brands. Additionally, as a purchaser of a variety of protein products, we do require our vendors to adhere to humane processing standards for their respective industries and encourage them to evaluate new technologies for food safety and humane processing improvements. 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. Internationally, our franchisees and joint venture operations may encounter cultural and regulatory differences resulting in differences with product specifications for international restaurant locations.

***Advertising and Marketing***

Our brands generally focus on the eighteen to fifty-four year-old age group, which constitutes approximately half of the United States population. Though members of this target segment grew up on fast food, we believe that for many meal occasions, these consumers value the benefits of the casual dining category. In choosing not to cook, these consumers want the higher food quality, the time to relax with family and friends and the enhanced dining experience that our restaurant brands offer. To reach this target group, we use a mix of television, radio, print, outdoor or online advertising, mail (direct and electronic) and social media, with each of our restaurant brands utilizing one or more of these mediums to meet the brand’s communication strategy and budget. Our brands have also developed and use to varying degrees sophisticated consumer marketing research techniques to monitor guest satisfaction and emerging culinary trends, as well as to validate menu development and creative campaigns.

Our franchise agreements generally require advertising contributions to us by the franchisees. We use these contributions for the purpose of helping retain an advertising agency, obtaining consumer insights, developing and producing brand-specific creative materials and purchasing national or regional media to meet the brand’s strategy. Some franchisees also spend additional amounts on local advertising. Any such local advertising must first be approved by us.

***Team Members***

As of June 29, 2011, we employed approximately 60,322 team members, 601 were restaurant support center personnel in Dallas, and 4,029 were restaurant area directors, managers, or trainees. The remaining 55,692 were employed in non-management restaurant positions. Our executive officers have an average of 25 years of experience in the restaurant industry, some of whom began their careers in the restaurants we operate today.

We have a positive team member relations outlook and continue to focus on improving our team member turnover rate. We have a variety of tools and strong resources in place to help us recruit and retain the best talent to work in our restaurants.

The majority of our team members, outside of restaurant management and restaurant support center personnel, are paid on an hourly basis. We stand firm in the belief that we provide competitive working conditions and wages favorable with other companies in our industry. Our team members are not covered by any collective bargaining agreements.

***Trademarks***

We have registered and/or have pending, among other marks, “Brinker International”, “Chili’s”, “Chili’s Bar & Bites”, “Chili’s Margarita Bar”, “Chili’s Southwest Grill & Bar”, “Chili’s Too”, “Maggiano’s”, and “Maggiano’s Little Italy”, as trademarks with the United States Patent and Trademark Office.

***Available Information***

We maintain an internet website with the address of http://www.brinker.com. You may obtain, free of charge, at our website, copies of our reports filed with, or furnished to, the Securities and Exchange Commission (the “SEC”) on Forms 10-K, 10-Q and 8-K. Any amendments to such reports are also available for viewing and copying at our internet website. These reports will be available as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC. In addition, you may view and obtain, free of charge, at our website, copies of our 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.

## Item 1A. RISK FACTORS.

We wish to caution you that our business and operations are subject to a number of risks and uncertainties. The factors listed below are important factors that could cause actual results to differ materially from our historical results and from those projected in forward-looking statements contained in this report, in our other filings with the SEC, in our news releases, written or electronic communications, and verbal statements by our representatives.

You should be aware that forward-looking statements involve risks and uncertainties. These risks and uncertainties may cause our or our industry's actual results, performance or achievements to be materially different from any future results, performances or achievements contained in or implied by these forward-looking statements. Forward-looking statements are generally accompanied by words like "believes," "anticipates," "estimates," "predicts," "expects," and other similar expressions that convey uncertainty about future events or outcomes.

### *Risks Related to Our Business*

**Competition may adversely affect our operations and financial results.**

The restaurant business is highly competitive as 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. We compete 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 ours. Despite a weak U.S. employment market, there is active competition for quality management personnel and hourly team members. We continue to face competition as a result of the trend toward convergence in grocery, deli and restaurant services, including the offering by the grocery industry of convenient meals in the form of improved entrees and side dishes, as well as the trend in quick service and fast casual restaurants toward higher quality food and beverage offerings. We compete primarily on the quality, variety and value perception of menu items, as well as the quality and efficiency of service, the attractiveness of facilities and the effectiveness of advertising and marketing programs.

Our restaurants also face competition from the introduction of new products and menu items by competitors, as well as substantial price discounting and other offers, and are likely to face such competition in the future. Although we may implement a number of business strategies, the future success of new products, initiatives and overall strategies is highly difficult to predict and will be influenced by competitive product offerings, pricing and promotions offered by competitors. Our ability to differentiate our brands from their competitors, which is in part limited by the advertising monies available to us and by consumer perception, cannot be assured. These factors could reduce the gross sales or profitability at our restaurants, which would reduce the revenues generated by company-owned restaurants and royalty payments from franchisees.

Changing health or dietary preferences may cause consumers to avoid our products in favor of alternative foods. The food service industry as a whole rests on consumer preferences and demographic trends at the local, regional, national and international levels, and the impact on consumer eating habits of new information regarding diet, nutrition and health. We and our franchisees depend on the sustained demand for our products, which may be affected by factors we do not control. Changes in nutritional guidelines issued by the federal government agencies, issuance of similar guidelines or statistical information by other federal, state or local municipalities, academic studies, or advocacy organizations among other things, may impact consumer choice and cause consumers to select foods other than those that are offered by our restaurants. We may not be able to adequately adapt our menu offerings to keep pace with developments in current consumer preferences, which may result in reductions to the revenues generated by our company-operated restaurants and the payments we receive from franchisees.

**The global economic crisis continued to adversely impact our business and financial results in fiscal 2011 and a prolonged economic recovery could materially affect us in the future.**

The restaurant industry is dependent upon consumer discretionary spending. Consumer confidence has not recovered from historic lows impacting the public's ability and/or desire to spend discretionary dollars as a result of job losses, home foreclosures, significantly reduced home values, investment losses in the financial markets, personal bankruptcies and reduced access to credit, resulting in lower levels of guest traffic in our restaurants. While sales and traffic gains have been made by the restaurant industry and our restaurants in fiscal 2011, much of the economic improvement in the restaurant industry has come from cost savings initiatives. If this current weak economic recovery continues for a prolonged period of time and/or deepens in magnitude returning to the negative trends of the prior two years, our business, results of operations and ability to comply with the covenants under our credit facility could be materially affected. Deterioration in guest traffic and/or a reduction in the average amount guests spend in our restaurants will negatively impact our revenues. This will result in lower royalties collected, sales deleverage, spreading fixed costs across a lower level of sales, and will, in turn cause downward pressure on our profitability. The result could be further reductions in staff levels, asset impairment charges and potential restaurant closures. In addition, the adverse fiscal condition of any states where we operate restaurants could result in these state governments issuing IOUs rather than tax refunds or employee paychecks, which could affect guest spending patterns in these locations.

Future weak global economic results or recessionary effects on us are unknown at this time and could have a potential material adverse effect on our financial position and results of operations. There can be no assurance that the government's plan to restore fiscal responsibility or future plans to stimulate the economy will restore consumer confidence, stabilize the financial markets, increase liquidity and the availability of credit, or result in lower unemployment, which remains stubbornly high at the present time.

**The current weak economic recovery could have a material adverse impact on our landlords or other tenants in retail centers in which we or our franchisees are located, which in turn could negatively affect our financial results.**

If the weak economic recovery continues or returns to recessionary levels, our landlords may be unable to obtain financing or remain in good standing under their existing financing arrangements, resulting in failures to pay required construction contributions or satisfy other lease covenants to us. In addition other tenants at retail centers in which we or our franchisees are located or have executed leases may fail to open or may cease operations. If our landlords fail to satisfy required co-tenancies, such failures may result in us or our franchisees terminating leases or delaying openings in these locations. Also, decreases in total tenant occupancy in retail centers in which we are located may affect guest traffic at our restaurants. All of these factors could have a material adverse impact on our operations.

**Inflation may increase our operating expenses.**

We have experienced impact from inflation. Inflation has caused increased food, labor and benefits costs and has increased our operating expenses. As operating expenses increase, we, to the extent permitted by competition, recover increased costs by increasing menu prices, or by reviewing, then implementing, alternative products or processes, or by implementing other cost reduction procedures. We cannot ensure, however, that we will be able to continue to recover increases in operating expenses due to inflation in this manner.

**Changes in governmental regulation may adversely affect our ability to maintain our existing and future operations and to open new restaurants.**

We are 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, the Immigration Reform and Control Act of 1986, 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, including, tip credits, working conditions, safety standards and immigration status. We expect increases in payroll expenses as a result of federal and state mandated increases in the minimum wage, and although such increases are not expected to be material, we cannot assure you that there will not be material increases in the future. Enactment and enforcement of various federal, state and local laws, rules and regulations on immigration and labor organizations may adversely impact the availability and costs of labor for our restaurants in a particular area or across the United States. Other labor shortages or increased team member turnover could also increase labor costs. In addition, our vendors may be affected by higher minimum wage standards or availability of labor, which may increase the price of goods and services they supply to us. We continue to review the health care reform law enacted by Congress in March of 2010 and regulations issued related to the law to evaluate the potential impact of this new law on our business, and to accommodate various parts of the law as they take effect. There are no assurances that a combination of cost management and price increases can accommodate all of the costs associated with compliance.

We are subject to laws and regulations, which vary from jurisdiction to jurisdiction, relating to nutritional content and menu labeling. Compliance with these laws and regulations may lead to increased costs and operational complexity, changes in sales mix and profitability, and increased exposure to governmental investigations or litigation. We do not expect to incur material costs from compliance with the provision of the new health care law requiring disclosure of calories on the menus, but cannot reliably anticipate any changes in guest behavior resulting from implementation of this portion of the law, which could have adverse effects on our sales or results of operations.

Each of our and our franchisees' restaurants is also subject to licensing and regulation by alcoholic beverage control, health, sanitation, safety and fire agencies in the state, county and/or municipality where the restaurant is located. We generally have not encountered any material difficulties or failures in obtaining and maintaining the required licenses and approvals that could impact the continuing operations of an existing restaurant, or delay or prevent the opening of a new restaurant. Although we do not, at this time, anticipate any occurring in the future, we cannot assure you that we or our franchisees will not experience material difficulties or failures that could impact the continuing operations of an existing restaurant, or delay the opening of restaurants in the future.

We are also subject to federal and state environmental regulations, and although these have not had a material negative effect on our operations, we cannot ensure that there will not be a material negative effect in the future. In particular, the U.S. and other foreign governments have increased focus on environmental matters such as climate change, greenhouse gases and water conservation. This increased focus may lead to new initiatives directed at regulating an as yet unspecified array of environmental matters. These efforts could result in increased taxation or in future restrictions on or increases in costs associated with food and other restaurant supplies, transportation costs and utility costs, any of which could decrease our operating profits and/or necessitate future investments in our restaurant facilities and equipment to achieve compliance. Further, more stringent and varied requirements of local and state governmental bodies with respect to zoning, land use and environmental factors could delay, prevent or make cost prohibitive the continuing operations of an existing restaurant or the development of new restaurants in particular locations.

The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations, or our inability to respond effectively to significant regulatory or public policy issues, could increase our compliance and other costs of doing business and therefore have an adverse effect on our results of operations.

Failure to comply with the laws and regulatory requirements of federal, state and local authorities could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability. Compliance with these laws and regulations can be costly and can increase our exposure to litigation or governmental investigations or proceedings.

**Our profitability may be adversely affected by increases in energy costs.**

Our success depends in part on our ability to absorb increases in utility costs, in particular electricity and natural gas. Various regions of the United States in which we operate multiple restaurants have experienced in the recent past significant increases in utility prices. These increases have affected costs and if they occur again, it would have possible adverse effects on our profitability to the extent not otherwise recoverable through price increases or alternative products, processes or cost reduction procedures. Further, higher prices for petroleum-based fuels may be passed on to us by vendors putting further pressure on margins as well as impact our guests discretionary funds and ability to patron our restaurants or guests' menu choices.

**Shortages or interruptions in the availability and delivery of food and other supplies may increase costs or reduce revenues.**

Possible shortages or interruptions in the supply of food items and other supplies to our restaurants caused by inclement weather, natural disasters such as floods, drought and hurricanes, the inability of our vendors to obtain credit in a tightened credit market, food safety warnings or advisories or the prospect of such pronouncements, or other conditions beyond our control could adversely affect the availability, quality and cost of items we buy and the operations of our restaurants. Our inability to effectively manage supply chain risk could increase our costs and limit the availability of products critical to our restaurant operations.

**Successful mergers, acquisitions, divestitures and other strategic transactions are important to our future growth and profitability.**

We evaluate potential mergers, acquisitions, franchisees of new and existing restaurants, joint venture investments, and divestitures as part of our 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 or divestiture candidates;
- our ability to achieve projected economic and operating synergies;
- unanticipated changes in business and economic conditions affecting an acquired business; and
- our ability to complete divestitures on acceptable terms and at or near the prices estimated as attainable by us.

**If we are unable to meet our business strategy plan, our profitability in the future may be adversely affected.**

Our ability to meet our business strategy plan is dependent upon, among other things, our and our franchisees' ability to:

- increase gross sales and operating profits at existing restaurants with food and beverage options and high quality service desired by our guests through successful implementation of strategic initiatives;
- identify adequate sources of capital to fund and finance strategic initiatives, including remodeling of existing restaurants and new restaurant development;
- 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, obtain construction materials at suitable prices, and maintain construction schedules; and
- hire and train or retain qualified managers and team members for existing and new restaurants.

**The success of our franchisees is important to our future growth.**

We have significantly increased the percentage of restaurants owned and operated by our franchisees. While our franchise agreements are designed to maintain brand consistency, this increase reduces our direct day-to-day control over these restaurants and may expose us to risks not otherwise encountered if we maintained ownership and control of same. These risks include franchisee defaults in their obligations to us arising from financial or other difficulties encountered by them, such as payments to us or maintenance and improvements obligations; limitations on enforcement of franchise obligations due to bankruptcy or insolvency proceedings; inability to participate in business strategy changes due to financial constraints; inability to meet rent obligations on leases on which we retain contingent liability; and failure to comply with food quality and preparation requirements subjecting us to litigation even when we are not legally liable for a franchisee's actions or failure to act.

**Our sales volumes generally decrease in winter months.**

Our sales volumes fluctuate seasonally and are generally higher in the summer months and lower in the winter months, which may cause seasonal fluctuations in our operating results.

**Unfavorable publicity relating to one or more of our 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 health concerns or operating issues stemming from one or a limited number of restaurants. In particular, since we depend heavily on the Chili's brand for a majority of our 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 our business, financial condition and results of operations.

**We are dependent on information technology and any material failure of that technology could impair our ability to efficiently operate our business.**

We rely on information systems across our operations, including, for example, point-of-sale processing in our restaurants, management of our supply chain, collection of cash, payment of obligations and various other processes and procedures. Our ability to efficiently manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with maintenance, upgrading or transitioning to replacement systems, or a breach in security of these systems could cause delays in customer service and reduce efficiency in our operations. Significant capital investments might be required to remediate any problems.

**We outsource certain business processes to third-party vendors that subject us to risks, including disruptions in business and increased costs.**

Some business processes are currently outsourced to third parties. Such processes include gift card tracking and authorization, credit card authorization and processing, insurance claims processing, certain payroll processing, tax filings and other accounting processes. We also continue to evaluate our other business processes to determine if additional outsourcing is a viable option to accomplish our goals. We make a diligent effort to ensure that all providers of outsourced services are observing proper internal control practices, such as redundant processing facilities; however, there are no guarantees that failures will not occur. Failure of third parties to provide adequate services could have an adverse effect on our results of operations, financial condition or ability to accomplish our financial and management reporting.

**Continuing disruptions in the global financial markets may adversely impact the availability and cost of credit and consumer spending patterns.**

The continuing disruptions to the global financial markets and continuing weak economic recovery has adversely impacted the availability of credit already arranged and the availability and cost of credit in the future. The disruptions in the financial markets also had an adverse effect on the U.S. and world economy, which has negatively impacted consumer spending patterns. There can be no assurance that various U.S. and world government present and future responses to the disruptions in the financial markets will restore consumer confidence, stabilize the markets or increase liquidity or the availability of credit.

**Declines in the market price of our common stock or changes in other circumstances that may indicate an impairment of goodwill could adversely affect our financial position and results of operations.**

We perform our annual goodwill impairment test in the second quarter of each fiscal year. Interim goodwill impairment tests are also required when events or circumstances change between annual tests that would more likely than not reduce the fair value of our reporting units below their carrying value. It is possible that a change in circumstances such as the decline in the market price of our common stock or changes in consumer spending levels, or in the numerous variables associated with the judgments, assumptions and estimates made in assessing the appropriate valuation of our goodwill, could negatively impact the valuation of our brands and create the potential for a non-cash charge to recognize impairment losses on some or all of our goodwill. If we were required to write down a portion of our goodwill and record related non-cash impairment charges, our financial position and results of operations would be adversely affected.

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

We make certain estimates and projections with regards to individual restaurant operations, as well as our overall performance in connection with our impairment analyses for long-lived assets. An impairment charge is required when the carrying value of the asset exceeds the estimated fair value or undiscounted future cash flows of the asset. The projection of future cash flows used in this analysis requires the use of judgment and a number of estimates and projections of future operating results. If actual results differ from our estimates, additional charges for asset impairments may be required in the future. If impairment charges are significant, our results of operations could be adversely affected.

**Failure to protect the integrity and security of individually identifiable data of our guests and teammates could expose us to litigation and damage our reputation.**

We receive and maintain certain personal information about our guests and teammates. The use of this information by us is regulated at the federal and state levels, as well as by certain third party contracts. If our security and information systems are compromised or our business associates fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation, as well as operations, results of operations and financial condition, and could result in litigation against us or the imposition of penalties. As privacy and information security laws and regulations change, we may incur additional costs to ensure it remains in compliance.

**Identification of material weakness in internal control may adversely affect our financial results.**

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002. Those provisions provide for the identification of material weaknesses in internal control. If such a material weakness is identified, it could indicate a lack of adequate controls to generate accurate financial statements. We routinely assess our internal controls, but we cannot assure you that we will be able to timely remediate any material weaknesses that may be identified in future periods, or maintain all of the controls necessary for continued compliance. Likewise, we cannot assure you that we will be able to retain sufficient skilled finance and accounting team members, especially in light of the increased demand for such individuals among publicly traded companies.

**Other risk factors may adversely affect our financial performance.**

Other risk factors that could cause our actual results to differ materially from those indicated in the forward-looking statements by affecting, among many things, pricing, consumer spending and consumer confidence, include, without limitation, changes in economic conditions and financial and credit markets (including rising interest rates and costs for consumers and reduced disposable income); credit availability; increased costs of food commodities; increased fuel costs and availability for our team members, customers and suppliers; increased health care costs; health epidemics or pandemics or the prospects of these events (such as reports on swine flu); consumer perceptions of food safety; changes in consumer tastes and behaviors; governmental monetary policies; changes in demographic trends; availability of employees; terrorist acts; energy shortages and rolling blackouts; and weather (including, major hurricanes and regional winter storms) and other acts of God.

## Item 1B. UNRESOLVED STAFF COMMENTS.

None.

## Item 2. PROPERTIES.

***Restaurant Locations***

At June 29, 2011, our system of company-owned and franchised restaurants included 1,579 restaurants located in 50 states, and Washington, D.C. We also have restaurants in the U.S. territories of Guam and Puerto Rico and the countries of Bahrain, Canada, Dominican Republic, Ecuador, Egypt, El Salvador, Germany, Guatemala, Honduras, India, Indonesia, Japan, Jordan, Kuwait, Lebanon, Malaysia, Mexico, Oman, Peru, Philippines, Portugal, Qatar, Russia, Saudi Arabia, Singapore, South Korea, Syria, Taiwan, United Arab Emirates and Venezuela. We have provided you a breakdown of our portfolio of restaurants in the two tables below:

Table 1: Company-owned vs. franchise (by brand) as of June 29, 2011:

| | |
|---|---|
| Chili's | |
| Company-owned | 824 |
| Franchise | 710 |
| Maggiano's | |
| Company-owned | 44 |
| Franchise | 1 |
| Total | 1,579 |

Table 2: Domestic vs. foreign locations (by brand) as of June 29, 2011 (company-owned and franchised):

| | Domestic (No. of States) | Foreign (No. of countries and territories) |
|---|---|---|
| Chili's | 1,299(50) | 235(32) |
| Maggiano's | 44(20 & D.C.) | 1 |

### *Restaurant Property Information*

The following table illustrates the approximate average dining capacity for each current prototypical restaurant in our restaurant brands:

| | Chili's | Maggiano's |
|---|---|---|
| Square Feet | 3,930-5,450 | 12,000-17,000 |
| Dining Seats | 150-220 | 500-700 |
| Dining Tables | 35-50 | 100-150 |

The leases typically provide for a fixed rental plus percentage rentals based on sales volume. At June 29, 2011, we owned the land and building for 189 of our 868 company-operated restaurant locations. For these 189 restaurant locations, the net book value for the land was $142 million and for the buildings was $132 million. For the remaining 679 restaurant locations leased by us, the net book value of the buildings and leasehold improvements was $591 million. The 679 leased restaurant locations can be categorized as follows: 536 are ground leases (where we lease land only, but own the building) and 143 are retail leases (where we lease the land/retail space and building). We believe that our properties are suitable, adequate, well-maintained and sufficient for the operations contemplated. Some of our leased restaurants are leased for an initial lease term of 5 to 30 years, with renewal terms of 1 to 35 years.

### *Other Properties*

We own an office building containing approximately 108,000 square feet which we use for part of our corporate headquarters and menu development activities. We lease an additional office complex containing approximately 198,000 square feet for the remainder of our corporate headquarters which is currently utilized by us, reserved for future expansion of our headquarters, or sublet to third parties. Because of our operations throughout the United States, we also lease office space in California, Colorado, Florida, New Jersey and Texas for use as regional operation offices. The size of these office leases range from approximately 100 square feet to approximately 4,000 square feet.

## Item 3. LEGAL PROCEEDINGS.

Certain current and former hourly restaurant employees filed a lawsuit against us in California Superior Court alleging violations of California labor laws with respect to meal and rest breaks. The lawsuit seeks penalties and attorneys' fees and was certified as a class action in July 2006. On July 22, 2008, the California Court of Appeals decertified the class action on all claims with prejudice. On October 22, 2008, the California Supreme Court granted writ to review the decision of the Court of Appeals. We intend to vigorously defend our position. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any.

We are engaged in various other legal proceedings and have certain unresolved claims pending. Reserves have been established based on our best estimates of our potential liability in certain of these matters. The ultimate liability, if any, for the aggregate amounts claimed cannot be determined at this time. Based upon consultation with legal counsel, management 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 our 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 STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our 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 29, 2011:

| | High | Low |
|---|---|---|
| First Quarter | $18.84 | $14.12 |
| Second Quarter | $22.15 | $18.24 |
| Third Quarter | $25.32 | $20.88 |
| Fourth Quarter | $26.03 | $23.20 |

Fiscal year ended June 30, 2010:

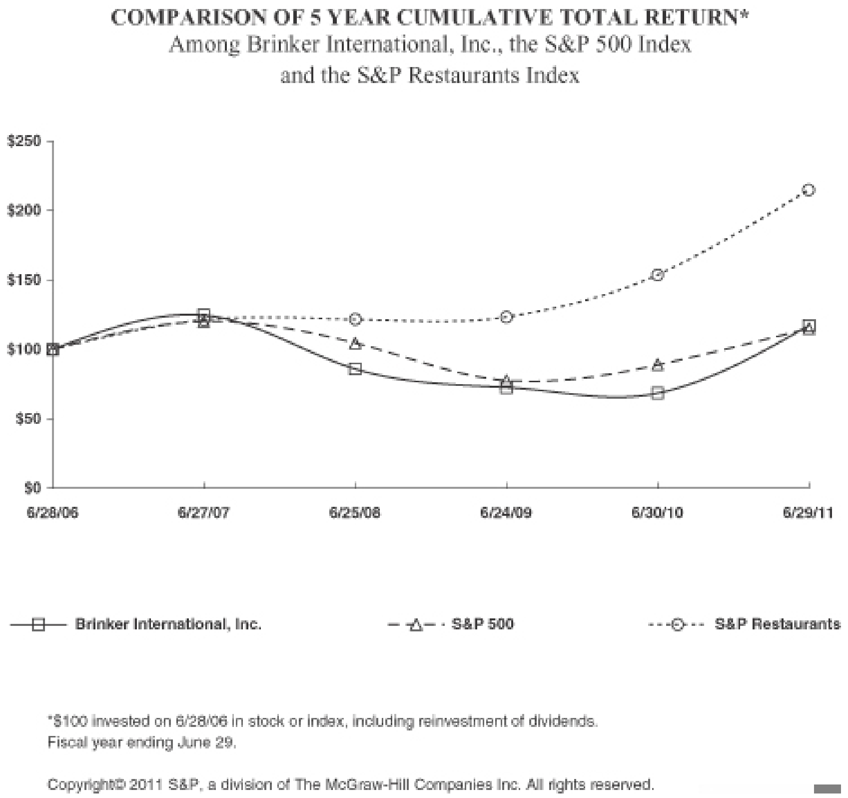
| | High | Low |
|---|---|---|
| First Quarter | $18.33 | $13.79 |
| Second Quarter | $16.51 | $12.60 |
| Third Quarter | $20.48 | $14.36 |
| Fourth Quarter | $20.71 | $14.43 |

As of August 12, 2011, there were 715 holders of record of our common stock.

During the fiscal year ended June 29, 2011, we continued to declare quarterly cash dividends for our shareholders. We have set forth the dividends paid for the fiscal year in the following table:

| Dividend Per Share of Common Stock | Declaration Date | Record Date | Payment Date |
|---|---|---|---|
| $0.14 | August 19, 2010 | September 10, 2010 | September 30, 2010 |
| $0.14 | November 10, 2010 | December 10, 2010 | December 30, 2010 |
| $0.14 | February 10, 2011 | March 11, 2011 | March 31, 2011 |
| $0.14 | June 3, 2011 | June 17, 2011 | June 30, 2011 |

The following graph compares the cumulative five-year total return provided shareholders on Brinker International, Inc.'s common stock relative to the cumulative total returns of the S&P 500 Index and the S&P Restaurants Index.




The graph assumes a $100 initial investment and the reinvestment of dividends in our stock and each of the indexes on June 28, 2006 and its relative performance is tracked through June 29, 2011. The values shown are neither indicative nor determinative of future performance.

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| Brinker International | $ 100.00 | $ 125.33 | $ 85.67 | $ 72.15 | $ 67.63 | $ 117.68 |
| S&P 500 | $ 100.00 | $ 120.59 | $ 104.77 | $ 77.30 | $ 88.46 | $ 115.61 |
| S&P Restaurants(1) | $ 100.00 | $ 121.77 | $ 122.19 | $ 124.04 | $ 155.20 | $ 217.46 |

(1) The S&P Restaurants Index is comprised of Darden Restaurants, Inc., McDonald's Corp., Starbucks Corp., and Yum! Brands Inc.

Except as described in the immediately preceding paragraphs, during the three-year period ended on August 12, 2011, we issued no securities which were not registered under the Securities Act of 1933, as amended.

We continue to maintain our share repurchase program; on June 3, 2011 our Board of Directors increased our share repurchase authorization by $250 million, bringing the total authorization to $2,885 million. During the fourth quarter, we repurchased shares as follows (in thousands, except share and per share amounts):

| | Total Number of Shares Purchased(a) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value that May Yet be Purchased Under the Program |
|---|---|---|---|---|
| March 31, 2011 through May 4, 2011 | 668,065 | $ 24.76 | 663,158 | $ 241,324 |
| May 5, 2011 through June 1, 2011 | 1,600,819 | $ 24.68 | 1,600,000 | $ 201,808 |
| June 2, 2011 through June 29, 2011 | 274,909 | $ 25.53 | 273,600 | $ 444,819 |
| Total | 2,543,793 | $ 24.79 | 2,536,758 | |

(a) These amounts include shares purchased as part of our publicly announced programs and shares owned and tendered by team members to satisfy tax withholding obligations on the vesting of restricted share awards, which are not deducted from shares available to be purchased under publicly announced programs. Unless otherwise indicated, shares owned and tendered by team members to satisfy tax withholding obligations were purchased at the average of the high and low prices of the Company's shares on the date of vesting. During the fourth quarter of fiscal 2011, 7,035 shares were tendered by team members at an average price of $25.02.

## Item 6. SELECTED FINANCIAL DATA.

The information set forth in that section entitled "Selected Financial Data" in our 2011 Annual Report to Shareholders is presented on page F-1 of Exhibit 13 to this document. We incorporate that information in this document by reference.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information set forth in that section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2011 Annual Report to Shareholders is presented on pages F-2 through F-13 of Exhibit 13 to this document. We incorporate that information in this document by reference.

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

The information set forth in that section entitled "Quantitative and Qualitative Disclosures About Market Risk" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" is in our 2011 Annual Report to Shareholders presented on pages F-12 and F-13 of Exhibit 13 to this document. We incorporate that information in this document by reference.

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

We refer you to the Index to Financial Statements attached hereto on page 21 for a listing of all financial statements in our 2011 Annual Report to Shareholders. This report is attached as part of Exhibit 13 to this document. We incorporate those financial statements in this document by reference.

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

None.

## Item 9A.  CONTROLS AND PROCEDURES.

***Disclosure Controls and Procedures***

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 [the "Exchange Act"]), as of the end of the period covered by this Annual Report on Form 10-K, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective.

***Management's Report on Internal Control over Financial Reporting***

"Management's Report on Internal Control over Financial Reporting" and the attestation report of the independent registered public accounting firm of KPMG, LLP on internal control over financial reporting are in our 2011 Annual Report to Shareholders and are presented on pages F-35 through F-37 of Exhibit 13 to this document. We incorporate these reports in this document by reference.

***Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during our fourth quarter ended June 29, 2011, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

## Item 9B.  OTHER INFORMATION.

None.

# PART III

## Item 10.  DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

If you would like information about:

- our executive officers,
- our Board of Directors, including its committees, and
- our Section 16(a) reporting compliance,

you should read the sections entitled "Election of Directors—Information About Nominees", "Committees of the Board of Directors", "Executive Officers", and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement to be dated on or about September 15, 2011, for the annual meeting of shareholders on November 3, 2011. We incorporate that information in this document by reference.

The Board of Directors has adopted a code of ethics that applies to all of the members of Board of Directors and all of our employees, including, the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the code is posted on our internet website at the internet address: http://www.brinker.com/corp_gov/ethical_business_ policy.asp. You may obtain free of charge copies of the code from our website at the above internet address. Any amendment of, or waiver from, our code of ethics will be posted on our website within four business days of such amendment or waiver.

## Item 11.  EXECUTIVE COMPENSATION.

If you would like information about our executive compensation, you should read the section entitled "Executive Compensation—Compensation Discussion and Analysis" in our Proxy Statement to be dated on or about September 15, 2011, for the annual meeting of shareholders on November 3, 2011. We incorporate that information in this document by reference.

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

If you would like information about our security ownership of certain beneficial owners and management and related stockholder matters, you should read the sections entitled “Director Compensation for Fiscal 2011”, “Compensation Discussion and Analysis”, and “Stock Ownership of Certain Persons” in our Proxy Statement to be dated on or about September 15, 2011, for the annual meeting of shareholders on November 3, 2011. We incorporate that information in this document by reference.

### Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

If you would like information about certain relationships and related transactions, you should read the section entitled “Compensation Committee Interlocks and Insider Participation” in our Proxy Statement to be dated on or about September 15, 2011, for the annual meeting of shareholders on November 3, 2011. We incorporate that information in this document by reference.

If you would like information about the independence of our non-management directors and the composition of the Audit Committee, Compensation Committee and Governance and Nominating Committee, you should read the sections entitled “Director Independence” and “Committees of the Board of Directors” in our Proxy Statement to be dated on or about September 15, 2011, for the annual meeting of shareholders on November 3, 2011. We incorporate that information in this document by reference.

### Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

If you would like information about principal accountant fees and services, you should read the section entitled “Ratification of Independent Auditors” in our Proxy Statement to be dated on or about September 15, 2011, for the annual meeting of shareholders on November 3, 2011. We incorporate that information in this document by reference.

## PART IV

### Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) Financial Statements.

We make reference to the Index to Financial Statements attached to this document on page 21 for a listing of all financial statements attached as Exhibit 13 to this document.

(a)(2) Financial Statement Schedules.

None.

(a)(3) Exhibits.

We make reference to the Index to Exhibits preceding the exhibits attached hereto on page E-1 for a list of all exhibits filed as a part of this document.

**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/ GUY J. CONSTANT
Guy J. Constant,
*Executive Vice President and*
*Chief Financial Officer*

Dated: August 29, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, we have signed in our indicated capacities on August 29, 2011.

| Name | Title |
|---|---|
| /S/ DOUGLAS H. BROOKS<br>Douglas H. Brooks | Chairman of the Board, President, and Chief Executive Officer (Principal Executive Officer) |
| /S/ GUY J. CONSTANT<br>Guy J. Constant | Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) |
| /S/ DAVID DENO<br>David Deno | Director |
| /S/ JOSEPH M. DEPINTO<br>Joseph M. DePinto | Director |
| /S/ MICHAEL DIXON<br>Michael Dixon | Director |
| /S/ HARRIET EDELMAN<br>Harriet Edelman | Director |
| /S/ MARVIN J. GIROUARD<br>Marvin J. Girouard | Director |
| /S/ JON LUTHER<br>Jon Luther | Director |
| /S/ JOHN W. MIMS<br>John W. Mims | Director |
| /S/ GEORGE R. MRKONIC<br>George R. Mrkonic | Director |
| /S/ ERLE NYE<br>Erle Nye | Director |
| /S/ ROSENDO G. PARRA<br>Rosendo G. Parra | Director |
| /S/ CECE SMITH<br>Cece Smith | 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 financials 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 5.75% Note due 2014.(3) |
| 4(b) | Indenture between the Registrant and Citibank, N.A., as Trustee.(4) |
| 4(c) | 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.(4) |
| 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) | Registrant's Performance Share Plan Description.(8) |
| 10(f) | Credit Agreement dated as of June 22, 2010, by and among Registrant, Brinker Restaurant Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities, LLC, Regions Capital Markets, a Division of Regions Bank, J.P. Morgan Chase Bank, N.A., Regions Bank, Compass Bank, and Wells Fargo Bank, National Association, as amended by Amendment No. 1, dated as of August 9, 2011.(9) |
| 13 | 2011 Annual Report to Shareholders.(10) |
| 21 | Subsidiaries of the Registrant.(11) |
| 23 | Consent of Independent Registered Public Accounting Firm.(11) |
| 31(a) | Certification by Douglas H. Brooks, Chairman of the Board, President and Chief Executive Officer of the Registrant, pursuant to 17 CFR 240.13a—14(a) or 17 CFR 240.15d—14(a).(11) |
| 31(b) | Certification by Guy Constant, 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).(11) |
| 32(a) | Certification by Douglas H. Brooks, Chairman of the Board, 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.(11) |
| 32(b) | Certification by Guy Constant, 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.(11) |
| 99(a) | Proxy Statement of Registrant.(12) |
| 101+ | Interactive Data File |
| + | As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934. |

(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 quarterly report on Form 10-Q for quarter ended March 30, 2011, and incorporated herein by reference.

(3) Included in exhibit 4(d) to annual report on Form 10-K for year ended June 30, 2004, and incorporated herein by reference.

(4) 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.

(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 Appendix A to Proxy Statement of Registrant, filed on September 11, 2008, and incorporated herein by reference.

(7) Filed as an exhibit to quarterly report on Form 10-Q for the quarter ended December 28, 2005, and incorporated herein by reference.

(8) Filed as an exhibit to quarterly report on Form 10-Q for the quarter ended March 29, 2006, and incorporated herein by reference.

(9) Filed as an exhibit to current report on Form 8-K dated August 9, 2011, and incorporated herein by reference.

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

(11) Filed herewith.

(12) To be filed on or about September 15, 2011.

**BRINKER INTERNATIONAL, INC.**

**SELECTED FINANCIAL DATA**

**(In thousands, except per share amounts and number of restaurants)**

| | Fiscal Years 2011 | 2010(a) | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Income Statement Data:** | | | | | |
| Revenues | $2,761,386 | $2,858,498 | $3,276,362 | $3,860,921 | $4,007,771 |
| Operating Costs and Expenses: | | | | | |
| Cost of sales | 742,283 | 816,015 | 923,668 | 1,101,125 | 1,126,756 |
| Restaurant labor | 886,559 | 926,474 | 1,054,078 | 1,239,604 | 1,261,579 |
| Restaurant expenses | 655,060 | 660,922 | 784,657 | 922,382 | 950,957 |
| Depreciation and amortization | 128,447 | 135,832 | 145,220 | 147,393 | 171,768 |
| General and administrative | 132,834 | 136,270 | 147,372 | 163,996 | 188,630 |
| Other gains and charges | 10,783 | 28,485 | 118,612 | 196,364 | (9,082) |
| Total operating costs and expenses | 2,555,966 | 2,703,998 | 3,173,607 | 3,770,864 | 3,690,608 |
| Operating income | 205,420 | 154,500 | 102,755 | 90,057 | 317,163 |
| Interest expense | 28,311 | 28,515 | 33,330 | 45,862 | 30,929 |
| Other, net | (6,220) | (6,001) | (9,430) | (4,046) | (5,071) |
| Income before provision for income taxes | 183,329 | 131,986 | 78,855 | 48,241 | 291,305 |
| Provision for income taxes | 42,269 | 28,264 | 6,734 | 2,644 | 80,144 |
| Income from continuing operations | 141,060 | 103,722 | 72,121 | 45,597 | 211,161 |
| Income from discontinued operations, net of taxes | 0 | 33,982 | 7,045 | 6,125 | 18,888 |
| Net income | $ 141,060 | $ 137,704 | $ 79,166 | $ 51,722 | $ 230,049 |
| Basic net income per share: | | | | | |
| Income from continuing operations | $ 1.55 | $ 1.02 | $ 0.71 | $ 0.44 | $ 1.74 |
| Income from discontinued operations | $ 0.00 | $ 0.33 | $ 0.07 | $ 0.06 | $ 0.16 |
| Net income per share | $ 1.55 | $ 1.35 | $ 0.78 | $ 0.50 | $ 1.90 |
| Diluted net income per share: | | | | | |
| Income from continuing operations | $ 1.53 | $ 1.01 | $ 0.70 | $ 0.43 | $ 1.70 |
| Income from discontinued operations | $ 0.00 | $ 0.33 | $ 0.07 | $ 0.06 | $ 0.15 |
| Net income per share | $ 1.53 | $ 1.34 | $ 0.77 | $ 0.49 | $ 1.85 |
| Basic weighted average shares outstanding | 90,807 | 102,287 | 101,852 | 103,101 | 121,062 |
| Diluted weighted average shares outstanding | 92,320 | 103,044 | 102,713 | 104,897 | 124,116 |
| **Balance Sheet Data:** | | | | | |
| Working capital | $ (184,241) | $ 51,190 | $ 110,812 | $ 88,745 | $ 277,298 |
| Total assets | 1,484,568 | 1,852,104 | 1,948,947 | 2,193,122 | 2,318,021 |
| Long-term obligations | 640,057 | 673,479 | 883,521 | 1,061,669 | 960,196 |
| Shareholders' equity | 438,910 | 728,748 | 646,924 | 595,089 | 805,089 |
| Dividends per share | $ 0.56 | $ 0.47 | $ 0.44 | $ 0.42 | $ 0.34 |
| **Number of Restaurants Open (End of Period):** | | | | | |
| Company-operated | 868 | 871 | 1,024 | 1,265 | 1,312 |
| Franchised/Joint venture | 711 | 679 | 665 | 623 | 489 |
| Total | 1,579 | 1,550 | 1,689 | 1,888 | 1,801 |
| **Revenues of franchisees(b)** | $1,558,886 | | | | |

(a) Fiscal year 2010 consisted of 53 weeks while all other periods presented consisted of 52 weeks.

(b) Revenues of franchisees are not recorded as revenues by the Company. Management believes that franchisee revenue information is important in understanding the Company's financial performance because these revenues are the basis on which the Company calculates and records franchise revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help you understand our company, our operations, and our current operating environment. For an understanding of the significant factors that influenced our performance during the past three fiscal years, the MD&A should be read in conjunction with the consolidated financial statements and related notes included in this annual report. Our MD&A consists of the following sections:

- **Overview**—a general description of our business and the casual dining segment of the restaurant industry
- **Results of Operations**—an analysis of our consolidated statements of income for the three years presented in our consolidated financial statements
- **Liquidity and Capital Resources**—an analysis of cash flows, including capital expenditures, aggregate contractual obligations, share repurchase activity, known trends that may impact liquidity, and the impact of inflation
- **Critical Accounting Estimates**—a discussion of accounting policies that require critical judgments and estimates

We have a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal years 2011 and 2009, which ended on June 29, 2011 and June 24, 2009, respectively, each contained 52 weeks. Fiscal year 2010 ended on June 30, 2010 and contained 53 weeks. The 53rd week in fiscal 2010 contributed approximately $52 million of incremental revenue and nine cents of incremental earnings per diluted share. While certain expenses increased in direct relationship to additional revenue from the 53rd week, other expenses, such as fixed costs, are incurred on a calendar month basis.

At the beginning of fiscal 2011, we began reporting certain labor and related expenses in a separate caption on the consolidated statements of income titled restaurant labor. All prior year amounts previously classified in restaurant expenses have been reclassified to conform to the fiscal 2011 presentation. Restaurant labor includes all compensation-related expenses, including benefits and incentive compensation, for restaurant team members at the general manager level and below. Labor-related expenses attributable to supervision above the individual restaurant level continue to be included in restaurant expenses. These reclassifications have no effect on our net income or financial position as previously reported.

### OVERVIEW

We are principally engaged in the ownership, operation, development, and franchising of the Chili's Grill & Bar ("Chili's") and Maggiano's Little Italy ("Maggiano's") restaurant brands. At June 29, 2011, we owned, operated, or franchised 1,579 restaurants. We sold On The Border Mexican Grill & Cantina ("On The Border") to OTB Acquisition LLC ("OTB Acquisition"), an affiliate of San Francisco-based Golden Gate Capital, in June 2010. On The Border is presented as discontinued operations in the consolidated financial statements.

We are committed to strategies and initiatives that are centered on long-term sales and profit growth, enhancing the guest experience and team member engagement. These strategies are intended to differentiate our brands from the competition, reduce the costs associated with managing our restaurants and establish a strong presence for our brands in key markets around the world. We will continue to maintain a strong balance sheet and financial flexibility to support our strategic initiatives and to provide stability in all operating environments.

Economic conditions have been turbulent over the last year and have provided a challenging operating environment for Brinker and the casual dining industry. Key economic factors such as total employment, consumer confidence and spending levels have been soft this year. More recently, the political environment and governmental deficits in the United States and abroad have negatively impacted consumer confidence. In addition, higher gas prices and the potential for near term commodity price increases may negatively impact the industry. We anticipate that market conditions will continue to affect our business and consumers will remain cautious. We will continue to evaluate our business and implement initiatives designed to mitigate risk, improve short-term sales and profitability and provide opportunities for long-term growth.

Our current initiatives are designed to drive profitable sales growth and improve the guest experience in our restaurants. We have implemented a team service model at Chili's which has resulted in labor efficiencies and better guest feedback. Additional labor savings were achieved through improved food preparation procedures, a component of our kitchen retrofit initiative which was implemented at an accelerated pace in the second quarter. Another component of this initiative is the modification of our kitchens to include improved technology and equipment to provide a more consistent, high quality product at a faster pace, while generating substantial labor cost savings. We expect to install this equipment in a substantial number of Chili's restaurants in fiscal 2012. We are also implementing new restaurant information systems which we anticipate will increase profits through increased kitchen efficiency and better inventory control. In addition to executing these operational strategies, we have repurchased shares of our common stock in order to return value to our shareholders and recently executed a revised credit facility to increase our financial flexibility while taking advantage of more favorable financing costs. We believe that the successful implementation of these operational and financial initiatives will help drive sales growth and operational efficiency while strengthening our competitive advantage and enhancing shareholder value.

We plan to leverage our improved business model and elevated guest experience by implementing multiple initiatives that will further enhance guest traffic and sales. We continually evaluate our menu at Chili's to improve quality, freshness and value by introducing new items and improving existing favorites. Our new lunch menu items are focused on value and pace to drive our lunch daypart sales. Additionally, we have introduced new items and promotions to enhance our dinner and happy hour business. We will continue to utilize promotional activities as a tool to drive incremental sales; however, this is only one aspect of our overall sales strategy. We are committed to offering a compelling everyday menu that provides items our guests prefer at a solid value. We intend to remodel a significant number of company-owned restaurants in fiscal 2012, revitalizing Chili's in a way which modernizes the brand and raises guest expectations regarding the quality of the experience. Improvements at Chili's will have the most significant impact on the business; however, our results will also benefit through additional contributions from Maggiano's and our global business. Maggiano's sales trends and traffic continue to improve, driven by offering guests a great value with classic pasta, new menu items and direct marketing. We believe our unique food and signature drinks, improved service and updated atmospheres will result in stronger brands and sustainable sales and profit growth through increased guest loyalty and traffic.

Global expansion allows further diversification which is intended to enable us to build strength in a variety of markets and economic conditions. This expansion will come through joint venture arrangements, equity investments and franchise relationships, taking advantage of demographic and eating trends that will accelerate in the international market over the next decade. Our growing percentage of franchise operations, both domestically and internationally, enable us to improve margins as royalty payments impact the bottom line.

The casual dining industry is a competitive business which is sensitive to changes in economic conditions, trends in lifestyles and fluctuating costs. Our priority remains increasing profitable growth over time in all operating environments. We have designed both operational and financial strategies to achieve this goal and in our opinion, improve shareholder value. Success with our initiatives to improve sales trends and operational effectiveness will enhance the profitability of our restaurants and strengthen our competitive position. The effective execution of our financial strategies, including repurchasing shares of our common stock, disciplined use of capital and efficient management of operating expenses, will further enhance our profitability and return value to our shareholders. We remain confident in the financial health of our company, the long-term prospects of the industry as well as our ability to perform effectively in a competitive marketplace and a variety of economic environments.

## RESULTS OF OPERATIONS FOR FISCAL YEARS 2011, 2010, AND 2009

The following table sets forth income and expense items as a percentage of total revenues for the periods indicated:

| | Percentage of Total Revenues Fiscal Years | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Revenues | 100.0% | 100.0% | 100.0% |
| Operating Costs and Expenses: | | | |
| Cost of sales | 26.9% | 28.5% | 28.2% |
| Restaurant labor | 32.1% | 32.4% | 32.2% |
| Restaurant expenses | 23.7% | 23.1% | 23.9% |
| Depreciation and amortization | 4.7% | 4.8% | 4.5% |
| General and administrative | 4.8% | 4.8% | 4.5% |
| Other gains and charges | 0.4% | 1.0% | 3.6% |
| Total operating costs and expenses | 92.6% | 94.6% | 96.9% |
| Operating income | 7.4% | 5.4% | 3.1% |
| Interest expense | 1.0% | 1.0% | 1.0% |
| Other, net | (0.2)% | (0.2)% | (0.3)% |
| Income before provision for income taxes | 6.6% | 4.6% | 2.4% |
| Provision for income taxes | 1.5% | 1.0% | 0.2% |
| Income from continuing operations | 5.1% | 3.6% | 2.2% |
| Income from discontinued operations, net of taxes | 0.0% | 1.2% | 0.2% |
| Net income | 5.1% | 4.8% | 2.4% |

## REVENUES

Revenues for fiscal 2011 decreased to $2,761.4 million, a 3.4% decrease from the $2,858.5 million generated for fiscal 2010. Excluding revenues of approximately $52 million attributable to the additional operating week in fiscal 2010, the decrease in revenue was primarily due to the change in comparable restaurant sales resulting from a decline in guest traffic, partially offset by favorable menu pricing, as well as a decline in capacity at company-owned restaurants as follows:

| | Fiscal Year Ended June 29, 2011(1) | | | | |
|---|---|---|---|---|---|
| | Comparable Sales | Price Increase | Mix Shift | Traffic | Capacity |
| Company-owned | (1.2)% | 1.1% | (0.1)% | (2.2)% | (1.9)% |
| Chili's | (2.0)% | 1.2% | 0.0% | (3.2)% | (2.0)% |
| Maggiano's | 3.9% | 0.7% | (0.6)% | 3.8% | 0.2% |
| Franchise(2) | (1.5)% | | | | |
| Domestic | (3.2)% | | | | |
| International | 3.5% | | | | |
| System-wide(3) | (1.3)% | | | | |

(1) Amounts are calculated based on 52 weeks in each fiscal year.

(2) Revenues generated by franchisees are not included in revenues on the consolidated statements of income; however, we generate royalty revenue and advertising fees based on franchisee revenues, where applicable. We believe including franchisee comparable restaurants revenues provides investors information regarding brand performance that is relevant to current operations and may impact future restaurant development.

(3) System-wide comparable restaurant sales are derived from sales generated by company-owned Chili's and Maggiano's restaurants in addition to the sales generated at franchisee operated restaurants.

Chili's revenues decreased to $2,321.7 million in fiscal 2011, a 4.9% decrease from $2,441.9 million in fiscal 2010. The decrease was primarily driven by the impact of the additional operating week in fiscal 2010 and a decline in comparable restaurant sales of 2.0% attributable to a decrease in guest traffic, partially offset by favorable menu pricing. Revenues were also impacted by a decrease in capacity of 2.0% for fiscal 2011 (as measured by average-weighted sales weeks) primarily due to three restaurant closures during fiscal 2011.

Maggiano's revenues increased to $374.0 million in fiscal 2011, a 6.3% increase from $352.0 million in fiscal 2010 driven primarily by an increase in guest traffic partially offset by the impact of the additional operating week in fiscal 2010.

Royalty and franchise revenues increased 1.7% to $65.7 million in fiscal 2011 compared to $64.6 million in fiscal 2010. The increase is primarily due to the net addition of six domestic and 23 international franchised restaurants during fiscal 2011. Royalty revenues are recognized based on the sales generated by our franchisees and reported to us. Our franchisees generated approximately $1,559 million in sales, an increase of 1.1% over prior year.

Revenues for fiscal 2010 decreased to $2,858.5 million, a 12.8% decrease from the $3,276.4 million generated for fiscal 2009. The decrease in revenue was primarily attributable to the change in comparable restaurant sales resulting from a decline in guest traffic, product mix and capacity at company-owned restaurants, partially offset by the positive impact of the additional operating week as follows:

| | Fiscal Year Ended June 30, 2010(1) | | | | |
|---|---|---|---|---|---|
| | Comparable Sales | Price Increase | Mix Shift | Traffic | Capacity |
| Company-owned | (4.2)% | 1.3% | (1.2)% | (4.3)% | (13.2)% |
| Chili's | (4.6)% | 1.5% | (1.2)% | (4.9)% | (4.1)% |
| Maggiano's | (1.2)% | 0.5% | (1.2)% | (0.5)% | 2.3% |
| Franchise(2) | (4.8)% | | | | |
| Domestic | (5.9)% | | | | |
| International | (1.2)% | | | | |
| System-wide(3) | (4.4)% | | | | |

(1) Amounts are calculated based on 52 weeks in each fiscal year.

(2) Revenues generated by franchisees are not included in revenues on the consolidated statements of income; however, we generate royalty revenue and advertising fees based on franchisee revenues, where applicable. We believe including franchisee comparable restaurants revenues provides investors information regarding brand performance that is relevant to current operations and may impact future restaurant development.

(3) System-wide comparable restaurant sales are derived from sales generated by company-owned Chili's and Maggiano's restaurants in addition to the sales generated at franchisee operated restaurants.

Our capacity decreased 13.2% in fiscal 2010 (as measured by average-weighted sales weeks). The reduction in capacity was primarily due to the sale of 189 Macaroni Grill restaurants at the end of the second quarter of fiscal 2009 as well as the sale of 21 Chili's restaurants to a franchisee and 11 restaurant closures during fiscal 2010.

Chili's revenues decreased to $2,441.9 million in fiscal 2010, a 6.5% decrease from $2,611.9 million in fiscal 2009. The decrease was primarily driven by a decline in comparable restaurant sales of 4.6%, partially offset by the impact of the additional operating week in fiscal 2010. The decrease in comparable restaurant sales was attributable to a decline in guest traffic and unfavorable product mix shifts, partially offset by favorable menu pricing. Revenues were also impacted by a decrease in capacity of 4.1% for fiscal 2010 (as measured by average-weighted sales weeks) primarily due to the sale of 21 restaurants to a franchisee and 10 Chili's restaurant closures during fiscal 2010.

Maggiano's revenues increased to $352.0 million in fiscal 2010, a 2.1% increase from $344.6 million in fiscal 2009. The increase was primarily driven by the additional operating week in fiscal 2010 and an increase in capacity of 2.3% for fiscal 2010 (as measured by average-weighted sales weeks) primarily due to one restaurant opening in fiscal 2010. Revenues were also impacted by a decrease in comparable restaurant sales of 1.2% resulting primarily from unfavorable product mix shifts.

Royalty and franchise revenues of $64.6 million for fiscal 2010 were flat as compared to fiscal 2009. Royalty revenues are recognized based on the sales generated by our franchisees and reported to us.

**COSTS AND EXPENSES**

Cost of sales, as a percent of revenues, decreased 1.6% in fiscal 2011. Cost of sales was favorably impacted primarily by improved product mix at Chili's and decreased commodity pricing for chicken and cheese. Cost of sales, as a percent of revenues, increased 0.3% in fiscal 2010. Cost of sales was negatively impacted primarily by promotions and the impact of the new menu rollout at Chili's, partially offset by favorable menu pricing and favorable commodity pricing for beef and chicken.

Restaurant labor, as a percent of revenues, decreased 0.3% in fiscal 2011 primarily driven by lower labor expenses due to the successful implementation of team service and food preparation initiatives at Chili's, partially offset by higher restaurant manager incentive compensation resulting from improved restaurant performance. Restaurant labor, as a percent of revenues, increased 0.2% in fiscal 2010 primarily driven by the unfavorable impact of menu promotions and the rollout of new menu items for Chili's, partially offset by lower manager salaries and incentive compensation due to reduced headcount. Restaurant labor includes all compensation-related expenses, including benefits and incentive compensation, for restaurant team members at the general manager level and below.

Restaurant expenses, as a percent of revenues, increased 0.6% in fiscal 2011 primarily driven by sales deleverage on fixed costs from the additional operating week in fiscal 2010 and current year changes to Maggiano's banquet billing and compensation structure, partially offset by a reduced utilities expense due to lower rates. Restaurant expenses, as a percent of revenues, decreased 0.8% in fiscal 2010 primarily driven by reduced utility and advertising expense, sales leverage due to the additional operating week and the receipt of a $3.3 million credit card class action lawsuit settlement.

Depreciation and amortization decreased $7.4 million in fiscal 2011 and $9.4 million in fiscal 2010 primarily driven by an increase in fully depreciated assets, restaurant closures and impairments, partially offset by an increase in depreciation due to asset replacements and investments in existing restaurants.

General and administrative expenses decreased $3.4 million in fiscal 2011 primarily due to reductions in salary and stock-based compensation expenses resulting from lower headcount driven by organizational changes, partially offset by increased performance based compensation, higher professional fees and the expiration of the transitional services agreement with Macaroni Grill that offset the internal cost of providing the services. General and administrative expenses decreased $11.1 million in fiscal 2010 primarily due to lower headcount and the sale of Macaroni Grill in the second quarter of fiscal 2009, decreases in professional fees, and income related to transitional services provided to Macaroni Grill. The reductions in general and administrative expenses were partially offset by higher annual performance based compensation expense.

Other gains and charges in fiscal 2011 consisted of $5.0 million in severance and other benefits resulting from organizational changes, $3.0 million in lease termination charges related to previously closed restaurants and $1.9 million in long-lived asset impairments related to underperforming restaurants that are continuing to operate. Additionally, we recorded a $1.5 million charge related to litigation and net gains of $1.7 million related to land sales.

Other gains and charges in fiscal 2010 included a $19.8 million impairment charge related to 22 underperforming restaurants that are continuing to operate. We also recorded $4.0 million in lease termination charges and $5.4 million in long-lived asset impairments resulting from the decision to close nine underperforming restaurants. Additionally, we recorded $2.4 million in lease termination charges related to restaurants closed in prior years and $1.9 million in severance and other benefits resulting from organizational changes. These charges were partially offset by gains of $4.9 million related to the sale of 21 restaurants to a franchisee and land sales.

Other gains and charges in fiscal 2009 included $59.4 million in charges primarily resulting from the decision to close 37 underperforming restaurants, including eight international restaurants. The charges include $40.8 million in long-lived asset impairments, $5.2 million in lease termination charges, $1.2 million of charges related to the write-off of other assets and liabilities, and $2.1 million of charges related to realized foreign currency translation losses. Also included is $6.2 million in lease termination charges associated with restaurants closed in prior years. Additionally, we recorded a $10.5 million impairment charge related to underperforming restaurants, a $7.7 million goodwill impairment charge as a result of the international restaurant closings and organizational changes resulted in charges of $5.5 million for severance and other costs. In December 2008, we sold Macaroni Grill to Mac Acquisition and recorded a loss on the sale of $40.4 million. The charges were partially offset by a $3.9 million gain related to the sale of nine restaurants to a franchisee and land sales.

Interest expense remained flat in fiscal 2011 as a result of higher average interest rates on our debt carrying variable interest rates, offset by the impact of a lower average borrowing balance and $1.7 million in accelerated expense in the prior year related to the remaining capitalized financing costs associated with the terminated revolving credit facility in fiscal 2010. Interest expense decreased $4.8 million in fiscal 2010 primarily as a result of a lower average borrowing balance and a decrease in interest rates on our debt carrying variable interest rates. We repaid $190.0 million on the three-year term loan during the year. These decreases were partially offset by $1.7 million in accelerated expense related to the remaining capitalized financing costs associated with the terminated revolving credit facility.

Other, net in fiscal 2011 includes $5.3 million of sublease income from Mac Acquisition and franchisees as part of the sale agreements and other subtenants as well as $0.6 million of interest income on short-term investment balances. Other, net in fiscal 2010 includes $4.7 million of sublease income from Mac Acquisition as part of the sale agreement and other subtenants as well as $0.6 million of interest income on short-term investment balances. Other, net in fiscal 2009 includes a $5.5 million gain from insurance proceeds, $1.7 million of sublease income and $1.6 million of interest income on short-term investment balances.

Income from discontinued operations, net of taxes, increased to $34.0 million in fiscal 2010 from $7.0 million in fiscal 2009. In fiscal 2010, we recorded a $16.5 million pre-tax gain on the sale of the On The Border restaurants.

**INCOME TAXES**

The effective income tax rate from continuing operations increased to 23.1% for fiscal 2011 from 21.4% in fiscal 2010 primarily due to an increase in earnings, partially offset by the resolution of certain tax positions resulting in a positive impact in the current year greater than the prior year. Excluding the impact of special items and resolved tax positions, the effective income tax rate from continuing operations increased to 27.8% in fiscal 2011 from 26.0% in fiscal 2010 due to an increase in earnings, partially offset by a decrease in state income tax expense.

The effective income tax rate increased to 21.4% for fiscal 2010 from 8.5% for fiscal 2009. The variation in the effective tax rates during fiscal 2009 was significantly impacted by the loss on the sale of Macaroni Grill and charges for long-lived asset impairments. Excluding the impact of these significant non-recurring items, the effective income tax rate from continuing operations decreased slightly to 26.0% in fiscal 2010 compared to 26.5% in fiscal 2009 due to a decrease in earnings.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

*Cash Flow from Operating Activities—Continuing Operations*

During fiscal 2011, net cash flow provided by operating activities of continuing operations was $260.0 million compared to $297.4 million in the prior year. The decrease was driven by significant changes in working capital during the fiscal year. The settlement of liabilities associated with the On The Border brand and cash paid for taxes in the current year negatively impacted operating cash flow in comparison to the prior year. Cash paid for taxes in the prior year was positively impacted by the recognition of losses related to the Macaroni Grill divestiture.

Working capital decreased to a deficit of $184.2 million at June 29, 2011 from a surplus of $51.2 million at June 30, 2010. The deficit as of June 29, 2011 was primarily due to purchases of treasury stock and quarterly dividend payments in fiscal 2011, partially offset by the timing of income tax and operational payments. The surplus as of June 30, 2010 was primarily due to proceeds from the sale of On The Border at year-end and the retention of cash from operations to maximize our liquidity position.

*Cash Flow from Investing Activities—Continuing Operations*

| | 2011 | 2010 |
|---|---|---|
| Net cash used in investing activities (in thousands): | | |
| Payments for property and equipment | $(70,361) | $(60,879) |
| Proceeds from sale of assets | 8,696 | 26,603 |
| Investments in equity method investees | (2,896) | — |
| Decrease in restricted cash | — | 29,749 |
| | $(64,561) | $ (4,527) |

Net cash used in investing activities of continuing operations for fiscal 2011 increased to approximately $64.6 million compared to $4.5 million in the prior year. Capital expenditures increased to $70.4 million for fiscal 2011 compared to $60.9 million for fiscal 2010 driven primarily by increases in asset replacements, investments in information technology infrastructure and remodel investments. We estimate that our capital expenditures during fiscal 2012 will be approximately $155 million to $165 million and will be funded entirely by cash from operations.

During fiscal 2010, we sold 21 Chili's restaurants to a franchisee for $19.0 million. We also dissolved our wholly-owned captive insurance company which allowed us to access $29.7 million of cash that was previously pledged as collateral and classified as restricted.

*Cash Flow from Financing Activities—Continuing Operations*

| | 2011 | 2010 |
|---|---|---|
| Net cash used in financing activities (in thousands): | | |
| Purchases of treasury stock | $(422,099) | $ (22,868) |
| Payments of dividends | (53,185) | (34,448) |
| Proceeds from issuances of treasury stock | 33,057 | 2,396 |
| Payments on long-term debt | (16,127) | (391,046) |
| Net proceeds from issuance of long-term debt | — | 196,389 |
| Other | 291 | 139 |
| | $(458,063) | $(249,438) |

Net cash used in financing activities of continuing operations for fiscal 2011 increased to approximately $458.1 million compared to $249.4 million in the prior year primarily due to higher treasury stock purchases and dividend payments, partially offset by lower debt payments in the current year.

Pursuant to our stock repurchase plan, we repurchased approximately 20.6 million shares of our common stock for $420.0 million during fiscal 2011. The share repurchases were funded using proceeds from the On The Border divestiture in June 2010 as well as cash flow from operations. As of August 23, 2011, we have repurchased approximately 1.9 million shares for $45.8 million in fiscal 2012.

We paid dividends of $53.2 million to common stock shareholders in fiscal 2011 compared to $34.4 million in dividends paid in fiscal 2010. The increase is primarily due to the payment of four quarterly cash dividends in fiscal 2011 compared to three quarterly cash dividends in fiscal 2010, as the fourth quarter fiscal 2010 dividend was declared in March 2010 and paid in July 2010. The increase also reflects a 27 percent increase in our quarterly dividend rate from $0.11 to $0.14 per share effective with the July 2010 payment. Additionally, we declared a quarterly dividend late in fiscal 2011 which was paid early in fiscal 2012 on June 30, 2011. We will continue to target a 40 percent dividend payout ratio to provide additional return to shareholders. We received $33.1 million of proceeds from issuances of treasury stock related to stock option exercises in fiscal 2011.

During fiscal 2011, we paid our required installments totaling $15.0 million on our five-year term loan bringing the outstanding balance to $185.0 million. The term loan bears interest at LIBOR plus an applicable margin, which is a function of our credit rating at such time, but is subject to a maximum of LIBOR plus 3.25%, and expires in June 2015. Based on our current credit rating, we are paying interest at a rate of LIBOR plus 2.75% (2.94% as of June 29, 2011).

As of June 29, 2011, we have an undrawn $200 million revolving credit facility, which expires in June 2015. The revolving credit facility bears interest at LIBOR plus an applicable margin, which is a function of our credit rating at such time, but is subject to a maximum of LIBOR plus 3.25%. Based on our current credit rating, the revolving credit facility carries an interest rate of LIBOR plus 2.75% (2.94% as of June 29, 2011). We are in compliance with all financial debt covenants.

On August 9, 2011, we executed a revised unsecured senior credit facility increasing the total capacity from $400 million to $500 million. The maturity date of the revised facility is August 2016. The facility includes a $250 million revolver and a $250 million term loan. The net term loan proceeds of approximately $68 million will be used for general corporate purposes in fiscal 2012.

Standard and Poor's ("S&P") reaffirmed our debt rating of BBB- (investment grade) with a stable outlook in fiscal 2010. In December 2010, Moody's reaffirmed our corporate family rating of Ba1 (non-investment grade) and our senior unsecured note rating of Ba2 (non-investment grade) with a stable outlook. Our goal is to retain the investment grade rating from S&P and ultimately regain our investment grade rating from Moody's.

Our Board of Directors has authorized a total of $2,885.0 million of share repurchases. As of June 29, 2011, approximately $445 million was available under our share repurchase authorization. Our stock repurchase plan has been and will be used to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. Repurchased common stock is reflected as a reduction of shareholders' equity.

We have evaluated ways to monetize the value of our owned real estate and determined that the alternatives considered are more costly than other financing options currently available due to a combination of the income tax impact and higher effective borrowing rates.

*Cash Flow Outlook*

We believe that our various sources of capital, including future cash flow from operating activities of continuing operations and availability under our existing credit facility are adequate to finance operations as well as the repayment of current debt obligations. We are not aware of any other event or trend that would potentially affect our liquidity. In the event such a trend develops, we believe that there are sufficient funds available under our credit facility and from our internal cash generating capabilities to adequately manage our ongoing business.

Payments due under our contractual obligations for outstanding indebtedness, purchase obligations as defined by the Securities and Exchange Commission ("SEC"), and the expiration of the credit facility as of June 29, 2011 are as follows:

| | Payments Due by Period (in thousands) | | | | |
|---|---|---|---|---|---|
| | **Total** | **Less than 1 Year** | **1-3 Years** | **3-5 Years** | **More than 5 Years** |
| Long-term debt(a) | $ 524,582 | $ 36,675 | $362,907 | $125,000 | $ — |
| Capital leases | 81,318 | 5,367 | 11,054 | 11,498 | 53,399 |
| Operating leases | 541,454 | 100,441 | 178,973 | 132,955 | 129,085 |
| Purchase obligations(b) | 123,779 | 20,167 | 25,937 | 22,037 | 55,638 |

| | Amount of Revolving Credit Facility Expiration by Period (in thousands) | | | | |
|---|---|---|---|---|---|
| | **Total Commitment** | **Less than 1 Year** | **1-3 Years** | **3-5 Years** | **More than 5 Years** |
| Revolving credit facility | $ 200,000 | $ — | $ — | $200,000 | $ — |

(a) Long-term debt consists of amounts owed on the existing five-year term loan and 5.75% notes, as well as remaining interest payments on the 5.75% notes totaling $50.0 million. No amount was outstanding under the revolving credit facility as of June 29, 2011.

(b) A "purchase obligation" is defined as an agreement to purchase goods or services that is enforceable and legally binding on us 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. Our purchase obligations primarily consist of long-term obligations for the purchase of fountain beverages, procurement outsourcing, and energy and exclude agreements that are cancelable without significant penalty.

In addition to the amounts shown in the table above, $9.1 million of unrecognized tax benefits have been recorded as liabilities. The timing and amounts of future cash payments related to these liabilities are uncertain.

## IMPACT OF INFLATION

We have experienced impact from inflation. Inflation has caused increased food, labor and benefits costs and has increased our operating expenses. To the extent permitted by competition, increased costs are recovered through a combination of menu price increases and reviewing, then implementing, alternative products or processes, or by implementing other cost reduction procedures.

## CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are disclosed in Note 1 to our consolidated financial statements. The following discussion addresses our most critical accounting estimates, which are those that are most important to the portrayal of our financial condition and results, and that require significant judgment.

### Stock Based Compensation

We measure and recognize compensation cost at fair value for all share-based payments, including stock options. We determine the fair value of our stock option awards using the Black-Scholes option valuation model. The Black-Scholes model requires judgmental assumptions including expected life and stock price volatility. We base our expected life assumptions on historical experience regarding option life. Stock price volatility is calculated based on historical prices and the expected life of the options. We determine the fair value of our performance shares using a Monte Carlo simulation model. The Monte Carlo method is a statistical modeling technique that requires highly judgmental assumptions regarding our future operating performance compared to our plan designated peer group in the future. The simulation is based on a probability model and market-based inputs that are used to predict future stock returns. We use the historical operating performance and correlation of stock performance to the S&P 500 composite index of us and our peer group as inputs to the simulation model. These historical returns could differ significantly in the future and as a result, the fair value assigned to the performance shares could vary significantly to the final payout. We believe the Monte Carlo simulation model provides the best evidence of fair value at the grant date and is an appropriate technique for valuing share-based awards. We recognize compensation expense for only the portion of share-based awards that are expected to vest. Therefore, we apply estimated forfeiture rates that are derived from our historical forfeitures of similar awards.

### Income Taxes

In determining net income for financial statement purposes, we make certain estimates and judgments in the calculation of tax expense and the resulting tax liabilities and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense. When considered necessary, we record a valuation allowance to reduce deferred tax assets to a balance that is more likely than not to be recognized. We use an estimate of our annual effective tax rate at each interim period based on the facts and circumstances available at that time while the actual effective tax rate is calculated at year-end.

We record a liability for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return. We recognize any interest and penalties related to unrecognized tax benefits in income tax expense. Significant judgment is required in assessing, among other things, the timing and amounts of deductible and taxable items. Tax reserves are evaluated and adjusted as appropriate, while taking into account the progress of audits of various taxing jurisdictions.

In addition to the risks related to the effective tax rate described above, the effective tax rate reflected in forward-looking statements is based on current tax law. Any significant changes in the tax laws could affect these estimates.

### 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 our expectations for the period of time that the asset will be used to generate revenues. We periodically review the assets for changes in circumstances, which may impact their useful lives.

### Impairment of Long-Lived Assets

We review the carrying amount of property and equipment semi-annually or when events or circumstances indicate that the carrying amount may not be recoverable. If the carrying amount is not recoverable, we record an impairment charge for the excess of the carrying amount over the fair value. We determine fair value based on projected discounted future operating cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment.

**Impairment of Goodwill**

We assess the recoverability of goodwill related to our restaurant brands on an annual basis or more often if circumstances or events indicate impairment may exist. We consider our restaurants brands, Chili's and Maggiano's, to be both our operating segments and reporting units. The impairment test is a two-step process. Step one includes comparing the fair value of our reporting units to their carrying value. If the fair value of the reporting unit exceeds the carrying value, then the goodwill balance is not impaired and no further evaluation is required. If the carrying value of the reporting unit exceeds its fair value, impairment may exist and performing step two is necessary to determine the impairment loss. The amount of impairment would be determined by performing a hypothetical analysis resulting in an implied goodwill value by performing a fair value allocation as if the unit were being acquired in a business combination. This implied value would be compared to the carrying value to determine the amount of impairment loss, if any.

We determine fair value based on projected discounted future operating cash flows of the restaurant brands using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model. We make assumptions regarding future profits and cash flows, expected growth rates, terminal values, and other factors which could significantly impact the fair value calculations. In the event that these assumptions change in the future, we may be required to record impairment charges related to goodwill. The fair value of our reporting units was substantially in excess of the carry value as of our fiscal 2011 goodwill impairment test that was performed at the end of the second quarter. No indicators of impairment were identified from the date of our impairment test through the end of fiscal year 2011.

**Self-Insurance**

We are self-insured for certain losses related to health, general liability and workers' compensation. We maintain stop loss coverage with third party insurers to limit our 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 on a quarterly basis to ensure that the liability is appropriate. If actual trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

**Recent Accounting Pronouncements**

We reviewed all significant newly issued accounting pronouncements and concluded that they either are not applicable to our operations or that no material effect is expected on our financial statements as a result of future adoption.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. The variable rate financial instruments consist of the outstanding borrowings on our term loan and revolving credit facility. At June 29, 2011, $185.0 million was outstanding under the term loan and no amount was outstanding under the revolving credit facility. The impact on our annual results of operations of a one-point interest rate change on the outstanding balance of these variable rate financial instruments as of June 29, 2011 would be approximately $1.9 million.

We purchase certain commodities such as beef, pork, poultry, seafood, produce, and dairy. These commodities are generally purchased based upon market prices established with vendors. These purchase arrangements may contain contractual features that fix the price paid for certain commodities. We do 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.

**BRINKER INTERNATIONAL, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

**(In thousands, except per share amounts)**

| | Fiscal Years 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenues | $2,761,386 | $2,858,498 | $3,276,362 |
| Operating Costs and Expenses: | | | |
| Cost of sales | 742,283 | 816,015 | 923,668 |
| Restaurant labor | 886,559 | 926,474 | 1,054,078 |
| Restaurant expenses | 655,060 | 660,922 | 784,657 |
| Depreciation and amortization | 128,447 | 135,832 | 145,220 |
| General and administrative | 132,834 | 136,270 | 147,372 |
| Other gains and charges | 10,783 | 28,485 | 118,612 |
| Total operating costs and expenses | 2,555,966 | 2,703,998 | 3,173,607 |
| Operating income | 205,420 | 154,500 | 102,755 |
| Interest expense | 28,311 | 28,515 | 33,330 |
| Other, net | (6,220) | (6,001) | (9,430) |
| Income before provision for income taxes | 183,329 | 131,986 | 78,855 |
| Provision for income taxes | 42,269 | 28,264 | 6,734 |
| Income from continuing operations | 141,060 | 103,722 | 72,121 |
| Income from discontinued operations, net of taxes | 0 | 33,982 | 7,045 |
| Net income | $ 141,060 | $ 137,704 | $ 79,166 |
| Basic net income per share: | | | |
| Income from continuing operations | $ 1.55 | $ 1.02 | $ 0.71 |
| Income from discontinued operations | $ 0.00 | $ 0.33 | $ 0.07 |
| Net income per share | $ 1.55 | $ 1.35 | $ 0.78 |
| Diluted net income per share: | | | |
| Income from continuing operations | $ 1.53 | $ 1.01 | $ 0.70 |
| Income from discontinued operations | $ 0.00 | $ 0.33 | $ 0.07 |
| Net income per share | $ 1.53 | $ 1.34 | $ 0.77 |
| Basic weighted average shares outstanding | 90,807 | 102,287 | 101,852 |
| Diluted weighted average shares outstanding | 92,320 | 103,044 | 102,713 |
| Dividends per share | $ 0.56 | $ 0.47 | $ 0.44 |

See accompanying notes to consolidated financial statements.

**BRINKER INTERNATIONAL, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share and per share amounts)**

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 81,988 | $ 344,624 |
| Accounts receivable | 42,785 | 45,140 |
| Inventories | 25,365 | 26,735 |
| Prepaid expenses and other | 59,698 | 63,961 |
| Deferred income taxes | 11,524 | 20,607 |
| Total current assets | 221,360 | 501,067 |
| Property and Equipment: | | |
| Land | 156,731 | 163,018 |
| Buildings and leasehold improvements | 1,383,311 | 1,367,646 |
| Furniture and equipment | 543,682 | 556,815 |
| Construction-in-progress | 6,425 | 11,870 |
| | 2,090,149 | 2,099,349 |
| Less accumulated depreciation and amortization | (1,033,870) | (970,272) |
| Net property and equipment | 1,056,279 | 1,129,077 |
| Other Assets: | | |
| Goodwill | 124,089 | 124,089 |
| Deferred income taxes | 30,365 | 44,213 |
| Other | 52,475 | 53,658 |
| Total other assets | 206,929 | 221,960 |
| Total assets | $ 1,484,568 | $ 1,852,104 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Current installments of long-term debt | $ 22,091 | $ 16,866 |
| Accounts payable | 87,549 | 112,824 |
| Accrued liabilities | 287,365 | 300,540 |
| Income taxes payable | 8,596 | 19,647 |
| Total current liabilities | 405,601 | 449,877 |
| Long-term debt, less current installments | 502,572 | 524,511 |
| Other liabilities | 137,485 | 148,968 |
| Commitments and Contingencies (Notes 9 and 14) | | |
| Shareholders' Equity: | | |
| Common stock—250,000,000 authorized shares; $.10 par value; 176,246,649 shares issued and 82,938,493 shares outstanding at June 29, 2011, and 176,246,649 shares issued and 101,571,588 shares outstanding at June 30, 2010 | 17,625 | 17,625 |
| Additional paid-in capital | 463,688 | 465,721 |
| Retained earnings | 2,013,189 | 1,923,561 |
| | 2,494,502 | 2,406,907 |
| Less treasury stock, at cost (93,308,156 shares at June 29, 2011 and 74,675,061 shares at June 30, 2010) | (2,055,592) | (1,678,159) |
| Total shareholders' equity | 438,910 | 728,748 |
| Total liabilities and shareholders' equity | $ 1,484,568 | $ 1,852,104 |

See accompanying notes to consolidated financial statements.

**BRINKER INTERNATIONAL, INC.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

**(In thousands)**

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Balances at June 25, 2008 | 101,316 | $17,625 | $464,666 | $1,800,300 | $(1,687,334) | $ (168) | $ 595,089 |
| Net income | 0 | 0 | 0 | 79,166 | 0 | 0 | 79,166 |
| Currency translation adjustment | 0 | 0 | 0 | 0 | 0 | (2,068) | (2,068) |
| Realized loss on currency translation | 0 | 0 | 0 | 0 | 0 | 2,236 | 2,236 |
| Comprehensive income | | | | | | | 79,334 |
| Dividends ($0.44 per share) | 0 | 0 | 0 | (45,159) | 0 | 0 | (45,159) |
| Stock-based compensation | 0 | 0 | 17,518 | 0 | 0 | 0 | 17,518 |
| Purchases of treasury stock | (30) | 0 | (3,116) | 0 | (623) | 0 | (3,739) |
| Issuances of common stock | 816 | 0 | (13,721) | 0 | 18,371 | 0 | 4,650 |
| Tax benefit from stock options exercised | 0 | 0 | (769) | 0 | 0 | 0 | (769) |
| Issuances of restricted stock, net of forfeitures | 23 | 0 | (598) | 0 | 598 | 0 | 0 |
| Balances at June 24, 2009 | 102,125 | 17,625 | 463,980 | 1,834,307 | (1,668,988) | 0 | 646,924 |
| Net income and comprehensive income | 0 | 0 | 0 | 137,704 | 0 | 0 | 137,704 |
| Dividends ($0.47 per share) | 0 | 0 | 0 | (48,450) | 0 | 0 | (48,450) |
| Stock-based compensation | 0 | 0 | 16,493 | 0 | 0 | 0 | 16,493 |
| Purchases of treasury stock | (1,046) | 0 | (2,448) | 0 | (20,420) | 0 | (22,868) |
| Issuances of common stock | 518 | 0 | (9,268) | 0 | 11,664 | 0 | 2,396 |
| Tax benefit from stock options exercised | 0 | 0 | (3,451) | 0 | 0 | 0 | (3,451) |
| Issuances of restricted stock, net of forfeitures | (25) | 0 | 415 | 0 | (415) | 0 | 0 |
| Balances at June 30, 2010 | 101,572 | 17,625 | 465,721 | 1,923,561 | (1,678,159) | 0 | 728,748 |
| Net income and comprehensive income | 0 | 0 | 0 | 141,060 | 0 | 0 | 141,060 |
| Dividends ($0.56 per share) | 0 | 0 | 0 | (51,432) | 0 | 0 | (51,432) |
| Stock-based compensation | 0 | 0 | 13,381 | 0 | 0 | 0 | 13,381 |
| Purchases of treasury stock | (20,585) | 0 | (1,788) | 0 | (420,311) | 0 | (422,099) |
| Issuances of common stock | 1,951 | 0 | (9,821) | 0 | 42,878 | 0 | 33,057 |
| Tax benefit from stock options exercised | 0 | 0 | (3,805) | 0 | 0 | 0 | (3,805) |
| Balances at June 29, 2011 | 82,938 | $17,625 | $463,688 | $2,013,189 | $(2,055,592) | $ 0 | $ 438,910 |

See accompanying notes to consolidated financial statements.

**BRINKER INTERNATIONAL, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

| | Fiscal Years 2011 | 2010 | 2009 |
|---|---|---|---|
| Cash Flows from Operating Activities: | | | |
| Net income | $ 141,060 | $ 137,704 | $ 79,166 |
| Income from discontinued operations, net of taxes | 0 | (33,982) | (7,045) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 128,447 | 135,832 | 145,220 |
| Restructure charges and other impairments | 8,427 | 31,766 | 76,957 |
| Deferred income taxes | 15,277 | (25,516) | 40,921 |
| Net (gain) loss on disposal of assets | (401) | (4,878) | 36,955 |
| Stock-based compensation | 12,789 | 15,595 | 17,128 |
| (Earnings) Loss on equity investments | (1,802) | (114) | 201 |
| Other | 405 | 2,637 | (823) |
| Changes in assets and liabilities, excluding effects of dispositions: | | | |
| Accounts receivable | 1,255 | 6,083 | (800) |
| Inventories | 1,341 | 6,544 | (1,680) |
| Prepaid expenses and other | 1,044 | 1,847 | 2,150 |
| Other assets | 406 | 551 | 1,496 |
| Current income taxes | (3,976) | 51,800 | (42,153) |
| Accounts payable | (21,515) | (9,963) | (43,512) |
| Accrued liabilities | (15,178) | (7,483) | (68,199) |
| Other liabilities | (7,591) | (11,021) | (1,975) |
| Net cash provided by operating activities | 259,988 | 297,402 | 234,007 |
| Cash Flows from Investing Activities: | | | |
| Payments for property and equipment | (70,361) | (60,879) | (88,152) |
| Proceeds from sale of assets | 8,696 | 26,603 | 81,865 |
| Investment in equity method investees | (2,896) | 0 | (4,612) |
| Decrease in restricted cash | 0 | 29,749 | 4,688 |
| Net cash used in investing activities | (64,561) | (4,527) | (6,211) |
| Cash Flows from Financing Activities: | | | |
| Purchases of treasury stock | (422,099) | (22,868) | (3,739) |
| Payments of dividends | (53,185) | (34,448) | (45,355) |
| Proceeds from issuances of treasury stock | 33,057 | 2,396 | 4,650 |
| Payments on long-term debt | (16,127) | (391,046) | (19,735) |
| Net proceeds from issuance of long-term debt | 0 | 196,389 | 0 |
| Excess tax benefits from stock-based compensation | 291 | 139 | 551 |
| Net payments on credit facilities | 0 | 0 | (160,757) |
| Net cash used in financing activities | (458,063) | (249,438) | (224,385) |
| Cash Flows from Discontinued Operations: | | | |
| Net cash provided by operating activities | 0 | 39,033 | 40,958 |
| Net cash provided by (used in) investing activities | 0 | 167,998 | (4,927) |
| Net cash provided by discontinued operations | 0 | 207,031 | 36,031 |
| Net change in cash and cash equivalents | (262,636) | 250,468 | 39,442 |
| Cash and cash equivalents at beginning of year | 344,624 | 94,156 | 54,714 |
| Cash and cash equivalents at end of year | $ 81,988 | $ 344,624 | $ 94,156 |

See accompanying notes to consolidated financial statements.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Nature of Operations

We are principally engaged in the ownership, operation, development, and franchising of the Chili's Grill & Bar ("Chili's") and Maggiano's Little Italy ("Maggiano's") restaurant brands. At June 29, 2011, we owned, operated, or franchised 1,579 restaurants in the United States and 30 countries and two territories outside of the United States.

We sold On The Border Mexican Grill & Cantina ("On The Border") to OTB Acquisition LLC ("OTB Acquisition"), an affiliate of San Francisco-based Golden Gate Capital, in June 2010. We sold Romano's Macaroni Grill ("Macaroni Grill") to Mac Acquisition LLC ("Mac Acquisition"), also an affiliate of Golden Gate Capital, in December 2008 and we currently hold a 15.6% ownership interest in the new entity.

### (b) Basis of Presentation

Our consolidated financial statements include the accounts of Brinker International, Inc. and our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

We have a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal years 2011 and 2009, which ended on June 29, 2011 and June 24, 2009, respectively, each contained 52 weeks. Fiscal year 2010 ended on June 30, 2010 and contained 53 weeks.

At the beginning of fiscal 2011, we began reporting certain labor and related expenses in a separate caption on the consolidated statements of income titled restaurant labor. All prior year amounts previously classified in restaurant expenses have been reclassified to conform to the fiscal 2011 presentation. Restaurant labor includes all compensation-related expenses, including benefits and incentive compensation, for restaurant team members at the general manager level and below. Labor-related expenses attributable to supervision above the individual restaurant level continue to be included in restaurant expenses. These reclassifications have no effect on our net income or financial position as previously reported.

Certain other prior year amounts in the accompanying consolidated financial statements have been reclassified to conform with fiscal 2011 presentation. These reclassifications have no effect on our net income or financial position as previously reported.

On The Border has been presented as discontinued operations in the consolidated financial statements. See Note 2 for additional disclosures. As a result of our retained interest and involvement in the ongoing operations, Macaroni Grill's operating results were included in continuing operations in the consolidated financial statements for fiscal 2009 (through the sale date of December 18, 2008).

### (c) 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.

### (d) Revenue Recognition

We record revenue from the sale of food, beverages and alcohol as products are sold. Initial fees received from a franchisee to establish a new franchise are recognized as income when we have performed our obligations required to assist the franchisee in opening a new franchise restaurant, which is generally upon the 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 the gift card is redeemed by the holder or the likelihood of redemption, based upon our historical redemption patterns, becomes remote.

### (e) Fair Value Measurements

Fair value is defined as the price that we would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants on the measurement date. In determining fair value, the accounting standards establish a three level hierarchy for inputs used in measuring fair value, as follows:

- Level 1—inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2—inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities.
- Level 3—inputs are unobservable and reflect our own assumptions.

### (f) Cash and Cash Equivalents

Our policy is to invest cash in excess of operating requirements in income-producing investments. Income-producing investments with original maturities of three months or less are reflected as cash equivalents.

### (g) Accounts Receivable

Accounts receivable, net of the allowance for doubtful accounts, represents their estimated net realizable value. Provisions for doubtful accounts are recorded based on management’s judgment regarding our ability to collect as well as the age of the receivables. Accounts receivable are written off when they are deemed uncollectible.

### (h) Inventories

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

### (i) Property and Equipment

Property and equipment is stated at cost. Buildings and leasehold improvements are depreciated using the straight-line method over the lesser of the life of the lease, including renewal options, or the estimated useful lives of the assets, which range from 5 to 20 years. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years. Routine repair and maintenance costs are expensed when incurred. Major replacements and improvements are capitalized.

We review the carrying amount of property and equipment semi-annually or when events or circumstances indicate that the carrying amount may not be recoverable. If the carrying amount is not recoverable, we record an impairment charge for the excess of the carrying amount over the fair value. We determine fair value based on projected discounted future operating cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model. Impairment charges are included in other gains and charges in the consolidated statements of income.

### (j) Operating Leases

Rent expense for leases that contain scheduled rent increases is recognized on a straight-line basis over the lease term, including cancelable option periods where failure to exercise such options would result in an economic penalty such that the renewal appears reasonably assured. The straight-line rent calculation and rent expense includes the rent holiday period, which is the period of time between taking control of a leased site and the rent commencement date. Contingent rents are generally amounts due as a result of sales in excess of amounts stipulated in certain restaurant leases and are included in rent expense as they are incurred. Landlord contributions are recorded when received as a deferred rent liability and amortized as a reduction of rent expense on a straight-line basis over the lesser of the lease term, including renewal options, or 20 years.

### (k) Advertising

Advertising production costs are expensed in the period when the advertising first takes place. Other advertising costs are expensed as incurred. Advertising costs, net of advertising contributions from franchisees, were $80.2 million, $80.6 million and $103.5 million in fiscal 2011, 2010, and 2009, respectively, and are included in restaurant expenses in the consolidated statements of income.

### (l) Goodwill

Goodwill is not subject to amortization, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill has been assigned to reporting units for purposes of impairment testing. Our two restaurant brands, Chili’s and Maggiano’s, are both reporting units and operating segments. We have established that the appropriate level to evaluate goodwill is at the operating segment level. The menu items, services offered and food preparation are virtually identical at each restaurant within the reporting unit and our targeted customer is consistent across each brand. We maintain a centralized purchasing department which manages all purchasing and distribution for our restaurants. In addition, contracts for our food supplies are negotiated at a consolidated level in order to secure the best prices and maintain similar quality across all of our brands. Local laws, regulations and other issues may result in slightly different legal and regulatory environments; however, the overall regulatory climate within and across our operating segments is quite similar. As such, we believe that aggregating components is appropriate for the evaluation of goodwill.

Goodwill impairment tests consist of a comparison of each reporting unit’s fair value with its carrying value. We determine fair value based on a combination of market based values and projected discounted future operating cash flows of the restaurant brands using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. We determined that there was no goodwill impairment during our annual test and no indicators of impairment were identified through the end of fiscal year 2011. See Note 5 for additional disclosures related to goodwill.

We have occasionally acquired restaurants from our franchisees. Goodwill from these acquisitions represents the excess of the cost of a business acquired over the net amounts assigned to assets acquired, including identifiable intangible assets, primarily reacquired franchise rights. In connection with the sale of restaurants, we have allocated goodwill from the reporting unit, or restaurant brand, to the disposal group in the determination of the gain or loss on the disposition. The allocation was based on the relative fair values of the disposal group and the portion of the reporting unit that was retained. We have recognized reacquired rights in connection with previous business combinations; however, we have not sold any restaurants acquired in those combinations. When we have disposed a restaurant brand and all related restaurants, the entire goodwill balance associated with the reporting unit or brand has been included in the disposal group for purposes of determining the gain or loss on the disposition.

**(m) Sales Taxes**

Sales taxes collected from guests are excluded from revenues. The obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities.

**(n) Self-Insurance Program**

We utilize 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 our per occurrence cash outlay. Accrued and other liabilities include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims.

In December 2009, we dissolved our wholly-owned captive insurance company which allowed us to access $29.7 million of cash that was previously pledged as collateral and classified as restricted.

**(o) Income Taxes**

Income taxes are accounted for under the asset and liability method. 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. We record a liability for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return. We recognize any interest and penalties related to unrecognized tax benefits in income tax expense. Tax reserves are evaluated and adjusted as appropriate, while taking into account the progress of audits of various taxing jurisdictions.

**(p) Stock-Based Compensation**

We measure and recognize compensation cost at fair value for all share-based payments, including stock options. We record compensation expense using a graded-vesting schedule over the vesting period, or to the date on which retirement eligibility is achieved, if shorter (non-substantive vesting period approach).

Certain employees are eligible to receive stock options, performance shares, restricted stock and restricted stock units, while non-employee members of the Board of Directors are eligible to receive stock options, restricted stock and restricted stock units. Performance shares represent a right to receive shares of common stock upon satisfaction of performance goals or other specified metrics at the end of a three-year cycle. Performance shares are paid out in common stock and will be fully vested upon issuance. The fair value of performance shares is determined on the date of grant based on a Monte Carlo simulation model. The fair value of restricted stock and restricted stock units are based on our closing stock price on the date of grant.

Stock-based compensation expense from continuing operations totaled approximately $13.4 million, $15.8 million and $17.2 million for fiscal 2011, 2010 and 2009, respectively. The total income tax benefit recognized in the consolidated statements of income related to stock-based compensation expense from continuing operations was approximately $5.7 million, $5.3 million and $6.4 million during fiscal 2011, 2010 and 2009, respectively.

The weighted average fair values of option grants were $7.20, $6.04 and $5.52 during fiscal 2011, 2010 and 2009, respectively. The fair value of stock options is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Expected volatility | 55.6% | 53.7% | 37.8% |
| Risk-free interest rate | 1.6% | 2.5% | 2.9% |
| Expected lives | 5 years | 5 years | 5 years |
| Dividend yield | 3.1% | 3.1% | 2.8% |

Expected volatility and the expected life of stock options are based on historical experience. The risk-free rate is based on the yield of a Treasury Note with a term equal to the expected life of the stock options.

**(q) Preferred Stock**

Our 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 29, 2011, no preferred shares were issued.

**(r) Shareholders' Equity**

Our Board of Directors has authorized a total of $2,885.0 million of share repurchases. Pursuant to our stock repurchase plan, we repurchased approximately 20.6 million shares of our common stock for $420.0 million during fiscal 2011. As of June 29, 2011, approximately $445 million was available under our share repurchase authorizations. Our stock repurchase plan has been and will be used to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. We evaluate potential share repurchases under our plan based on several factors, including our cash position, share price, operational liquidity, proceeds from divestitures, borrowings and planned investment and financing needs. Repurchased common stock is reflected as a reduction of shareholders' equity.

We paid dividends of $53.2 million, or $0.56 per share, to common stock shareholders during fiscal 2011, compared to $34.4 million, or $0.33 per share, in the prior year. Additionally, we declared a quarterly dividend of $11.6 million, or $0.14 per share, in June 2011 which was paid on June 30, 2011.

**(s) 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 2011 and 2010 comprehensive income consists of net income. Fiscal 2009 comprehensive income consists of net income, currency translation adjustments and a realized loss on currency translation adjustments related to the closure of international company-owned restaurants (see Note 4).

**(t) 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 and restricted share awards, determined using the treasury stock method. We had approximately 1.7 million stock options and restricted share awards outstanding at June 29, 2011, 6.9 million stock options and restricted share awards outstanding at June 30, 2010, and 7.4 million stock options and restricted share awards outstanding at June 24, 2009 that were not included in the dilutive earnings per share calculation because the effect would have been antidilutive.

### (u) 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. Two or more operating segments may be aggregated into a single operating segment if they have similar economic characteristics and are similar in the following areas:

- The nature of products and services
- Nature of production processes
- Type or class of customer
- Methods used to distribute products or provide services
- The nature of the regulatory environment, if applicable

Our two brands have similar types of products, contracts, customers, and employees and all operate as full-service restaurants offering lunch and dinner in the casual-dining segment of the industry. In addition, we have similar long-term average margins across our brands. Therefore, we believe we meet the criteria for aggregating operating segments into a single reporting segment.

## 2. DISCONTINUED OPERATIONS

In June 2010, we completed the sale of On The Border for gross proceeds of approximately $180 million and recorded a pre-tax gain of $16.5 million in income from discontinued operations, net of taxes, in the consolidated statement of income in fiscal 2010. The assets sold totaled approximately $164.0 million and consisted primarily of property and equipment of $146.7 million and goodwill of $5.8 million. The associated liabilities totaled approximately $9.9 million and consisted primarily of straight-line rent accruals of $9.3 million.

As part of the sale, we entered into an agreement with OTB Acquisition whereby we provided corporate support services for the new entity during fiscal 2011 until the agreement terminated in June 2011. The income generated offset the internal cost of providing the services.

On The Border has been presented as discontinued operations in the consolidated financial statements in fiscal 2010 and 2009. Discontinued operations includes only the revenues and expenses which can be specifically identified with On The Border and excludes any allocation of corporate costs, including general and administrative expenses. The results of On The Border consist of the following (in thousands):

| | 2010 | 2009 |
|---|---|---|
| Revenues | $331,247 | $344,218 |
| Income before income taxes from discontinued operations | 51,488 | 7,883 |
| Income tax expense | 17,506 | 838 |
| Net income from discontinued operations(a) | $ 33,982 | $ 7,045 |

(a) Other gains and charges, net of taxes, was a gain of $8.4 million and a loss of $10.2 million in fiscal 2010 and 2009, respectively.

Other gains and charges in fiscal 2010 included a $16.5 million gain on the sale of On The Border, partially offset by $2.9 million of charges related to long-lived asset impairments and lease termination charges primarily associated with the closure of three underperforming restaurants.

Other gains and charges in fiscal 2009 included a $9.0 million charge related to long-lived asset impairments, $1.0 million of lease termination charges resulting from the decision to close six underperforming restaurants and $1.6 million of lease termination charges associated with restaurants closed in prior years. Also included was a $3.7 million impairment charge associated with four underperforming restaurants that are continuing to operate.

## 3. OTHER RESTAURANT DISPOSITIONS AND EQUITY METHOD INVESTMENTS

### (a) Sale of Macaroni Grill

In December 2008, we completed the sale of Macaroni Grill. We received cash proceeds of approximately $88.0 million and recorded a loss of $40.4 million in other gains and charges in the consolidated statement of income in fiscal 2009. The net assets sold totaled approximately $110 million and consisted primarily of property and equipment of $105 million. Macaroni Grill operating results were included in continuing operations for fiscal 2009 (through the sale date of December 18, 2008) as we have involvement in the ongoing operations of Macaroni Grill. As of June 29, 2011, we held a 15.6% ownership interest in the new entity, compared to 18.2% as of June 30, 2010.

In fiscal 2011, we resumed the application of the equity method of accounting as Macaroni Grill reported net income during the period subsequent to reporting net losses in fiscal 2010 and 2009. We recorded our share of Macaroni Grill's fiscal 2011 net income, net of our share of fiscal 2010 and 2009 losses, within operating income since the operations of Macaroni Grill are similar to our ongoing operations. This amount has been included in restaurant expense instead of a separate caption in our consolidated statements of income due to the immaterial nature of the amount.

### (b) Other Dispositions

During fiscal 2010, we sold 21 restaurants to a franchisee for $19.0 million in cash and recorded a gain of $2.8 million in other gains and charges in the consolidated statement of income.

During fiscal 2009, we recorded gains of $3.9 million related to the sale of nine restaurants to a franchisee and other land sales.

### (c) Joint Venture Investments

In fiscal 2011, we entered into an agreement with BTTO Participacoes Ltda for a joint venture investment in a new company to develop five Chili's restaurants in Brazil. We made a $1.3 million capital contribution to the joint venture in fiscal 2011. The first restaurant is projected to open in fiscal 2012.

In fiscal 2008, we entered into an agreement with CMR, S.A.B. de C.V. for a joint venture investment in a new corporation to develop 50 Chili's and Maggiano's restaurants in Mexico. We made a $1.6 million and a $4.6 million capital contribution to the joint venture in fiscal 2011 and 2009, respectively. At June 29, 2011, 25 Chili's restaurants were operating in the joint venture.

We account for these investments under the equity method of accounting and record our share of the net income or loss of the investees within operating income since the operations of the joint ventures are similar to our ongoing operations. These amounts have been included in restaurant expense in our consolidated statements of income due to the immaterial nature of the amounts.

## 4. OTHER GAINS AND CHARGES

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Restaurant impairment charges | $ 1,937 | $19,789 | $ 10,517 |
| Restaurant closure charges | 4,515 | 13,409 | 59,362 |
| Severance and other benefits | 5,034 | 1,887 | 5,496 |
| Gains on the sale of assets, net (see Note 3) | (2,100) | (4,878) | (3,902) |
| Charges related to the sale of Macaroni Grill (see Note 3) | 0 | 0 | 40,362 |
| Impairment of goodwill | 0 | 0 | 7,713 |
| Other gains and charges, net | 1,397 | (1,722) | (936) |
| | $ 10,783 | $28,485 | $118,612 |

We recorded impairment charges for the excess of the carrying amount of property and equipment over the fair value related to underperforming restaurants. Restaurant impairment charges were $1.9 million, $19.8 million, and $10.5 million during fiscal 2011, 2010, and 2009, respectively. See Note 10 for fair value disclosures related to the fiscal 2011 and 2010 charges.

In fiscal 2011, we recorded $4.5 million in charges, including $3.0 million in lease termination charges associated with restaurants closed in prior years.

In fiscal 2010, we recorded $13.4 million in charges primarily related to long-lived asset impairments resulting from the decision to close nine underperforming restaurants. The charges included $5.4 million of long-lived asset impairments and $4.0 million in lease termination charges. Also included is $2.4 million in lease termination charges related to restaurants closed in prior years.

In fiscal 2009, we recorded $59.4 million in charges primarily related to long-lived asset impairments resulting from the decision to close 37 underperforming restaurants, including eight international restaurants. The charges related to the domestic restaurant closures include $35.2 million of long-lived asset impairments, $5.2 million in lease termination charges and $1.2 million of charges related to the write-off of other assets and liabilities. The charges related to the international restaurant closures include $5.6 million of long-lived asset impairments and $2.1 million of charges related to realized foreign currency translation losses. We also recorded a goodwill impairment charge of $7.7 million resulting from the closure of the international restaurants as well as $6.2 million in lease termination charges associated with restaurants closed in prior years.

During the last three fiscal years, we made organizational changes designed to streamline decision making and support our strategic goals and evolving business model. We incurred $5.0 million, $1.9 million and $5.5 million in severance and other benefits resulting from these actions in fiscal 2011, 2010, and 2009, respectively. The severance charges are net of income related to the forfeiture of stock-based compensation awards.

## 5. GOODWILL

The changes in the carrying amount of goodwill for the fiscal years ended June 29, 2011 and June 30, 2010 are as follows (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of year: | | |
| Goodwill | $186,923 | $187,766 |
| Accumulated impairment losses(a) | (62,834) | (62,834) |
| | 124,089 | 124,932 |
| Changes in goodwill: | | |
| Disposals and other, net(b) | 0 | (843) |
| Balance at end of year: | | |
| Goodwill | 186,923 | 186,923 |
| Accumulated impairment losses | (62,834) | (62,834) |
| | $124,089 | $124,089 |

(a) The impairment losses recorded in prior years are related to restaurant brands that we no longer own.

(b) Disposals and other, net primarily reflects goodwill write-offs associated with refranchising transactions.

## 6. ACCRUED AND OTHER LIABILITIES

Accrued liabilities consist of the following (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Payroll | $ 91,935 | $ 79,159 |
| Gift cards | 79,837 | 78,505 |
| Insurance | 25,138 | 28,234 |
| Sales tax | 19,234 | 24,801 |
| Property tax | 15,844 | 17,423 |
| Dividends | 11,609 | 14,565 |
| Other | 43,768 | 57,853 |
| | $287,365 | $300,540 |

Other liabilities consist of the following (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Straight-line rent | $ 55,180 | $ 52,241 |
| Insurance | 42,674 | 47,123 |
| Landlord contributions | 28,420 | 30,810 |
| Unrecognized tax benefits | 5,245 | 13,290 |
| Other | 5,966 | 5,504 |
| | $137,485 | $148,968 |

## 7. INCOME TAXES

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Current income tax expense (benefit): | | | |
| Federal | $16,596 | $ 36,493 | $(41,803) |
| State | 1,694 | 9,055 | (1,189) |
| Foreign | 2,046 | 1,904 | 1,808 |
| Total current income tax expense (benefit) | 20,336 | 47,452 | (41,184) |
| Deferred income tax expense (benefit): | | | |
| Federal | 20,507 | (15,773) | 41,878 |
| State | 1,426 | (3,415) | 6,040 |
| Total deferred income tax expense (benefit) | 21,933 | (19,188) | 47,918 |
| | $42,269 | $ 28,264 | $ 6,734 |

A reconciliation between the reported provision for income taxes from continuing operations 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):

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Income tax expense at statutory rate | $ 64,165 | $ 46,196 | $ 27,599 |
| FICA tax credit | (15,779) | (16,625) | (19,307) |
| State income taxes, net of Federal benefit | (316) | 1,711 | 3,154 |
| Other | (5,801) | (3,018) | (4,712) |
| | $ 42,269 | $ 28,264 | $ 6,734 |

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities as of June 29, 2011 and June 30, 2010 are as follows (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Deferred income tax assets: | | |
| Leasing transactions | $ 41,603 | $ 35,795 |
| Stock-based compensation | 15,320 | 17,671 |
| Restructure charges and impairments | 4,962 | 9,134 |
| Insurance reserves | 23,636 | 26,734 |
| Employee benefit plans | 591 | 1,044 |
| Gift cards | 9,369 | 8,733 |
| Other, net | 10,296 | 12,882 |
| Total deferred income tax assets | 105,777 | 111,993 |
| Deferred income tax liabilities: | | |
| Prepaid expenses | 13,448 | 12,963 |
| Goodwill and other amortization | 22,297 | 19,971 |
| Depreciation and capitalized interest on property and equipment | 24,672 | 11,143 |
| Other, net | 3,471 | 3,096 |
| Total deferred income tax liabilities | 63,888 | 47,173 |
| Net deferred income tax asset | $ 41,889 | $ 64,820 |

A reconciliation of unrecognized tax benefits for the fiscal years ended June 29, 2011 and June 30, 2010 are as follows (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of year | $18,850 | $27,711 |
| Additions based on tax positions related to the current year | 1,199 | 1,184 |
| Additions (Reductions) based on tax positions related to prior years | 188 | (1,754) |
| Settlements with tax authorities | (5,387) | (2,290) |
| Expiration of statute of limitations | (5,708) | (6,001) |
| Balance at end of year | $ 9,142 | $18,850 |

The total amount of unrecognized tax benefits as of June 29, 2011 was $9.1 million ($6.3 million of which would favorably affect the effective tax rate if resolved in our favor due to the effect of deferred tax benefits). During the next twelve months, we anticipate that it is reasonably possible that the amount of unrecognized tax benefits could be reduced by approximately $2.5 million ($1.7 million of which would affect the effective tax rate due to the effect of deferred tax benefits) either because our tax position will be sustained upon audit or as a result of the expiration of the statute of limitations for specific jurisdictions.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized benefits in interest of approximately $1.8 million and $1.0 million in fiscal 2011 and 2010, respectively, due to the reduction of accrued interest from statute expirations and settlements, net of accrued interest for remaining positions. As of June 29, 2011, we had $3.0 million ($2.3 million net of a $0.7 million Federal deferred tax benefit) of interest and penalties accrued, compared to $4.9 million ($3.5 million net of a $1.4 million Federal deferred tax benefit) at June 30, 2010.

## 8. DEBT

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

| | 2011 | 2010 |
|---|---|---|
| Term loan | $185,000 | $200,000 |
| 5.75% notes | 289,557 | 289,405 |
| Capital lease obligations (see Note 9) | 50,106 | 51,972 |
| | 524,663 | 541,377 |
| Less current installments | (22,091) | (16,866) |
| | $502,572 | $524,511 |

During fiscal 2011, we paid our required installments totaling $15.0 million on our five-year term loan bringing the outstanding balance to $185.0 million. The term loan bears interest at LIBOR plus an applicable margin, which is a function of our credit rating at such time, but is subject to a maximum of LIBOR plus 3.25%, and expires in June 2015. Based on our current credit rating, we are paying interest at a rate of LIBOR plus 2.75% (2.94% as of June 29, 2011).

As of June 29, 2011, we have an undrawn $200 million revolving credit facility, which expires in June 2015. The revolving credit facility bears interest at LIBOR plus an applicable margin, which is a function of our credit rating at such time, but is subject to a maximum of LIBOR plus 3.25%. Based on our current credit rating, the revolving credit facility carries an interest rate of LIBOR plus 2.75% (2.94% as of June 29, 2011).

On August 9, 2011, we executed a revised unsecured senior credit facility increasing the total capacity from $400 million to $500 million. The maturity date of the revised facility is August 2016. The facility includes a $250 million revolver and a $250 million term loan. The revised term loan and revolving credit facility bear interest at LIBOR plus an applicable margin, which is a function of our credit rating at such time, but is subject to a maximum of LIBOR plus 2.5%. Based on our current credit rating, we anticipate paying interest at a rate of LIBOR plus 1.625% (1.82% as of June 29, 2011) on the term loan and on the revolving credit facility should we draw any funds.

In May 2004, we 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 April 2009, we repurchased and retired $10.0 million of the notes at a discount and recorded a $1.3 million gain on the extinguishment of debt in interest expense in the consolidated statement of income in fiscal 2009.

Our debt agreements contain various financial covenants that, among other things, require the maintenance of certain leverage and fixed charge coverage ratios. We are currently in compliance with all financial covenants.

Excluding capital lease obligations (see Note 9) our long-term debt maturities for the five years following June 29, 2011 are as follows (in thousands):

| Fiscal Year | Long-Term Debt |
|---|---|
| 2012 | $ 20,000 |
| 2013 | 20,000 |
| 2014 | 309,557 |
| 2015 | 125,000 |
| 2016 | 0 |
| Thereafter | 0 |
| | $ 474,557 |

## 9. LEASES

### (a) Capital Leases

We lease certain buildings under capital leases. The asset value of $39.8 million at June 29, 2011 and $40.6 million at June 30, 2010, and the related accumulated amortization of $14.6 million and $12.5 million at June 29, 2011 and June 30, 2010, respectively, are included in property and equipment. Amortization of assets under capital leases is included in depreciation and amortization expense.

### (b) Operating Leases

We lease restaurant facilities, office space, and certain equipment under operating leases having terms expiring at various dates through fiscal 2093. The restaurant leases have renewal clauses of 1 to 35 years at our option and, in some cases, have provisions for contingent rent based upon a percentage of sales in excess of specified levels, as defined in the leases. Rent expense for fiscal 2011, 2010, and 2009 was $101.0 million, $102.5 million, and $117.5 million, respectively. Contingent rent included in rent expense for fiscal 2011, 2010, and 2009 was $4.1 million, $4.7 million, and $6.5 million, respectively.

**(c) Commitments**

As of June 29, 2011, future minimum lease payments on capital and operating leases were as follows (in thousands):

| Fiscal Year | Capital Leases | Operating Leases |
|---|---|---|
| 2012 | $ 5,367 | $100,441 |
| 2013 | 5,473 | 94,315 |
| 2014 | 5,581 | 84,658 |
| 2015 | 5,692 | 73,473 |
| 2016 | 5,806 | 59,482 |
| Thereafter | 53,399 | 129,085 |
| Total minimum lease payments(a) | 81,318 | $541,454 |
| Imputed interest (average rate of 7%) | (31,212) | |
| Present value of minimum lease payments | 50,106 | |
| Less current installments | (2,091) | |
| | $ 48,015 | |

(a) Future minimum lease payments have not been reduced by minimum sublease rentals due in the future under non-cancelable subleases. Sublease rentals are approximately $40.7 million and $59.1 million for capital and operating subleases, respectively.

## 10. FAIR VALUE DISCLOSURES

**(a) Non-Financial Assets Measured on a Non-Recurring Basis**

In fiscal 2011, three underperforming restaurants with a carrying value of $2.2 million were written down to their fair value of $0.3 million resulting in an impairment charge of $1.9 million, which was included in other gains and charges in the consolidated statement of income for the period. In fiscal 2010, 22 underperforming restaurants with a carrying value of $27.1 million were written down to their fair value of $7.3 million resulting in an impairment charge of $19.8 million, which was included in other gains and charges in the consolidated statement of income for the period. We determined fair value based on projected discounted future operating cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model.

The following table presents fair values for those assets measured at fair value on a non-recurring basis at June 29, 2011 and June 30, 2010 (in thousands):

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | (Level 1) | (Level 2) | (Level 3) | Total |
| Long-lived assets held for use: | | | | |
| At June 29, 2011 | $ — | $ — | $ 255.0 | $ 255.0 |
| At June 30, 2010 | $ — | $ — | $7,343.0 | $7,343.0 |

**(b) Other Financial Instruments**

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying amounts while the fair value of the 5.75% notes is based on quoted market prices. At June 29, 2011, the 5.75% notes had a carrying value of $289.6 million and a fair value of $308.1 million. At June 30, 2010, the 5.75% notes had a carrying value of $289.4 million and a fair value of $302.6 million.

## 11. STOCK-BASED COMPENSATION

Our shareholders approved stock-based compensation plans including the Stock Option and Incentive Plan and the Stock Option and Incentive Plan for Non-Employee Directors and Consultants (collectively, the “Plans”). The total number of shares authorized for issuance to employees and non-employee directors and consultants under the Plans is currently 35.3 million. The Plans provide for grants of options to purchase our common stock, restricted stock, restricted stock units, performance shares and stock appreciation rights.

### (a) Stock Options

Expense related to stock options issued to eligible employees under the Plans is recognized using a graded-vesting schedule over the vesting period or to the date on which retirement eligibility is achieved, if shorter. Stock options generally vest over a period of 1 to 4 years and have contractual terms to exercise of 8 to 10 years. Full or partial vesting of awards may occur upon a change in control (as defined in the Plans), or upon an employee’s death, disability or involuntary termination.

Transactions during fiscal 2011 were as follows (in thousands, except option prices):

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding at June 30, 2010 | 7,640 | $ 21.52 | | |
| Granted | 786 | 19.07 | | |
| Exercised | (1,726) | 19.15 | | |
| Forfeited or canceled | (563) | 22.57 | | |
| Options outstanding at June 29, 2011 | 6,137 | $ 21.77 | 3.5 | $ 19,599 |
| Options exercisable at June 29, 2011 | 4,723 | $ 22.62 | 2.5 | $ 11,406 |

At June 29, 2011, unrecognized compensation expense related to stock options totaled approximately $4.0 million and will be recognized over a weighted average period of 2.1 years. The intrinsic value of options exercised totaled approximately $5.5 million, $0.7 million and $3.3 million during fiscal 2011, 2010 and 2009, respectively. The tax benefit realized on options exercised totaled approximately $2.1 million, $0.3 million and $1.2 million during fiscal 2011, 2010 and 2009, respectively.

### (b) Restricted Share Awards

Restricted share awards consist of performance shares, restricted stock and restricted stock units. Performance shares and most restricted stock units issued to eligible employees under the Plans generally vest in full on the third anniversary of the date of grant, while restricted stock units issued to eligible employees under our career equity plan generally vest upon each employee’s retirement from the Company. Expense is recognized ratably over the vesting period, or to the date on which retirement eligibility is achieved, if shorter. Restricted stock and restricted stock units issued to non-employee directors under the Plans generally vest in full on the fourth anniversary of the date of grant or upon each director’s retirement from the Board and are expensed when granted. Full or partial vesting of awards may occur upon a change in control (as defined in the Plans), or upon an employee’s death, disability or involuntary termination.

Transactions during fiscal 2011 were as follows (in thousands, except fair values):

| | Number of Restricted Share Awards | Weighted Average Fair Value Per Award |
|---|---|---|
| Restricted share awards outstanding at June 30, 2010 | 2,448 | $ 17.40 |
| Granted | 1,051 | 12.72 |
| Vested | (711) | 24.28 |
| Forfeited | (446) | 13.07 |
| Restricted share awards outstanding at June 29, 2011 | 2,342 | $ 14.03 |

At June 29, 2011, unrecognized compensation expense related to restricted share awards totaled approximately $8.2 million and will be recognized over a weighted average period of 2.4 years. The fair value of shares that vested during fiscal 2011, 2010, and 2009 totaled approximately $7.5 million, $9.6 million and $12.7 million, respectively.

## 12. SAVINGS PLANS

We sponsor a qualified defined contribution retirement plan ("Plan I") covering all employees who have attained the age of twenty-one and have completed one year and 1,000 hours of service. Plan I allows eligible employees to contribute, subject to IRS 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. We match in cash at a rate of 100% of the first 3% an employee contributes and 50% of the next 2% the employee contributes with immediate vesting. In fiscal 2011, 2010, and 2009, we contributed approximately $6.3 million, $7.3 million, and $8.1 million, respectively.

We also sponsor a non-qualified defined contribution plan covering a select group of highly compensated employees, as defined in the plan. Eligible employees are allowed to defer receipt of up to 50% of their base compensation and bonus, as defined in the plan. There is no company match, but employee contributions earn interest based on a rate determined and announced in November prior to the start of the plan year. Employee contributions and earnings thereon vest immediately. A Rabbi Trust is used to fund obligations of the non-qualified plan. The market value of the trust assets is included in other assets and the liability to plan participants is included in other liabilities.

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Income taxes, net of refunds | $38,340 | $20,052 | $ 5,219 |
| Interest, net of amounts capitalized | 25,810 | 23,923 | 34,473 |

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Retirement of fully depreciated assets | $60,175 | $45,854 | $46,382 |

## 14. CONTINGENCIES

In connection with the sale of restaurants to franchisees and brand divestitures, we have, in certain cases, guaranteed lease payments. As of June 29, 2011 and June 30, 2010, we have outstanding lease guarantees or are secondarily liable for $166.1 million and $208.0 million, respectively. This amount represents the maximum potential liability of future payments under the guarantees. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from fiscal 2012 through fiscal 2023. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of June 29, 2011.

Certain current and former hourly restaurant employees filed a lawsuit against us in California Superior Court alleging violations of California labor laws with respect to meal and rest breaks. The lawsuit seeks penalties and attorney's fees and was certified as a class action in July 2006. In July 2008, the California Court of Appeal decertified the class action on all claims with prejudice. In October 2008, the California Supreme Court granted a writ to review the decision of the Court of Appeal. We intend to vigorously defend our position. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any.

We are engaged in various other legal proceedings and have certain unresolved claims pending. Reserves have been established based on our best estimates of our potential liability in certain of these matters. Based upon consultation with legal counsel, Management 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 our consolidated financial condition or results of operations.

## 15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2011 and 2010 (in thousands, except per share amounts):

| | Fiscal Year 2011 Quarters Ended | | | |
|---|---|---|---|---|
| | Sept. 29 | Dec. 29 | March 30 | June 29 |
| Revenues | $654,893 | $671,886 | $717,119 | $717,488 |
| Income before provision for income taxes | $ 26,919 | $ 45,426 | $ 55,499 | $ 55,485 |
| Income from continuing operations | $ 21,431 | $ 37,464 | $ 40,246 | $ 41,919 |
| Income from discontinued operations, net of taxes | $ 0 | $ 0 | $ 0 | $ 0 |
| Net income | $ 21,431 | $ 37,464 | $ 40,246 | $ 41,919 |
| Basic net income per share: | | | | |
| Income from continuing operations | $ 0.21 | $ 0.41 | $ 0.46 | $ 0.50 |
| Income from discontinued operations | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 |
| Net income per share | $ 0.21 | $ 0.41 | $ 0.46 | $ 0.50 |
| Diluted net income per share: | | | | |
| Income from continuing operations | $ 0.21 | $ 0.41 | $ 0.45 | $ 0.49 |
| Income from discontinued operations | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 |
| Net income per share | $ 0.21 | $ 0.41 | $ 0.45 | $ 0.49 |
| Basic weighted average shares outstanding | 100,667 | 90,936 | 87,679 | 83,888 |
| Diluted weighted average shares outstanding | 101,556 | 92,111 | 89,647 | 85,906 |

| | Fiscal Year 2010 Quarters Ended | | | |
|---|---|---|---|---|
| | Sept. 23 | Dec. 23 | March 24 | June 30(1) |
| Revenues | $696,543 | $705,515 | $713,380 | $743,060 |
| Income before provision for income taxes | $ 13,411 | $ 17,827 | $ 44,245 | $ 56,503 |
| Income from continuing operations | $ 10,279 | $ 14,837 | $ 35,508 | $ 43,098 |
| Income from discontinued operations, net of taxes | $ 5,488 | $ 3,487 | $ 4,490 | $ 20,517 |
| Net income | $ 15,767 | $ 18,324 | $ 39,998 | $ 63,615 |
| Basic net income per share: | | | | |
| Income from continuing operations | $ 0.10 | $ 0.14 | $ 0.35 | $ 0.42 |
| Income from discontinued operations | $ 0.05 | $ 0.04 | $ 0.04 | $ 0.20 |
| Net income per share | $ 0.15 | $ 0.18 | $ 0.39 | $ 0.62 |
| Diluted net income per share: | | | | |
| Income from continuing operations | $ 0.10 | $ 0.14 | $ 0.35 | $ 0.42 |
| Income from discontinued operations | $ 0.05 | $ 0.04 | $ 0.04 | $ 0.20 |
| Net income per share | $ 0.15 | $ 0.18 | $ 0.39 | $ 0.62 |
| Basic weighted average shares outstanding | 102,243 | 102,481 | 102,470 | 101,934 |
| Diluted weighted average shares outstanding | 103,016 | 102,994 | 103,357 | 102,791 |

(1) The quarter ended June 30, 2010 consisted of 14 weeks, while all other quarters consisted of 13 weeks.

Income from continuing operations for fiscal year 2011 included severance charges of $2.8 million, $0.9 million and $1.0 million in the first, second and third quarters, respectively. Lease termination charges of $1.2 million, $0.8 million and $1.0 million were incurred in the first, second and fourth quarters, respectively. Income from continuing operations also included long-lived asset impairments of $1.1 million and $0.8 million in the second and fourth quarters, respectively.

Income from continuing operations for fiscal year 2010 included long-lived asset impairments of $20.6 million and $4.6 million in the second and fourth quarters, respectively. Lease termination charges of $2.2 million and $4.0 million were also incurred in the first and third quarters, respectively.

Income from discontinued operations, net of taxes, in the fourth quarter of fiscal 2010 included a pre-tax gain on the sale of On The Border of $16.5 million.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Brinker International, Inc.:

We have audited the accompanying consolidated balance sheets of Brinker International, Inc. and subsidiaries (“the Company”) as of June 29, 2011 and June 30, 2010, and the related consolidated statements of income, shareholders’ equity and cash flows for each of the years in the three-year period ended June 29, 2011. 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, 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 29, 2011 and June 30, 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended June 29, 2011 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 29, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 29, 2011 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

KPMG LLP

Dallas, TX
August 29, 2011

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Brinker International, Inc.:

We have audited Brinker International, Inc. and subsidiaries' ("the Company") internal control over financial reporting as of June 29, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 29, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 29, 2011 and June 30, 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended June 29, 2011, and our report dated August 29, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Dallas, TX
August 29, 2011

## MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with U. S. generally accepted accounting principles and include amounts based upon our estimate and judgments, as required. The consolidated financial statements have been audited and reported on by our independent registered public accounting firm, 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.

We maintain a system of internal controls over financial reporting designed to provide reasonable assurance of the reliability of the consolidated financial statements. Our 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 29, 2011 provide reasonable assurance that the consolidated financial statements are reliable.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. We have assessed the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we concluded that our internal control over financial reporting was effective as of June 29, 2011.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The effectiveness of our internal control over financial reporting as of June 29, 2011 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

/s/ DOUGLAS H. BROOKS

DOUGLAS H. BROOKS
President and Chief Executive Officer

/s/ GUY J. CONSTANT

GUY J. CONSTANT
Executive Vice President and Chief Financial Officer

**Exhibit 21**

BRINKER INTERNATIONAL, INC., A DELAWARE CORPORATION
SUBSIDIARIES

BRINKER RESTAURANT CORPORATION, a Delaware corporation
BRINKER INTERNATIONAL PAYROLL COMPANY, L.P., a Delaware limited partnership
BRINKER ALABAMA, INC., a Delaware corporation
BRINKER ARKANSAS, INC., a Delaware corporation
BRINKER FLORIDA, INC., a Delaware corporation
BRINKER FREEHOLD, INC., a New Jersey corporation
BRINKER GEORGIA, INC., a Delaware corporation
BRINKER LOUISIANA, INC., a Delaware corporation
BRINKER MASSACHUSETTS CORPORATION, a Delaware corporation
BRINKER MHC B.V., a Netherlands private company
BRINKER MICHIGAN, INC., a Delaware corporation
BRINKER MISSISSIPPI, INC., a Delaware corporation
BRINKER MISSOURI, INC., a Delaware corporation
BRINKER NEVADA, INC., a Nevada corporation
BRINKER NEW JERSEY, INC., a Delaware corporation
BRINKER NORTH CAROLINA, INC., a Delaware corporation
BRINKER OF BALTIMORE COUNTY, INC., a Maryland corporation
BRINKER OF CARROLL COUNTY, INC., a Maryland corporation
BRINKER OF CECIL COUNTY, INC., a Maryland corporation
BRINKER OKLAHOMA, INC., a Delaware corporation
BRINKER PENN TRUST, a Pennsylvania business trust
BRINKER SERVICES CORPORATION, a Florida corporation
BRINKER TEXAS, INC., a Delaware corporation
BRINKER VIRGINIA, INC., a Delaware corporation
CHILI’S BEVERAGE COMPANY, INC., a Texas corporation
CHILI’S, INC., a Delaware corporation
CHILI’S, INC., a Tennessee corporation
CHILI’S INTERNATIONAL BASES, B.V., a Netherlands private company
CHILI’S OF BEL AIR, INC., a Maryland corporation
CHILI’S OF KANSAS, INC., a Kansas corporation
CHILI’S OF MARYLAND, INC., a Maryland corporation
CHILI’S OF WEST VIRGINIA, INC., a West Virginia corporation
MAGGIANO’S, INC., an Illinois corporation
MAGGIANO’S BEVERAGE COMPANY, a Texas corporation
MAGGIANO’S HOLDING CORPORATION, a Delaware corporation
MAGGIANO’S OF TYSON’S, INC., a Virginia corporation
MAGGIANO’S TEXAS, INC., a Delaware corporation
BRINKER CB MANAGEMENT, LLC, a Delaware limited liability company
BRINKER CB, LP, a Texas limited partnership
BRINKER PURCHASING, INC., a Delaware corporation
BIPC MANAGEMENT, LLC, a Delaware limited liability company
BIPC INVESTMENTS, LLC, a Delaware limited liability company
BRINKER BRAZIL, LLC, a Delaware limited liability company
BRINKER INTERNATIONAL GOLF CLASSIC, a Texas non-profit corporation
BRINKER FAMILY FUND, INC., a Delaware non-profit 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 the Registration Statement Nos. 33-56491, 333-02201, 333-93755, 333-42224, 333-105720, 333-125289, and 333-157050 on Form S-8; Registration No. 333-74902 on Form S-3; and Registration Statement No. 333-116879 on Form S-4 of Brinker International, Inc. of our reports dated August 29, 2011, with respect to the consolidated balance sheets of Brinker International, Inc. as of June 29, 2011 and June 30, 2010, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the years in the three-year period ended June 29, 2011, and the effectiveness of internal control over financial reporting as of June 29, 2011, which reports appear in the 2011 Annual Report to Shareholders on Form 10-K of Brinker International, Inc.

KPMG LLP

Dallas, Texas

August 29, 2011

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles;
   c. 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
   d. 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.

Dated: August 29, 2011

/S/ DOUGLAS H. BROOKS

Douglas H. Brooks
*Chairman of the Board, President and*
*Chief Executive Officer*
*(Principal Executive Officer)*

**Exhibit 31(b)**

**CERTIFICATION**

I, Guy J. Constant, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles;
    c. 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
    d. 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.

Dated: August 29, 2011

/S/ GUY J. CONSTANT

Guy J. Constant
*Executive Vice President and*
*Chief Financial Officer*
*(Principal Financial Officer)*

**Exhibit 32(a)**

# 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 29, 2011 (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: August 29, 2011

| | |
|---|---|
| By: | /S/ DOUGLAS H. BROOKS |
| Name: | Douglas H. Brooks |
| Title: | *Chairman of the Board, 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 29, 2011 (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: August 29, 2011

| | |
|---|---|
| By: | /s/ GUY J. CONSTANT |
| Name: | Guy J. Constant |
| Title: | *Executive Vice President and*<br>*Chief Financial Officer*<br>*(Principal Financial Officer)* |