



BRINKER
INTERNATIONAL®

Annual Report 2019

Dear Shareholders,

Fiscal 2019 was a year of sound growth for Brinker, centered on bringing Guests back into our restaurants through quality, convenience and value. Our strategy to increase sales and profits, while maintaining our focus on improving the Guest experience, proved successful and has set us up for continued momentum. As Norman Brinker said it best, “nothing is sacred other than the Guest returns.”

Our Guests did return, again and again. We delivered positive sales and traffic and ended the year with 2.1% growth in both. Chili’s outperformed the industry in traffic by almost 400 basis points and stole share from the competition. Guest measurements on service, quality and value have never been better. In growing both sales and profits in 2019, we generated \$3.2 billion in total revenue and paid \$60 million in dividends. Earnings per share, adjusted for special items, increased by 12% from the prior year¹, and we reduced diluted weighted average shares by 15.5%. I’m proud to look back and confidently say we delivered on our promises to Guests, Team Members and shareholders in 2019.

Here are a few highlights from the year, and a look at the exciting future of Brinker and its brands.

Chili’s Grill & Bar - continued confidence in our strategy

- **Best-in-class operations:** we will continue efforts on creating systems and simplifying execution so restaurant operators can focus on serving bold food and great Guest experiences. Additionally, our teams are focused on improving Team Member experiences and retention through award-winning training and development, or unique programs such as the Certified Shift Leader program which provides a career path from hourly Team Member to restaurant leader.
- **Strengthen the value proposition:** we introduced 3 for \$10 as a permanent offer on the menu, which drove traffic to Chili’s. In fiscal 2020, we plan to lean on this powerful, everyday value Guests can count on.
- **Industry leading technology:** we continue to leverage our industry leading technology platform to improve the Guest and Team Member experience. We’ve built a strong loyalty program allowing us to market directly to Guests and provide personalization to drive repeat visits next year and years to come.
- **Off-premise as a growth opportunity:** Proven by the double digit growth in to-go sales in fiscal 2019, there’s no denying our Guests are looking for ways to bring Chili’s into their homes and lives on the go. In fiscal 2019, we entered into an agreement with DoorDash as our exclusive third-party delivery partner because of its vision of technology innovation, ability to seamlessly integrate into our operations and fast growth in the markets where our restaurants are located. In fiscal 2020, we plan to innovate our off-premise strategy, including providing the ability for Guests to order delivery directly through our app and website.
- **An opportunistic acquisition:** we welcomed 116 Chili’s restaurants to Brinker as our new Midwest region in September of fiscal 2020. This purchase of our formerly franchised restaurants is a great opportunity to grow our scale with \$300 million in additional annual revenue and an opportunity to generate additional earnings per share and cash flow accretion.
- **Reimage:** we reimaged a significant number of restaurants in fiscal 2019, and we’ll continue to update our restaurant atmosphere in fiscal 2020 to stay relevant to our Guests.

Maggiano’s Little Italy – strong brand focused on growth

- **Consistent growth:** fiscal 2019 was the second year of positive top line growth, with same store sales for fiscal 2019 ending at +0.6%. Guest traffic outperformed the segment by 150 basis points.
- **Strong Guest affinity:** through both internal and third-party measurements, there is strong brand love for Maggiano’s, and we continue to see Guest metrics grow. In fact, Maggiano’s was recently voted America’s favorite casual dining restaurant.
- **New opportunity:** we opened the first franchise restaurant in the DFW airport in fiscal 2019 and a second location is scheduled to open at the Dallas Love Field airport in spring 2020. This is an exciting new franchise growth vehicle for Maggiano’s.

¹ Earnings per share, adjusted for special items, represents a Non-GAAP measure. For a reconciliation to our GAAP results, see the Company’s Press Release dated August 13, 2019 and furnished to the SEC on Form 8-K on August 13, 2019.

- **Looking ahead:** the long-term focus is to continue to drive top and bottom line growth. Our fiscal 2020 strategic focus includes:
 - Operating fundamentals and execution
 - Further leveraging the chef driven kitchens to enhance the menu
 - Guest loyalty, personalization and communication with broader data capture
 - Continuing to grow the off-premise business

Global Business Development – strategic partnerships to unlock new opportunities

Our international business had another strong year with 18 new restaurant openings, including our first in China which kicked off our growth strategy in Asia. The team is scheduled to open an industry leading 27-32 international restaurants next year while continuing great partnerships with strong franchise partners.

With all that said, we believe Brinker is on a solid growth trajectory by making key investments needed to accelerate future top and bottom line growth. I believe in the direction and future of Brinker and our brands and look forward to continuing our journey with you. Thank you for contributing to our recent successes and bringing our passion of making people feel special to life in restaurants around the world.

Sincerely,



Wyman T. Roberts
President and Chief Executive Officer

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

FORM 10-K

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

For the fiscal year ended June 26, 2019

Commission file number 1-10275



BRINKER INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

3000 OLYMPUS BLVD, DALLAS, TEXAS
(Address of principal executive offices)

75-1914582
(I.R.S. Employer
Identification No.)

75019
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
Common Stock, \$0.10 par value	EAT	New York Stock Exchange

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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: \$1,649.4 million.

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

<u>Class</u>	<u>Outstanding at August 12, 2019</u>
Common Stock, \$0.10 par value	37.5 million shares

DOCUMENTS INCORPORATED BY REFERENCE

We have incorporated portions of our Annual Report to Shareholders for the fiscal year ended June 26, 2019 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 expected to be held on November 20, 2019 into Part III hereof, to the extent indicated herein.

BRINKER INTERNATIONAL, INC.
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INTRODUCTION

Forward-Looking Statements

Information and statements contained in this Form 10-K, in our other filings with the SEC or in our written and verbal communications that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are generally accompanied by words like “believes,” “anticipates,” “estimates,” “predicts,” “expects,” “plans,” “intends,” “projects,” “continues” and other similar expressions that convey uncertainty about future events or outcomes. Forward-looking statements are based on our current plans and expectations and involve risks and uncertainties which could cause actual results to differ materially from our historical results or from those projected in forward-looking statements. Such risks and uncertainties include, among other things, the impact of competition, changes in consumer preferences, consumer perception of food safety, reduced disposable income, unfavorable publicity, increased minimum wages, governmental regulations, the impact of mergers, acquisitions, divestitures and other strategic transactions, the Company’s ability to meet its business strategy plan, loss of key management personnel, failure to hire and retain high-quality restaurant management, the impact of social media, failure to protect the security of data of our guests and team members, product availability, regional business and economic conditions, litigation, franchisee success, inflation, changes in the retail industry, technology failures, failure to protect our intellectual property, outsourcing, impairment of goodwill or assets, failure to maintain effective internal control over financial reporting, actions of activist shareholders, adverse weather conditions, terrorist acts, health epidemics or pandemics, and tax reform, as well as the risks and uncertainties described in Item 1A - Risk Factors and uncertainties that generally apply to all businesses. We wish to caution you against placing undue reliance on forward-looking statements because of these risks and uncertainties. Except as required by law, we expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. We further caution that it is not possible to identify all risk and uncertainties, and you should not consider the identified factors as a complete list of all risks and uncertainties.

PART I

ITEM 1. BUSINESS

General

References to “Brinker,” the “Company,” “we,” “us,” and “our” in this Form 10-K refer 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.

Restaurant Brands

Chili’s Grill & Bar

Chili’s, a recognized leader in the bar & grill category of casual dining, has been operating restaurants for over 40 years. Chili’s enjoys a global presence with locations in the United States, 29 countries and two territories outside of the United States. Whether domestic or international, Company-owned or franchised, Chili’s is dedicated to delivering fresh, high-quality food with a unique point of view, as well as dining experiences that make people feel special. Historically, Chili’s menu has featured bold, kicked-up American favorites. Chili’s has built a reputation for gourmet burgers, sizzling fajitas, baby back ribs and hand-shaken margaritas. We have refocused on and reinvested in these core equities, and we plan to continue to innovate our food offerings within these core menu platforms. We believe our focused menu, our “Chilihead” culture, our focus on standards and our reputation for hospitality will allow Chili’s to differentiate our food and service from other restaurants.

We also believe that guests are evolving not only their standards of food quality but also their expectations of convenience. Chili's To Go menu is available online, by calling the restaurant, or through our mobile app. In the summer of 2017, we began offering curbside service at all our Company-owned restaurants for orders placed through our website or mobile app. Curbside service has now been expanded and is available at most franchise restaurants. In fiscal 2018, we relaunched our My Chili's Rewards program and began offering free chips and salsa or a soft drink to members at every visit (guests must visit every 60 days to receive the offer). In fiscal 2019, we focused on our systems and standards for consistency across operations. In the fourth quarter of fiscal 2019, we partnered with DoorDash to make delivery of Chili's another convenience option for guests from most company-owned Chili's restaurants.

During the fiscal year ended June 26, 2019, at our Company-owned restaurants, entrée selections ranged in menu price from \$8.00 to \$19.49. The average revenue per meal, including alcoholic beverages, was approximately \$15.47 per person. Also during fiscal 2019, food and non-alcoholic beverage sales constituted approximately 86.5% of Chili's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 13.5%. Our average annual net sales volume per Company-owned Chili's restaurant during fiscal 2019 was \$2.9 million.

Maggiano's Little Italy

Maggiano's is a full-service, national, polished casual restaurant brand offering Italian-American cuisine. With a passion for making people feel special, the brand is known for catering to special occasions and large parties. Each Maggiano's location is uniquely designed and features open dining rooms with fresh flowers, rich woods, warm carpets and soft lighting. Most locations feature designated banquet facilities and all offer catering for large parties at homes or local businesses. Our full carryout menu is also available for pick up or delivered through a third party service. Each Maggiano's has an executive chef preparing authentic recipes from scratch ingredients. Dishes are served in abundant portions both à la carte and family style. We offer a full range of lunch and dinner options, complimented by a premium wine list and handcrafted cocktails. On Saturdays and Sundays, all Maggiano's restaurants offer a brunch menu alongside our lunch menu.

During the fiscal year ended June 26, 2019, entrée selections ranged in menu price from \$12.30 to \$47.99. The average revenue per meal, including alcoholic beverages, was approximately \$28.66 per person. Also during fiscal 2019, food and non-alcoholic beverage sales constituted approximately 85.1% of Maggiano's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 14.9%. Sales from events at our banquet facilities made up 17.8% of Maggiano's total restaurant revenues for the year. Our average annual sales volume per Maggiano's restaurant during fiscal 2019 was \$8.3 million.

Business Strategy

This information is set forth in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" within Exhibit 13 to this document. We incorporate that information in this document by reference.

Company Development

During fiscal 2019, we continued the expansion of our restaurant brands domestically through a select number of new Company-owned restaurants in strategically desirable markets. We concentrate on the development of certain identified markets that are most likely to improve our competitive position and achieve the desired level of marketing potential, profitability and return on invested capital. Our domestic expansion efforts focus not only on major metropolitan areas in the United States but also on smaller market areas and non-traditional locations (such as airports and universities) that can adequately support our restaurant brands. For smaller market areas, we have developed a new smaller prototype building for both brands that allows us to expand into these markets and serve our guests while maintaining a focus on profitability and return on invested capital.

The restaurant site selection process is critical, and we devote significant effort to the investigation of new locations utilizing a variety of sophisticated analytical techniques. Our process evaluates a variety of factors, including:

- trade area demographics, such as target population density and household income levels;
- physical site characteristics, such as visibility, accessibility and traffic volume;
- relative proximity to activity centers, such as shopping centers, hotel and entertainment complexes and office buildings; and
- supply and demand trends, such as proposed infrastructure improvements, new developments and existing and potential competition.

Members of each brand’s executive team inspect, review and approve each restaurant site prior to its lease or acquisition for that brand.

The specific rate at which we are able to open new restaurants is determined, in part, by our success in locating satisfactory sites, negotiating acceptable lease or purchase terms, securing appropriate local governmental permits and approvals, and by our capacity to supervise construction and recruit and train management and hourly team members.

The following table illustrates the Company-owned restaurants opened in fiscal 2019 and the projected openings in fiscal 2020:

	<u>Fiscal 2019</u>	<u>Fiscal 2020</u>
	<u>Fiscal Year Openings</u>	<u>Full Year Projected Openings</u>
New Openings		
Company-owned restaurants		
Chili’s domestic	4	9-11
Chili’s international	—	—
Maggiano’s	—	—
Total company-owned	<u>4</u>	<u>9-11</u>
Relocation Openings		
Chili’s domestic company-owned relocations	5	0-2

We periodically re-evaluate Company-owned restaurant sites to monitor that 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. In some cases 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. During fiscal 2019, we relocated five Company-owned restaurants, and closed an additional three Company-owned restaurants that were generally performing below our standards or were near or at the expiration of their lease terms. In fiscal 2020, we plan to relocate up to two Company-owned Chili’s restaurants. Our strategic plan is targeted to support our long-term growth objectives, with a focus on continued development of those restaurant locations that have the greatest return potential for the Company and our shareholders.

Franchise Development

In addition to our development of Company-owned restaurants, our restaurant brands pursue expansion through our franchisees. The following table illustrates the franchise restaurants opened in fiscal 2019 and the projected openings in fiscal 2020:

	Fiscal 2019	Fiscal 2020
	Fiscal Year Openings	Full Year Projected Openings
New Openings		
Franchise restaurants		
Chili's domestic	4	3
Chili's international	18	27-32
Maggiano's	1	1
Total franchise	<u>23</u>	<u>31-36</u>

The following table illustrates the percentages of franchise operations as of June 26, 2019 for the Company and by restaurant brand, respectively:

	Percentage of Franchise Operated Restaurants		
	Domestic ⁽¹⁾	International ⁽²⁾	Overall ⁽³⁾
Brinker	23%	99%	40%
Chili's	24%	99%	41%
Maggiano's	2%	—%	2%

- (1) Domestic - the percentages in this column are based on number of domestic franchised restaurants versus total domestic restaurants.
- (2) International - the percentages in this column are based on number of international franchised restaurants versus total international restaurants.
- (3) Overall - the percentages in this column are based on the total number of franchised restaurants (domestic and international) versus total system-wide number of restaurants.

International

We continue our international growth through development agreements with new and existing franchise partners, introducing Chili's to new countries and expanding the brand within our existing markets. As of June 26, 2019, we have 20 total development arrangements. During fiscal 2019, our international franchisees opened 18 Chili's restaurants. We intentionally exited certain franchise partnerships that were not developing the markets effectively, and entered into new development agreements with new and existing franchisees for development in southern and western India, and Ecuador.

We plan to strategically pursue expansion of Chili's internationally in areas where we see the most growth opportunities. Our international agreements provide the vehicle for payment of development fees and initial franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. We expect future agreements to remain limited to enterprises that demonstrate a proven track record as a restaurant operator and showcase financial strength that can support a multi-unit development agreement.

Domestic

We remain committed to finding and working with new and existing domestic franchise partners to develop more restaurants. As of June 26, 2019, one domestic development arrangement existed. Similar to our international

agreements, a typical domestic 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 agreements to remain limited to enterprises having significant experience as restaurant operators and proven financial ability to support and develop multi-unit operations.

During the fiscal year ended June 26, 2019, a domestic franchisee opened the first domestic Maggiano's franchise location.

In addition, we have from time to time purchased restaurants from our franchisees in order to support our growth objectives in certain markets. During the fiscal year ended June 26, 2019, we purchased three restaurants previously owned and operated by our franchisees. In the fourth quarter of fiscal 2019, we executed a letter of intent to acquire 116 Chili's restaurants owned by ERJ Dining, a franchisee, located in the Midwest United States. This acquisition is expected to be completed in the first quarter of fiscal 2020, and represents an opportunity to create value for our shareholders and generate additional earnings and cash flow growth. We remain committed to supporting the growth of our existing franchisees. After this transaction is completed, our percentage of franchise operated domestic Chili's restaurants will decrease to approximately 15% from the 24% presented in the above Percentage of Franchise Operated Restaurants table as of June 26, 2019.

Restaurant Management

Our Chili's and Maggiano's brands have separate designated teams who support each brand, including operations, finance, franchise, marketing, human resources 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, guest relations, 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 managing partner, two additional managers and shift leaders 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 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, and enjoy lower turnover of managers and team members that we believe is below industry averages.

We strive to ensure consistent quality standards in our brands through the issuance of operational 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. Depending on the brand, the training program typically includes a training period of two to three months for restaurant management trainees, as well as special training for high-potential team members and managers. We also provide recurring management training for managers and supervisors to improve effectiveness or prepare them for more responsibility.

Supply Chain

Our ability to maintain consistent quality and continuity of supply throughout each restaurant brand depends upon acquiring products from reliable sources. Our 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 are intended to ensure 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 our restaurant brands. Additionally, as a purchaser of a variety of food products, we require our suppliers to adhere to our supplier code of conduct, which sets forth our expectation on business integrity, food safety and food ingredients, animal welfare and sustainability. Due to the relatively rapid turnover of perishable food products and inventories in the restaurants, which consist primarily of food, beverages and supplies, our inventories have a modest aggregate dollar value in relation to revenues. Internationally, our franchisees may encounter cultural and regulatory differences resulting in variances with product specifications for international restaurant locations.

Advertising and Marketing

As a “polished casual” restaurant, with 53 locations, Maggiano’s primarily targets guests from affluent households who live and work around the higher-end malls where the majority of Maggiano’s restaurants are located. Maggiano’s relies on digital marketing, direct marketing, social media and word of mouth to advertise to new guests.

As a large, nationally penetrated bar and grill brand, Chili’s appeals to a broader population. More than 50 million Americans visit Chili’s every three months, ranging across all income and ethnic groups. As casual dining traffic has softened in recent years, we have worked hard to be more precise in defining the Chili’s target guest. Today our primary focus for developing menu innovation and targeting our TV and digital advertising are the Generation X and Millennial families who desire quality food, good value and a service experience that allows them to connect with family and friends. These young families represent a significant percentage of our guest base today and, we believe, will only grow in importance in the years ahead.

Our domestic Chili’s franchise agreements generally require advertising contributions to us by the franchisees. We use these contributions, in conjunction with Company funds, for the purpose of retaining advertising agencies, 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 is required to be approved by us.

Team Members

As of June 26, 2019, we employed 56,147 team members, of which 572 were restaurant support and corporate personnel located in Dallas, Texas, and 4,405 were restaurant regional and area directors, managers, or trainees. The remaining 51,170 were employed in non-management restaurant positions. Our executive officers have an average of 25 years of experience in the restaurant industry.

In a competitive labor market, we have developed key recruitment and retention strategies that we believe have resulted in record-high internal engagement rates and industry-low turnover. Our internal promotion rate continues to climb as we focus on helping our team members turn their restaurant jobs into lasting careers. These career paths are made possible by a number of development programs, including Best You EDU, a no-cost education program providing foundational learning, ESL, GED, and associate’s degree programs, and the Certified Shift Leader program which is accredited as an apprenticeship through the National Restaurant Association Education Foundation and United States Department of Labor, and is intended to give hourly team members a clear path into management. While developing these programs, we have simultaneously launched all-new digital training for team members at all levels of the Company that uses digital technology and innovative learning methodologies to set our team members up for success as part of our commitment to develop future leaders in the restaurant industry.

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

Cyber Security

During fiscal 2018, we issued a public statement that malware had been discovered at certain Chili's restaurants that resulted in unauthorized access or acquisition of customer payment card data. For further information about this cyber security incident refer to Note 15 - Commitments and Contingencies presented within the Notes to the Consolidated Financial Statements attached as part of Exhibit 13 of this filing.

Trademarks

We have registered or have pending, among other marks, "Brinker International", "Chili's", "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 at our website, free of charge, 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. The SEC also maintains an internet website, with the address of www.sec.gov, which contains reports, proxy and information statements, and other information filed electronically or furnished with 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, Audit Committee Charter, Compensation Committee Charter, Governance and Nominating Committee Charter, Code of Conduct for the Board of Directors, Brinker International Code of Conduct - Making People Feel Special, and Policy Governing the Improper Use of Materials. The information contained on our website is not a part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

We wish to caution you that our business, financial condition and results of operations are subject to a number of risks and uncertainties. The risk factors listed below could cause actual results to differ materially from our historical results or from those projected in forward-looking statements contained in this report, our other filings with the SEC, our news releases, or our other verbal or written communications. Additional risks and uncertainties that are currently not known or believed by us to be immaterial may also have a material negative impact on our business, financial condition and results of operations. In any such event, the trading price of our securities could decline and you could lose all or part of your investment.

Competition may adversely affect our operations and financial results.

The restaurant business is highly competitive as to price, service, restaurant location, convenience, and type and quality of food. We compete within each market with locally-owned restaurants as well as national and regional restaurant chains. The casual dining segment of the restaurant industry has not seen significant growth in customer traffic in recent years. If this trend continues, our ability to grow customer traffic at our restaurants will depend on our ability to increase our market share within the casual dining segment. We also face competition from quick service and fast casual restaurants; the convergence in grocery, deli and restaurant services; and meal kit and food delivery providers. 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. Although we may implement a number of business strategies, the success of new products, initiatives and overall strategies is highly difficult to predict. If we are unable to compete effectively, our gross sales, guest traffic and profitability may decline.

Changes in consumer preferences may decrease demand for food at our restaurants.

Changing health or dietary preferences may cause consumers to avoid our products in favor of alternative foods. The food service industry as a whole depends on consumer preferences at the local, regional, national and

international levels. New information or changes in dietary, nutritional or health insurance guidelines, whether issued by government agencies, academic studies, advocacy organizations or similar groups, may 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-owned restaurants and the payments we receive from franchisees.

Food safety incidents at our restaurants or in our industry or supply chain may adversely affect customer perception of our brands or industry and result in declines in sales and profits.

Regardless of the source or cause, any report of food-borne illnesses or other food safety issues at one of our restaurants or our franchisees' restaurants could irreparably damage our brand reputations and result in declines in customer traffic and sales at our restaurants. A food safety incident may subject us to regulatory actions and litigation, including criminal investigations, and we may be required to incur significant legal costs and other liabilities. Food safety incidents may occur in our supply chain and be out of our control. Health concerns or outbreaks of disease in a food product could also reduce demand for particular menu offerings. Even instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the restaurant industry generally and adversely affect our sales or cause us to incur additional costs to implement food safety protocols beyond industry standards. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

Global and domestic economic conditions may negatively impact consumer discretionary spending and could have a material negative effect on our financial performance.

The restaurant industry is dependent upon consumer discretionary spending, which may be negatively affected by global and domestic economic conditions, such as: slow or negative growth, unemployment, credit conditions and availability, volatility in financial markets, inflationary pressures, weakness in the housing market, tariffs and trade barriers, and changes in government and central bank monetary policies. If economic conditions negatively affect consumer incomes, then discretionary spending for restaurant visits will be challenged, our guest traffic may deteriorate and the average amount guests spend in our restaurants may be reduced. This will negatively impact our revenues and also result in lower royalties collected, spreading fixed costs across a lower level of sales, and in turn, cause downward pressure on our profitability. This could result in further reductions in staff levels, asset impairment charges and potential restaurant closures. There is no assurance that any governmental plans related to the economy to restore fiscal responsibility or future plans to stimulate the economy will foster growth in consumer confidence, consumer incomes or consumer spending.

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, customer complaints, litigation, illness or health concerns or other issues stemming from one or a limited number of restaurants, regardless of whether such events have a factual basis. 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. The speed at which negative publicity (whether or not accurate) can be disseminated has increased dramatically with the capabilities of the internet. If we are unable to quickly and effectively respond to such reports, we may suffer declines in guest traffic which could materially impact our financial performance.

Employment and labor laws and regulations may increase the cost of labor for our restaurants.

We are subject to various federal, state and local employment and labor laws and regulations that govern employment and labor matters, including, employment discrimination, minimum wages, work scheduling,

overtime, tip credits, tax reporting, working conditions, safety standards, family leave and immigration status. Compliance with these laws and regulations can be costly, and a failure or perceived failure to comply with these laws could result in negative publicity or litigation. Many states and localities are contemplating increases to their minimum wage and tip credit wage, and such increases can have a significant impact on our labor costs. In addition, new employment or labor laws may mandate additional benefits for employees or impose additional obligations that may adversely impact the costs of labor, the availability of labor and our business operations. In addition, our suppliers 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. There are no assurances that a combination of cost management and price increases can accommodate all of the costs associated with compliance.

Governmental regulation may adversely affect our ability to maintain our existing and future operations and to open new restaurants.

We are subject to extensive federal, state, local and international laws and regulations, which vary from jurisdiction to jurisdiction and which increase our exposure to litigation and governmental proceedings. Among other laws and regulations, we are subject to laws and regulations relating to the design and operation of facilities, minimum wage, licensing and regulation by alcoholic beverage control, health, sanitation, safety and fire agencies, nutritional content and menu labeling, including the Affordable Care Act, which requires restaurant companies such as ours to disclose calorie information on their menus. 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 cannot reliably anticipate any changes in guest behavior resulting from implementation of these laws.

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 this will not occur in the future. In particular, the United States and other foreign governments have increased focus on environmental matters such as climate change, greenhouse gases and water conservation. 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.

We are subject to federal and state laws and regulations which govern the offer and sale of franchises and which may supersede the terms of franchise agreements between us and our franchisees. Failure to comply with such laws and regulations or to obtain or retain licenses or approvals to sell franchises could adversely affect us and our franchisees. Due to our international franchising, we are also subject to governmental regulations throughout the world impacting the way we do business with our international franchisees. These include antitrust and tax requirements, anti-boycott regulations, import/export/customs and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could adversely impact our business and financial performance.

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, local, and international 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.

Successful strategic transactions are important to our future growth and profitability.

We evaluate and may pursue opportunities for growth through new and existing franchise partners, joint venture investments, acquisition of restaurant concepts, expansion of our brands to other retail opportunities, and strategic mergers, acquisitions and divestitures. These strategic initiatives involve various inherent risks, including, without limitation:

- inaccurate assessment of the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of such strategic initiatives;
- damaging our reputation if the strategic initiatives result in products or services that are not of the same quality that our customers associate with our brands;
- diversion of management's attention and focus from existing operations to the strategic initiative;
- inability to achieve projected economic and operating synergies;
- challenges in successfully integrating an acquired business and instilling our Company culture in new management and team members;
- potential loss of key personnel of any acquired business; and
- unanticipated changes in business and economic conditions affecting an acquired business or the completion of a divestiture.

In the fourth quarter of fiscal 2019, we executed a letter of intent to acquire 116 Chili's restaurants owned by ERJ Dining, a franchisee, located in the Midwest United States. This acquisition is expected to be completed in the first quarter of fiscal 2020, and represents an opportunity to create value for our shareholders and generate additional earnings and cash flow growth. We remain committed to supporting the growth of our existing franchisees. These restaurants have historically had lower annual average sales volumes. We plan to integrate the acquired restaurants into our Chili's operations structure and to roll out processes to improve sales and margins. We also expect to remodel these restaurants and leverage technology investments in the restaurants. There is no assurance that these initiatives will achieve the sales growth and margin improvements for which we have planned with respect to this acquisition, and may adversely impact our future profitability if not met.

If we are unable to successfully design and execute a business strategy plan, our gross sales and profitability may be adversely affected.

Our ability to increase revenues and profitability is dependent on designing and executing effective business strategies. If we are delayed or unsuccessful in executing our strategies or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer. 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 desired by our guests;
- evolve our marketing and branding strategies in order to appeal to guests;
- innovate and implement technology initiatives that provide a unique digital guest experience;
- identify adequate sources of capital to fund and finance strategic initiatives, including reimaging of existing restaurants, new restaurant development and new restaurant equipment;
- grow and expand operations, including identifying available, suitable and economically viable locations for new restaurants; and
- improve the speed and quality of our service.

Our partnership with DoorDash is subject to risks, and our ability to grow sales through delivery orders is uncertain.

Our strategy for growth in fiscal year 2020 is dependent in part on increased sales from guests that want our food delivered to them. In the fourth quarter of fiscal year 2019, we entered into an agreement with DoorDash that allows DoorDash to be the exclusive third party delivery provider for Chili's and Maggiano's. We currently rely on DoorDash for the ordering and payment platforms that receive guest orders and that send orders directly to our point of sale system. These platforms could be damaged or interrupted by technological failures, cyber-attacks or other factors, which may adversely impact our sales through these channels. DoorDash generally fulfills delivery orders through drivers that are independent contractors. These drivers may make errors, fail to make timely deliveries, damage our food or poorly represent our brands, which may lead to customer disappointment, reputational harm and unmet sales expectations. Our sales may also be adversely impacted if there is a shortage in drivers that are willing and available to make deliveries from our restaurants.

Because we have partnered exclusively with DoorDash, our delivery business and growth expectations may be negatively impacted if DoorDash is not able to effectively compete with other restaurant delivery providers for end consumers, capital, and delivery drivers or DoorDash ceases or reduces operations. Delivery, as well as other DoorDash offerings that we may test, are relatively new services, and it is difficult for us to anticipate the level of sales they may generate, operational challenges we may face or the experiences our guests will have with these offerings. These factors may adversely impact our sales and our brand reputation. We also incur additional costs associated with delivery orders, and it is possible that these orders could cannibalize more profitable in-restaurant visits or carry out orders.

Loss of key management personnel could hurt our business and limit our ability to operate and grow successfully.

Our success depends, to a significant extent, on our leadership team and other key management personnel. These personnel serve to maintain a corporate vision for our Company, execute our business strategy, and maintain consistency in the operating standards of our restaurants. If we are unable to attract and retain sufficiently experienced and capable key management personnel, our business and financial results may suffer.

Failure to recruit, train and retain high-quality restaurant management and team members may result in lower guest satisfaction and lower sales and profitability.

Our restaurant-level management and team members are largely responsible for the quality of our service. Our guests may be dissatisfied and our sales may decline if we fail to recruit, train and retain managers and team members that effectively implement our business strategy and provide high quality guest service. There is active competition for quality management personnel and hourly team members. If we experience high turnover, we may experience higher labor costs and have a shortage of adequate management personnel required for future growth.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business.

There has been a marked increase in the use of social media and similar platforms which allow individual access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their subscribers and participants' post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and may harm our performance, prospects or business, regardless of the information's accuracy.

As part of our marketing strategy, we rely on search engine marketing, social media and new technology platforms to attract and retain guests and maintain brand relevance. Our strategy and initiatives may not be successful, resulting in expenses incurred without improvement in guest traffic or brand relevance. In addition, a variety of risks are associated with the use of social media, including the improper disclosure of proprietary information,

negative comments about us, exposure of personally identifiable information, fraud, or out-of-date information. The inappropriate use of social media vehicles by our guests or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

We are exposed to risks related to cyber security and protection of confidential information, and failure to protect the integrity and security of payment card or individually identifiable information of our guests and teammates or confidential and proprietary information of the Company could damage our reputation and expose us to loss of revenues, increased costs and litigation.

Our technology systems contain personal, financial and other information that is entrusted to us by our guests and team members, as well as financial, proprietary and other confidential information related to our business, and a significant portion of our restaurant sales are by credit or debit cards. If our technology systems, or those of third party services providers we rely upon, are compromised as a result of a cyber-attack (including whether from circumvention of security systems, denial-of-service attacks, hacking, “phishing” attacks, computer viruses, ransomware, malware, or social engineering) or other external or internal method, it could result in an adverse and material impact on our reputation, operations, and financial condition. The cyber risks we face range from cyber-attacks common to most industries, to attacks that target us due to the confidential consumer information we obtain through our electronic processing of credit and debit card transactions. Such security breaches could also result in litigation or governmental investigation against us, as well as the imposition of penalties. These impacts could also occur if we are perceived either to have had an attack or to have failed to properly respond to an incident.

To conduct our operations, we regularly move data across national borders, and consequently are subject to a variety of continuously evolving and developing laws and regulations regarding privacy, data protection, and data security, including those related to the collection, storage, handling, use, disclosure, transfer, and security of personal data. The use and disclosure of such information is regulated at the federal, state and international levels, and these laws, rules and regulations are subject to change and increased enforcement activity. As privacy and information security laws and regulations change or cyber risks evolve pertaining to data, we may incur significant additional costs in technology, third-party services and personnel to maintain systems designed to anticipate and prevent cyber-attacks. As further described below, the Company experienced a cyber security incident at some Chili’s locations in fiscal 2018. As a result of the incident, we have taken certain additional preventative measures to reduce cyber risks. However, we cannot provide assurance that our security frameworks and measures will be successful in preventing future cyber-attacks or data loss. In addition, we expect the cost to maintain cyber liability insurance in the future will materially increase as a result of the incident.

We have incurred and in the future may incur costs and reputational harm resulting from the unauthorized access or acquisition of confidential consumer information related to our electronic processing of credit and debit card transactions.

On May 12, 2018, we issued a public statement notifying guests that we had discovered that credit and debit card numbers and related payment card information may have been acquired from Chili’s locations without authorization as a result of a malware attack. The Company engaged third-party forensic firms and cooperated with law enforcement to investigate the matter. Based on the investigation of our third-party forensic experts, we believe most Company-owned Chili’s restaurants were impacted by the malware during time frames that vary by restaurant, but we believe in each case began no earlier than March 21, 2018 and ended no later than April 22, 2018.

As a result of the incident, we have been assessed with financial responsibility by certain payment card companies for card issuer losses, card replacement costs and other charges issued by payment card companies. In addition, we are the defendant in a purported class action lawsuit, alleging that we negligently failed to provide adequate security to protect the payment card information of the plaintiffs, causing those individuals to suffer financial losses. We may also be subject to fines and penalties imposed by state and federal regulators relating to or arising out of the incident. In the future we may become subject to additional claims for purportedly fraudulent

transactions arising out of the actual or alleged theft of credit or debit card information, and we may also become subject to additional lawsuits or proceedings relating to the incident. While we do not acknowledge responsibility to pay any such amounts imposed or demanded, these proceedings and demands may result in significant related settlement costs.

Since the incident, through June 26, 2019, we have incurred costs of \$4.2 million related to the cyber security incident, and expect to incur significant legal and professional services expenses associated with the incident in future periods. Although we maintain cyber liability insurance, we are not able to reliably forecast all of the losses that may occur as a result of the incident or whether such costs will be covered by insurance. It is possible that our losses will be in excess of our cyber liability insurance coverage applicable to the incident. If losses exceed our cyber liability insurance coverage such excess losses could have a material adverse effect on our financial condition or results of operations in future periods.

Further, the incident may have a negative impact on our reputation and cause guests to lose confidence in our ability to safeguard their information. We are unable to definitively determine the impact to our relationship with our guests and whether we will need to engage in significant promotional or other activities to rebuild our relationship with our guests. If the Company experiences another cyber security incident in the future, we believe it will be even more difficult to regain the trust of our guests and to rebuild our reputation.

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

Possible shortages or interruptions in the supply of food items and other products to our restaurants caused by inclement weather; natural disasters such as floods, droughts and hurricanes; shortages in the availability of truck drivers; the inability of our suppliers to obtain credit in a tight credit market; trade barriers; food safety warnings or advisories or the prospect of such pronouncements; animal disease outbreaks; 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 or reduce revenues and limit the availability of products critical to our restaurant operations.

The large number of Company-owned restaurants concentrated in Texas, Florida and California makes us susceptible to changes in economic and other trends in those regions.

A high concentration of our Company-owned restaurants are located in Texas, Florida and California comprising 21.6%, 13.8% and 11.7%, respectively, as of June 26, 2019. As a result, we are particularly susceptible to adverse trends and economic conditions in those states. Negative publicity, local economic conditions, local strikes, energy shortages or extreme fluctuations in energy prices, droughts, earthquakes, fires or other natural disasters in regions where our restaurants are highly concentrated could have a material adverse effect on our business and operations. For example, declines in oil prices may increase levels of unemployment and cause other economic pressures that result in lower sales and profits at our restaurants in oil market regions of Texas and surrounding areas.

Litigation could have a material adverse impact on our business and our financial performance.

We are subject to lawsuits, administrative proceedings and claims that arise in the regular course of business or out of special circumstances. These matters typically involve claims by guests, team members and others regarding issues such as food-borne illness, food safety, premises liability, compliance with wage and hour requirements, work-related injuries, discrimination, harassment, disability and other operational issues common to the foodservice industry, as well as contract disputes and intellectual property infringement matters. Our franchise activity also creates a risk of us being named as a joint employer of workers of franchisees for alleged violations of labor and wage laws. We could be adversely affected by negative publicity and litigation costs resulting from these claims, regardless of their validity. Significant legal fees and costs in complex class action litigation or an adverse judgment or settlement that is not insured or is in excess of insurance coverage could have a material adverse effect on our financial position and results of operations.

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

We have a significant percentage of system-wide restaurants owned and operated by our franchisees. While our franchise agreements are designed to require our franchisees to maintain brand consistency, the franchise relationship reduces our direct day-to-day oversight of these restaurants and may expose us to risks not otherwise encountered if we maintained ownership and control. Our reputation and financial results may be negatively impacted by: franchisee defaults in their obligations to us; limitations on our ability to enforce franchise obligations due to bankruptcy proceedings or differences in legal remedies in international markets; franchisee failures to participate in business strategy changes due to financial constraints; franchisee failures to meet obligations to pay employees; and franchisees' failure to comply with food quality and preparation requirements.

Additionally, our international franchisees are subject to risks not encountered by our domestic franchisees, and royalties paid to us may decrease if their businesses are negatively impacted. These risks include:

- difficulties in achieving consistency of product quality and service as compared to United States operations;
- changes to recipes and menu offerings to meet cultural norms;
- challenges to obtain adequate and reliable supplies necessary to provide menu items and maintain food quality; and
- differences, changes or uncertainties in economic, regulatory, legal, cultural, social and political conditions.

Downgrades in our credit ratings could impact our ability to access capital and materially adversely affect our business, financial condition and results of operations.

Credit rating agencies may change their credit rating for us, among other things, based on the performance of our business, our capital strategies or their overall view of our industry. There can be no assurance that any rating assigned to our currently outstanding public debt securities will remain in effect for any given period of time or that any such ratings will not be further lowered, suspended or withdrawn entirely by a rating agency if, in that agency's judgment, circumstances so warrant. A downgrade of our credit ratings could, among other things:

- increase our cost of borrowing;
- limit our ability to access capital;
- result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur, including restrictions on our ability to pay distributions or repurchase shares;
- require us to provide collateral for any future borrowings; and
- adversely affect the market price of our outstanding debt securities.

Inflation and fluctuations in energy costs may increase our operating expenses.

We have experienced impact from inflation and fluctuations in utility and energy costs. Inflation has caused added food, labor and benefits costs and increased our operating expenses. Fluctuations and increases in utility and energy costs have also increased our operating expenses on regional and national levels, including through suppliers putting pressure on margins by passing on higher prices for petroleum-based fuels. As operating expenses rise, we, to the extent permitted by competition, recover costs by raising menu prices, or by implementing alternative products, processes or cost reduction procedures. We cannot ensure, however, we will be able to continue to recover increases in operating expenses due to inflation in this manner.

Challenges to the retail industry may negatively affect guest traffic at our restaurants.

Other tenants at retail centers in which we are located or have executed leases may fail to open or may cease operations as a result of challenges specific to the retail industry, including competition from online retailers. Decreases in total tenant occupancy in retail centers and changes in guest visits to the retail centers in which we are located may negatively affect guest traffic at our restaurants.

We are dependent on information technology and any material failure in the operation or security of that technology or our ability to execute a comprehensive business continuity plan 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.

Additionally, our corporate systems and processes and corporate support for our restaurant operations are handled primarily at our restaurant support center. We have disaster recovery procedures and business continuity plans in place to address most events of a crisis nature, including tornadoes and other natural disasters, and back up and off-site locations for recovery of electronic and other forms of data and information. However, if we are unable to fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital corporate functions, tardiness in required reporting and compliance, failures to adequately support field operations and other breakdowns in normal communication and operating procedures that could have a material adverse effect on our financial condition, results of operation and exposure to administrative and other legal claims.

Failure to protect our service marks or other intellectual property could harm our business.

We regard our Chili's® and Maggiano's® service marks, and other service marks and trademarks related to our restaurant businesses, as having significant value and being important to our marketing efforts. We rely on a combination of protections provided by contracts, copyrights, patents, trademarks, service marks and other common law rights, such as trade secret and unfair competition laws, to protect our restaurants and services from infringement. We have registered certain trademarks and service marks in the United States and foreign jurisdictions. However, we are aware of names and marks identical or similar to our service marks being used from time to time by other entities. Although our policy is to oppose any such infringement, further or unknown unauthorized uses or other misappropriation of our trademarks or service marks could diminish the value of our brands and adversely affect our business. In addition, effective intellectual property protection may not be available in every country in which we have or intend to open or franchise a restaurant. Although we believe we have taken appropriate measures to protect our intellectual property, there can be no assurance that these protections will be adequate and defending or enforcing our service marks and other intellectual property could result in the expenditure of significant resources.

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 or may in the future be outsourced to third parties. Such processes include certain information technology processes, 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 and adequate security frameworks to guard

against breaches or data loss; 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.

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 tests 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 respect 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. The projection of future cash flows used in the analyses 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 financial position and results of operations could be adversely affected.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

We are subject to the internal control requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which require management to assess the effectiveness of our internal control over financial reporting and our independent auditors to attest to the effectiveness of our internal control over financial reporting. Our processes for designing and implementing effective internal controls involve continuous effort that requires us to anticipate and react to changes in our business as well as in the economic and regulatory environments. As a result, we expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We cannot assure you that the measures we will take as part of this effort will be sufficient to maintain effective internal control over our financial reporting. Failure to maintain effective internal controls could result in consolidated financial statements that do not accurately reflect our financial condition, cause investors to lose confidence in our reported financial information, or result in regulatory scrutiny, penalties or shareholder litigation, all of which could have a negative effect on the trading price of our common stock.

Our business and operation could be negatively affected if we become subject to any securities litigation or shareholder activism, which could cause us to incur significant expenses, hinder execution of investment strategy and impact our stock price.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing in publicly traded companies recently. Due to the potential volatility of our stock price and for a variety of other reasons, we may become the target of securities litigation or shareholder activism. Securities litigation and shareholder activism, including potential proxy contests, could result

in substantial costs and legal fees and divert management's and our board of directors' attention and resources from our business. Additionally, such securities litigation and shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with service providers and make it more difficult to attract and retain qualified personnel. Further, our stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any securities litigation and shareholder activism.

From time to time we may implement measures that make it more difficult for an activist investor or potential acquirer to purchase a large portion of our securities, to initiate a tender offer or a proxy contest, or to acquire the Company through a merger or similar transaction. These measures may discourage investment in our common stock and may delay or discourage acquisitions that would result in our stockholders receiving a premium for their shares over the then-current market price.

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 forward-looking statements, include, without limitation, changes in financial and credit markets (including rising interest rates); 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; changes in consumer behaviors; changes in demographic trends; labor shortages and availability of employees; union organization; strikes; terrorist acts; energy shortages and rolling blackouts; and weather (including, major hurricanes and regional winter storms); inadequate insurance coverage; and limitations imposed by our credit agreements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Restaurant Locations

As of June 26, 2019, our system of Company-owned and franchised restaurants included 1,665 restaurants. During 2019, our first Maggiano's franchise location opened in the United States. The below table contains a breakdown of our portfolio of restaurants by brand and by domestic versus international location:

	June 26, 2019		
	Domestic	International	Total
Chili's			
Company-owned	944	5	949
Franchise	298	365	663
	1,242	370	1,612
Maggiano's			
Company-owned	52	—	52
Franchise	1	—	1
	53	—	53
System-wide	1,295	370	1,665

Our Company-owned and franchise restaurants are located in 49 states and Washington, D.C. We and our franchisees also have restaurants in two territories outside of the United States, Guam and Puerto Rico, and 29 countries: Canada, Chile, China, Costa Rica, Dominican Republic, Ecuador, Egypt, Germany, Guatemala,

Honduras, India, Indonesia, Japan, Jordan, Kuwait, Lebanon, Malaysia, Mexico, Morocco, Oman, Panama, Peru, Philippines, Qatar, Saudi Arabia, South Korea, Taiwan, Tunisia and United Arab Emirates.

	June 26, 2019	
	Domestic	International
	No. of States	No. of countries and U.S. territories
Chili's	49	31
Maggiano's	23 & D.C.	—

Restaurant Property Information

The following table illustrates the approximate dining capacity for a prototypical restaurant of each of our brands:

	Chili's	Maggiano's
Square feet	4,300-6,000	8,000-24,800
Dining seats	150-250	260-900
Dining tables	35-54	35-150

During fiscal 2019, we completed sale leaseback transactions of 152 restaurant properties. Refer to Note 3 - Sale Leaseback Transactions of the Consolidated Financial Statements for further details related to the sale leaseback transactions. As of June 26, 2019, we continue to own property for 41 of the 1,001 Company-owned restaurants locations. The related book value of the owned 41 restaurant locations as of June 26, 2019 includes land of \$32.5 million and the net book value of buildings totaled \$16.1 million.

As of June 26, 2019, the other 960 restaurant locations were leased by us and the net book value of the buildings and leasehold improvements was \$496.5 million. The 960 leased restaurant locations can be categorized as follows: 672 are ground leases (where we lease land only, but own the building) and 288 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. Our leased restaurants are leased for an initial lease term which is typically ten to twenty years, with one or more renewal terms typically ranging from one to 10 years. The leases typically provide for a fixed rental or a fixed rental plus percentage rentals based on sales volume.

Other Properties

During fiscal 2019, we moved to our new corporate headquarters location where we lease approximately 216,300 square feet. Also, during fiscal 2019, we fully relinquished possession of the sold portion of our previous headquarter location consisting of 108,000 square feet, and ceased to use the leased portion of previous headquarter location consisting of 198,000 square. Refer to Note 3 - Sale Leaseback Transactions of the Consolidated Financial Statements for further details.

ITEM 3. LEGAL PROCEEDINGS

This information is set forth in Note 15 - Commitments and Contingencies to our Consolidated Financial Statements attached as part of Exhibit 13 to this document. We incorporate that information in this document by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

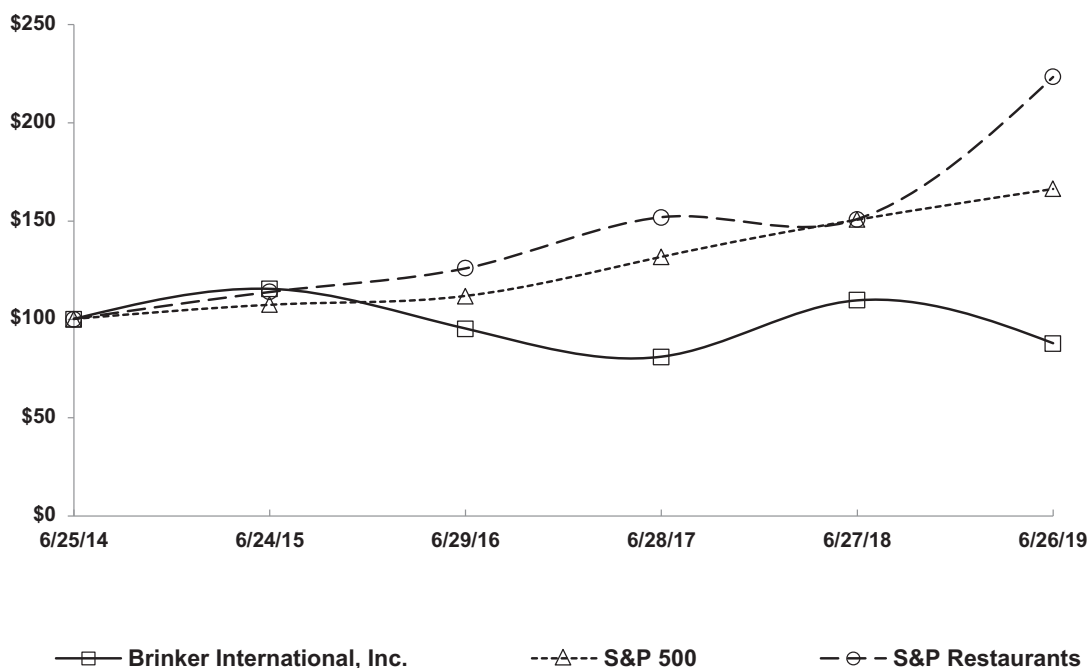
Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “EAT”. As of August 12, 2019, there were 464 holders of record of our common stock.

Comparison of Five Year Cumulative Total Return

The graph below matches Brinker International, Inc.’s cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the S&P 500 index and the S&P Restaurants index.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Brinker International, Inc., the S&P 500 Index and the S&P Restaurants Index



*\$100 invested on 6/25/14 in stock or 6/30/14 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

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	2015	2016	2017	2018	2019
Brinker International	\$ 115.41	\$ 95.08	\$ 80.86	\$ 109.63	\$ 87.62
S&P 500	\$ 107.42	\$ 111.71	\$ 131.70	\$ 150.64	\$ 166.33
S&P Restaurants ⁽¹⁾	\$ 113.90	\$ 125.93	\$ 151.75	\$ 150.83	\$ 223.34

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

The graph above assumes a \$100 initial investment and the reinvestment of dividends in our stock and each of the indexes on June 25, 2014 and June 30, 2014, respectively, and its relative performance is tracked through June 26, 2019. The values shown are neither indicative nor determinative of future performance.

Share Repurchase Program

We continue to maintain our share repurchase program. In the fourth quarter of fiscal 2019, we repurchased shares as follows (in millions, except per share amounts, unless otherwise noted):

	Total Number of Shares Purchased ⁽¹⁾	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 ⁽²⁾
March 28, 2019 through May 1, 2019	—	\$ —	—	\$ 197.8
May 2, 2019 through May 29, 2019	0.0	\$ 43.48	—	\$ 197.8
May 30, 2019 through June 26, 2019	0.0	\$ 38.24	—	\$ 197.8
Total	0.0	\$ 43.13	—	

(1) 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. In the fourth quarter of fiscal 2019, 1.0 thousand shares were tendered by team members at an average price of \$43.13.

(2) The final amount shown is as of June 26, 2019.

ITEM 6. SELECTED FINANCIAL DATA

This information is set forth in the section "Selected Financial Data" in our 2019 Annual Report to Shareholders presented within 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

This information is set forth in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2019 Annual Report to Shareholders presented within Exhibit 13 to this document. We incorporate that information in this document by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is set forth in the section "Quantitative and Qualitative Disclosures About Market Risk" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2019 Annual Report to Shareholders presented within Exhibit 13 to this document. We incorporate that information in this document by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Please refer to the "Consolidated Financial Statements" 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

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer and, as appropriate, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Form 10-K, we carried out an evaluation under the supervision of and with the participation of management, including the principal executive officer and principal financial officer, as of June 26, 2019, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, the principal executive officer and principal financial officer concluded that as of June 26, 2019, our disclosure controls and procedures were effective.

Management’s Annual 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 2019 Annual Report to Shareholders and are presented within Exhibit 13 to this document. We incorporate our report in this document by reference.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting in the fourth quarter of fiscal 2019 that 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, Board of Directors, including its committees, and 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 to the extent applicable “Delinquent Section 16(a) Reports” in our Proxy Statement for the 2019 annual meeting of shareholders. 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 team members, 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.html. 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. The information contained on our website is not a part of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

For information about our executive compensation, refer to the section entitled “Executive Compensation—Compensation Discussion and Analysis” in our Proxy Statement for the 2019 annual meeting of shareholders. We incorporate that information in this document by reference.

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

For information about our security ownership of certain beneficial owners and management and related stockholder matters, refer to the sections “Directors’ Compensation”, “Compensation Discussion and Analysis”, and “Stock Ownership of Certain Persons” in our Proxy Statement for the 2019 annual meeting of shareholders. We incorporate that information in this document by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

For information about certain relationships and related transactions, refer to the section “Certain Relationships and Related Transactions” in our Proxy Statement for the 2019 annual meeting of shareholders. We incorporate that information in this document by reference.

For information about the independence of our non-management directors and the composition of the Audit Committee, Compensation Committee and Governance and Nominating Committee, refer to the sections entitled “Director Independence” and “Committees of the Board of Directors” in our Proxy Statement for the 2019 annual meeting of shareholders. We incorporate that information in this document by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

For information about principal accountant fees and services, refer to the section “Ratification of Independent Registered Public Accounting Firm” in our Proxy Statement for the 2019 annual meeting of shareholders. 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 Table of Contents to Consolidated Financial Statements attached to this document on page F-1 of Exhibit 13 for a listing of all financial statements attached as Exhibit 13 to this document.

(a)(2) Financial Statement Schedules

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

(a)(3) Exhibits

We make reference to the exhibits listed under Part (b) below.

(b) Exhibits

Exhibit	Description
<u>3(a)</u>	Certificate of Incorporation of the Registrant, as amended ⁽¹⁾
<u>3(b)</u>	Bylaws of the Registrant ⁽²⁾
<u>4(a)</u>	Form of 3.875% Note due 2023 ⁽³⁾

<u>4(b)</u>	Indenture dated as of April 30, 2013 between the Registrant and Wilmington Trust, National Association, as Trustee ⁽⁴⁾
<u>4(c)</u>	Second Supplemental Indenture dated as of May 15, 2013 between the Registrant and Wilmington Trust, National Association ⁽³⁾
<u>4(d)</u>	Form of 5.000% Senior Note due 2024 ⁽⁵⁾
<u>4(e)</u>	Senior Notes Indenture dated as of September 23, 2016, by and among the Registrant, the Guarantors named therein and U.S. Bank National Association, as trustee ⁽⁵⁾
<u>4(f)</u>	Description of Registered Securities*
<u>10(a)</u>	Registrant's Stock Option and Incentive Plan, as amended ⁽⁶⁾
<u>10(b)</u>	Registrant's 1999 Stock Option and Incentive Plan for Non-Employee Directors and Consultants ⁽⁷⁾
<u>10(c)</u>	Credit Agreement dated as of March 12, 2015, by and among the 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, Wells Fargo Securities, LLC, J.P. Morgan Chase Bank, N.A., Regions Bank, Compass Bank, Wells Fargo Bank, National Association, The Bank of Tokyo - Mitsubishi UFJ, Ltd., U.S. Bank National Association and Greenstone Farm Credit Services ⁽⁸⁾
<u>10(d)</u>	Second Amendment to Credit Agreement dated September 13, 2016, by and among the Registrant and its wholly-owned subsidiaries, Brinker Restaurant Corporation, Brinker Florida, Inc., Brinker Texas, Inc., Bank of America, N.A., JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., U.S. Bank National Association, Regions Bank, Compass Bank, Greenstone Farm Credit Services ACA, SunTrust Bank, and Barclays Bank PLC ⁽⁹⁾
<u>10(e)</u>	Third Amendment to Credit Agreement dated April 30, 2018, by and among the Registrant and its wholly-owned subsidiaries, Brinker Restaurant Corporation, Brinker Florida, Inc., Brinker Texas, Inc., Bank of America, N.A., JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A., MUFG Bank, Ltd., SunTrust Bank, U.S. Bank National Association, Barclays Bank PLC, Regions Bank, Compass Bank, and Associated Bank National Association. ⁽¹⁰⁾
<u>10(f)</u>	Registrant's 2017 Performance Share Plan Description ⁽¹¹⁾
<u>10(g)</u>	CEO Severance and Change in Control Agreement ⁽¹²⁾
<u>10(h)</u>	Executive Severance Benefits Plan and Summary Plan Description ⁽¹²⁾
<u>10(i)</u>	NEO Change in Control Severance Agreement ⁽¹²⁾
<u>10(j)</u>	Registrant's Performance Share Plan Description*
<u>10(k)</u>	Registrant's Terms of Stock Option Award*
<u>10(l)</u>	Registrant's Terms of Retention Stock Unit Award*
<u>10(m)</u>	Registrant's Terms of Restricted Stock Unit Award*
<u>10(n)</u>	Registrant's Terms of Special Equity Award ⁽¹³⁾
<u>10(o)</u>	Registrant's Maggiano's Performance Share Plan Description*
<u>13</u>	2019 Annual Report to Shareholders*
<u>21</u>	Subsidiaries of the Registrant*
<u>23</u>	Consent of Independent Registered Public Accounting Firm*
<u>31(a)</u>	Certification by Wyman T. Roberts, President and Chief Executive Officer of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)*
<u>31(b)</u>	Certification by Joseph G. Taylor, 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)*

<u>32(a)</u>	Certification by Wyman T. Roberts, 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*
<u>32(b)</u>	Certification by Joseph G. Taylor, 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*
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase
104	The cover page from the Registrant's Annual Report on Form 10-K for the fiscal year ended June 26, 2019 is formatted in Inline XBRL.

* Filed herewith.

- (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 annual report on Form 10-K for year ended June 27, 2018 and incorporated herein by reference.
- (3) Filed as an exhibit to current report on Form 8-K dated May 15, 2013 and incorporated herein by reference.
- (4) Filed as an exhibit to registration statement on Form S-3 filed April 30, 2013, SEC File No. 333-188252, and incorporated herein by reference.
- (5) Filed as an exhibit to current report on Form 8-K dated September 23, 2016 and incorporated herein by reference.
- (6) Filed as an Appendix A to Proxy Statement of Registrant filed on October 5, 2018 and incorporated herein by reference.
- (7) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended December 28, 2005 and incorporated herein by reference.
- (8) Filed as an exhibit to current report on Form 8-K dated March 12, 2015 and incorporated herein by reference.
- (9) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended September 28, 2016 and incorporated herein by reference.
- (10) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended March 28, 2018 and incorporated herein by reference.
- (11) Filed as an exhibit to current report on Form 8-K dated August 18, 2016 and incorporated herein by reference.
- (12) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended March 29, 2017 and incorporated herein by reference.
- (13) Filed as an exhibit to annual report on Form 10-K for year ended June 28, 2017 and incorporated herein by reference.

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/ JOSEPH G. TAYLOR

Joseph G. Taylor
*Executive Vice President and Chief
Financial Officer*

Dated: August 22, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, we have signed in our indicated capacities on August 22, 2019.

<u>Name</u>	<u>Title</u>
<u>/S/ WYMAN T. ROBERTS</u> Wyman T. Roberts	Chief Executive Officer and President of Brinker International, Inc. and President of Chili's Grill & Bar (Principal Executive Officer) and Director
<u>/S/ JOSEPH G. TAYLOR</u> Joseph G. Taylor	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/S/ JOSEPH M. DEPINTO</u> Joseph M. DePinto	Chairman of the Board
<u>/S/ JOHN W. CHIDSEY</u> John W. Chidsey	Director
<u>/S/ CINDY L. DAVIS</u> Cindy L. Davis	Director
<u>/S/ HARRIET EDELMAN</u> Harriet Edelman	Director
<u>/S/ MICHAEL A. GEORGE</u> Michael A. George	Director
<u>/S/ WILLIAM T. GILES</u> William T. Giles	Director
<u>/S/ JAMES C. KATZMAN</u> James C. Katzman	Director
<u>/S/ GEORGE R. MRKONIC</u> George R. Mrkonic	Director
<u>/S/ PRASHANT N. RANADE</u> Prashant N. Ranade	Director

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BRINKER INTERNATIONAL, INC.
Consolidated Financial Statements
Table of Contents

The following are attached hereto as part of Exhibit 13:

	Page
<u>Selected Financial Data</u>	<u>F-2</u>
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>F-4</u>
<u>Consolidated Statements of Comprehensive Income - Fiscal Years Ended June 26, 2019, June 27, 2018 and June 28, 2017</u>	<u>F-19</u>
<u>Consolidated Balance Sheets - June 26, 2019 and June 27, 2018</u>	<u>F-20</u>
<u>Consolidated Statements of Cash Flows - Fiscal Years Ended June 26, 2019, June 27, 2018 and June 28, 2017</u>	<u>F-21</u>
<u>Consolidated Statements of Shareholders’ Deficit - Fiscal Years Ended June 26, 2019, June 27, 2018 and June 28, 2017</u>	<u>F-22</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-23</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-59</u>
<u>Management’s Report on Internal Control over Financial Reporting</u>	<u>F-62</u>

BRINKER INTERNATIONAL, INC.

Selected Financial Data

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

	Fiscal Years Ended				
	6/26/2019 ⁽¹⁾	6/27/2018	6/28/2017	6/29/2016 ⁽²⁾	6/24/2015
Income Statement Data:					
Revenues					
Company sales	\$ 3,106.2	\$ 3,041.5	\$ 3,062.5	\$ 3,166.7	\$ 2,904.7
Franchise and other revenues	111.7	93.9	88.3	90.8	97.6
Total revenues	<u>3,217.9</u>	<u>3,135.4</u>	<u>3,150.8</u>	<u>3,257.5</u>	<u>3,002.3</u>
Operating costs and expenses					
Company restaurants (excluding depreciation and amortization)					
Cost of sales	823.0	796.0	791.3	840.2	775.1
Restaurant labor	1,059.7	1,033.9	1,017.9	1,036.0	929.2
Restaurant expenses	812.3	757.5	773.5	762.7	703.3
Company restaurant expenses	<u>2,695.0</u>	<u>2,587.4</u>	<u>2,582.7</u>	<u>2,638.9</u>	<u>2,407.6</u>
Depreciation and amortization	147.6	151.4	156.4	156.4	145.2
General and administrative	149.1	136.0	132.8	127.6	133.5
Other (gains) and charges	(4.5)	34.5	22.7	17.1	4.8
Total operating costs and expenses	<u>2,987.2</u>	<u>2,909.3</u>	<u>2,894.6</u>	<u>2,940.0</u>	<u>2,691.1</u>
Operating income	230.7	226.1	256.2	317.5	311.2
Interest expenses	61.6	59.0	49.6	32.6	29.0
Other (income), net	(2.7)	(3.1)	(1.9)	(1.5)	(2.1)
Income before provision for income taxes	171.8	170.2	208.5	286.4	284.3
Provision for income taxes	16.9	44.3	57.7	85.8	89.6
Net income	<u>\$ 154.9</u>	<u>\$ 125.9</u>	<u>\$ 150.8</u>	<u>\$ 200.6</u>	<u>\$ 194.7</u>
Basic net income per share	<u>\$ 4.04</u>	<u>\$ 2.75</u>	<u>\$ 2.98</u>	<u>\$ 3.47</u>	<u>\$ 3.09</u>
Diluted net income per share	<u>\$ 3.96</u>	<u>\$ 2.72</u>	<u>\$ 2.94</u>	<u>\$ 3.42</u>	<u>\$ 3.02</u>
Basic weighted average shares outstanding	<u>38.3</u>	<u>45.7</u>	<u>50.6</u>	<u>57.9</u>	<u>63.1</u>
Diluted weighted average shares outstanding	<u>39.1</u>	<u>46.3</u>	<u>51.2</u>	<u>58.7</u>	<u>64.4</u>
Balance Sheet Data:					
Working capital	\$ (244.6)	\$ (278.0)	\$ (292.0)	\$ (257.2)	\$ (233.3)
Total assets ⁽³⁾	1,258.3	1,347.3	1,403.6	1,458.5	1,421.5
Long-term obligations ⁽³⁾	1,206.6	1,631.3	1,461.0	1,248.4	1,091.7
Shareholders' deficit	(778.2)	(718.3)	(493.6)	(225.6)	(90.8)
Dividends per share	\$ 1.52	\$ 1.52	\$ 1.36	\$ 1.28	\$ 1.12
Number of Restaurants Open (End of Year):					
Company-owned	1,001	997	1,003	1,001	888
Franchise	664	689	671	659	741
Total	<u>1,665</u>	<u>1,686</u>	<u>1,674</u>	<u>1,660</u>	<u>1,629</u>
Revenues of Franchisees ⁽⁴⁾	\$ 1,311.3	\$ 1,309.4	\$ 1,331.9	\$ 1,348.6	\$ 1,644.0

- (1) Fiscal 2019 reflects the impact of the adoption of the new revenue recognition accounting standard using the modified retrospective transition method. All other periods presented have not been restated. Refer to Note 1 - Nature of Operations and Summary of Significant Accounting Policies and Note 2 - Revenue Recognition in our Notes to the Consolidated Financial Statements for information regarding our adoption of the new revenue standard.
- (2) Fiscal 2016 consisted of 53 weeks while all other periods presented consisted of 52 weeks.
- (3) Debt issuance costs are presented in the Consolidated Balance Sheets as a direct deduction from the associated debt liability. Amounts presented for fiscal years prior to fiscal 2017 were reclassified from Other assets to Long-term debt to conform to the current presentation.
- (4) Revenues of Franchisees represent the gross sales reported by our franchisees. Royalty revenues recognized by us are based on these sales generated and reported to us by franchisees.

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, the MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes to the Consolidated Financial Statements 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 the Consolidated Statements of Comprehensive Income included in the 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
- **Impact of Inflation** - a discussion of the effect of inflation on our business
- **Off-Balance Sheet Arrangements** - a discussion of the off-balance sheet arrangements entered into by us
- **Critical Accounting Estimates** - a discussion of accounting policies that require critical judgments and estimates including recent accounting pronouncements
- **Quantitative and Qualitative Disclosures about Market Risk** - a discussion of our exposure to market risks

The following MD&A includes a discussion comparing our results in fiscal 2019 to fiscal 2018, and should be read together with Part II, Item 6 - Selected Financial Data presented for the fiscal year ended June 26, 2019 and Part II, Item 8 - Financial Statements and Supplementary Data of our Annual Report. For a discussion comparing our results from fiscal 2018 to fiscal 2017, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Exhibit 13 of our Annual Report on Form 10-K for the fiscal year ended June 27, 2018, filed with the SEC on August 27, 2018.

The Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States, and 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 2019, 2018 and 2017, which ended on June 26, 2019, June 27, 2018 and June 28, 2017, respectively, each contained 52 weeks. All amounts within the MD&A are presented in millions unless otherwise specified.

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 26, 2019, we owned, operated, or franchised 1,665 restaurants, consisting of 1,001 Company-owned restaurants and 664 franchised restaurants, located in the United States, 29 countries and two United States territories. Our two restaurant brands, Chili's and Maggiano's, are both operating segments and reporting units.

We are committed to strategies and a company culture that we believe are centered on a guest experience which includes bringing back guests, growing long-term sales and profit and engaging team members. Our strategies and culture 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 regularly evaluate our processes and menu at Chili's to identify opportunities where we can improve our service quality and food. During fiscal 2018, we reduced our menu items by approximately one-third compared to fiscal 2017, and focused on our core equities of burgers, ribs, fajitas and margaritas. This initiative improved kitchen efficiency and allowed our managers and cooks to deliver our food hotter and faster to our guests. We also invested in the quality of our food. During fiscal 2019, we continued to focus on our core equities and improving guest satisfaction with our food and service by improving execution of our operations standards.

We remain competitive with a flexible platform of our value offerings at both lunch and dinner and are committed to offering consistent, quality products at a price point that is compelling to our guests. Our "3 for \$10" platform allows guests to combine a starter, a non-alcoholic drink and an entrée for just \$10.00 and is part of the every-day base menu. Additionally, we have continued our margarita of the month promotion that started in fiscal 2018 that features a new premium-liquor margarita every month at an every-day value price of \$5.00. We believe these and other value offers are increasing guest frequency and that few of our competitors can match these offers on a consistent basis. We continue to seek opportunities to reinforce value and create interest for the Chili's brand with new and varied offerings to further enhance sales and drive incremental traffic.

The Chili's brand continues to leverage technology to improve convenience for our guests and to create a digital guest experience that we believe will help us engage our guests more effectively. Our loyalty database included more than 6 million active members in fiscal 2019. We further improved our marketing returns with those guests by offering targeted relevant promotions tied to individual purchase behavior. We plan to continue to expand our database and digital marketing impact in fiscal 2020. We anticipate that guest loyalty programs will be a significant part of our marketing strategy going forward. We also have put greater emphasis on improving and advertising our To Go capabilities. During fiscal 2019, Chili's grew our To Go sales to \$336.1 million. Our To Go sales were 12.3% of total Chili's sales in the United States for fiscal 2019, driven by online sales that increased approximately 40.0% in fiscal 2019. The majority of our To Go guests now order their food through a personal computer or cellphone, and we believe online ordering will continue to be a strong sales driver in fiscal 2020.

In June 2019, we announced a partnership between Chili's and Maggiano's with DoorDash, a growing delivery company in the United States. In partnership with DoorDash, we leveraged technology so that DoorDash orders are sent directly into our point of sale system, creating a seamless guest experience, while providing Chili's with a local delivery service at an economic advantage over independent restaurants and other franchised casual dining chains. We believe that guests will continue to prefer more convenience and options that allow them to eat at home, and we plan to continue investments in our digital guest experience, To Go and delivery capabilities. We expect to leverage the DoorDash partnership in fiscal 2020, along with continuing to expand our To Go business, to offer guests convenient options other than quick service and fast casual restaurants that have historically been more relevant than casual dining options for occasions when guests want a quick dining solution, but just do not feel like cooking.

We believe that improvements at our domestic Chili's will have a significant impact on the business; however, our results will also benefit through additional contributions from Maggiano's and our global Chili's franchise business. In fiscal 2019, Maggiano's opened one franchise location (in the Dallas Fort Worth International Airport). Guests are responding favorably to the new Maggiano's location, and we intend to explore other opportunities to franchise Maggiano's in additional airport locations. During fiscal 2019, Maggiano's leveraged technology in the front of the house to improve the accuracy of wait-time quotes to customers, and in the back of the house to improve labor efficiencies. Additionally, in fiscal 2019, Maggiano's brought value to our carry-out menu by offering carry-out customers the opportunity to "Double the Portion, Not the Price" by taking home a second portion of certain menu items for a reduced price. Maggiano's guests also continue to show an increased preference for our carry-out menu and delivery service. In fiscal 2019, Maggiano's grew its carry-out business by 17.5% compared to fiscal 2018.

Our global Chili's franchisees continue to open new locations, including our first Chili's restaurant in China, which opened in the fourth quarter of fiscal 2019. Our international franchisees opened 18 new restaurants in fiscal 2019. We plan to strategically pursue expansion of Chili's internationally through development agreements with new and existing franchise partners.

RESULTS OF OPERATIONS

The following table sets forth selected operating data as a percentage of Total revenues (unless otherwise noted) for the periods indicated. All information is derived from the accompanying Consolidated Statements of Comprehensive Income:

	Fiscal Years Ended	
	June 26, 2019	June 27, 2018
Revenues		
Company sales	96.5 %	97.0 %
Franchise and other revenues	3.5 %	3.0 %
Total revenues	100.0 %	100.0 %
Operating costs and expenses		
Company restaurants (excluding depreciation and amortization)		
Cost of sales ⁽¹⁾	26.5 %	26.2 %
Restaurant labor ⁽¹⁾	34.1 %	34.0 %
Restaurant expenses ⁽¹⁾	26.2 %	24.9 %
Company restaurant expenses ⁽¹⁾	86.8 %	85.1 %
Depreciation and amortization	4.6 %	4.8 %
General and administrative	4.6 %	4.3 %
Other (gains) and charges	(0.1)%	1.1 %
Total operating costs and expenses	92.8 %	92.8 %
Operating income	7.2 %	7.2 %
Interest expense	1.9 %	1.9 %
Other (income), net	0.0 %	(0.1)%
Income before provision for income taxes	5.3 %	5.4 %
Provision for income taxes	0.5 %	1.4 %
Net income	4.8 %	4.0 %

⁽¹⁾ As a percentage of Company sales

Revenues

Transition to New Revenue Recognition Accounting Standard

Effective fiscal 2019, we adopted FASB Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), from the previous guidance ASC Topic 605, *Revenue Recognition* and ASC Subtopic 952-605, *Franchisors - Revenue Recognition* (together, “Legacy GAAP”). Our transition to ASC 606 represents a change in accounting principle. The Consolidated Financial Statements for fiscal 2019 reflect the application of ASC 606 guidance using the modified retrospective transition method, while the Consolidated Financial Statements for prior periods were prepared under Legacy GAAP. Please refer to Note 1 - Nature of Operations and Summary of Significant Accounting Policies and Note 2 - Revenue Recognition in the Consolidated Financial Statements for further details of our adoption of ASC 606 and our policies for recognition of revenues from contracts with customers.

Fiscal 2019 versus Fiscal 2018

The following is a summary of the change in Total revenues:

	Total Revenues		
	Chili's	Maggiano's	Total Revenues
Fiscal year ended June 27, 2018 (Legacy GAAP)	\$ 2,700.2	\$ 435.2	\$ 3,135.4
Change from:			
Restaurant closings	(8.0)	(1.6)	(9.6)
Restaurant openings	11.1	(0.3)	10.8
Restaurant relocations	2.4	—	2.4
Comparable restaurant sales	58.8	2.3	61.1
Company sales	64.3	0.4	64.7
Franchise and other revenues ⁽¹⁾	17.7	0.1	17.8
Fiscal year ended June 26, 2019 (ASC 606)	\$ 2,782.2	\$ 435.7	\$ 3,217.9

- (1) With the adoption of ASC 606, beginning in fiscal 2019, Franchise and other revenues was further disaggregated prospectively into Royalties and Franchise fees and other revenues. The fiscal 2018 year was not restated.

Total revenues for fiscal 2019 increased by \$82.5 million, or 2.6%, compared to fiscal 2018 driven primarily by a \$64.7 million, or 2.1%, increase in Company sales mostly due to a \$61.1 million increase in comparable restaurant sales (refer to below table for percentage change in comparable restaurant sales for more information). Additionally Franchise and other revenues increased \$17.8 million primarily related to \$20.3 million of advertising fees presented gross with the adoption of ASC 606, partially offset by \$2.2 million of lower retail royalty revenues. During fiscal 2018, advertising contributions of \$22.6 million from franchisees were recorded net within Restaurant expenses. Royalties are also included in Franchise and other revenues, and are based on franchise sales. For fiscal 2019 our franchisees generated approximately \$1,311.3 million in sales compared to \$1,309.4 million in fiscal 2018.

The table below presents the percentage change in comparable restaurant sales and capacity for fiscal 2019 compared to fiscal 2018:

	Percentage Change in the Fiscal Year Ended June 26, 2019 versus June 27, 2018				
	Comparable Sales ⁽¹⁾	Price Impact	Mix Shift ⁽²⁾	Traffic	Restaurant Capacity ⁽³⁾
Company-owned	2.1 %	1.7%	(1.7)%	2.1 %	(0.2)%
Chili's	2.3 %	1.7%	(1.7)%	2.3 %	(0.1)%
Maggiano's	0.6 %	1.5%	(0.5)%	(0.4)%	(0.4)%
Chili's franchise ⁽⁴⁾	0.1 %				
United States	2.0 %				
International	(3.0)%				
Chili's domestic ⁽⁵⁾	2.2 %				
System-wide ⁽⁶⁾	1.5 %				

- (1) Comparable restaurant sales include all restaurants that have been in operation for more than 18 months. Amounts are calculated based on comparable current period versus same period a year ago.

- (2) Mix-shift is calculated as the year-over-year percentage change in Company sales resulting from the change in menu items ordered by guests.

- (3) Restaurant capacity is measured by sales weeks. Amounts are calculated based on comparable 52 weeks in each fiscal year.
- (4) Chili's franchise sales generated by franchisees are not included in revenues in the Consolidated Statements of Comprehensive Income; however, we generate royalty revenues and advertising fees based on franchisee revenues, where applicable. We believe including franchise comparable restaurant sales provides investors information regarding brand performance that is relevant to current operations.
- (5) Chili's domestic comparable restaurant sales percentages are derived from sales generated by company-owned and franchise operated Chili's restaurants in the United States.
- (6) 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 franchise-operated Chili's restaurants.

Refer to Segment Results section for further discussion of our Chili's and Maggiano's segments below.

Costs and Expenses

Fiscal 2019 versus Fiscal 2018

	Fiscal Years Ended				(Favorable) Unfavorable Variance	
	June 26, 2019		June 27, 2018			
	Dollars	% of Company Sales	Dollars	% of Company Sales	Dollars	% of Company Sales
Cost of sales	\$ 823.0	26.5%	\$ 796.0	26.2%	\$ 27.0	0.3%
Restaurant labor	1,059.7	34.1%	1,033.9	34.0%	25.8	0.1%
Restaurant expenses	812.3	26.2%	757.5	24.9%	54.8	1.3%
Depreciation and amortization	147.6		151.4		(3.8)	
General and administrative	149.1		136.0		13.1	
Other (gains) and charges	(4.5)		34.5		(39.0)	
Interest expense	61.6		59.0		2.6	
Other (income), net	(2.7)		(3.1)		0.4	

Cost of sales as a percentage of Company sales increased 0.3% in fiscal 2019 as compared to fiscal 2018 primarily due to 0.5% of unfavorable menu mix and 0.2% of unfavorable commodity pricing primarily related to produce, partially offset by 0.4% of increased menu pricing.

Restaurant labor as a percentage of Company sales increased 0.1% in fiscal 2019 as compared to fiscal 2018 primarily due to 0.5% of higher hourly wages, partially offset by 0.3% of incremental sales leverage and 0.1% of lower manager expenses.

Restaurant expenses as a percentage of Company sales increased 1.3% in fiscal 2019 as compared to fiscal 2018 primarily due to 1.0% of higher rent expenses primarily associated with the new operating leases entered into during fiscal 2019 as part of the sale leaseback transactions, 0.6% of higher advertising and marketing related expenses from the impact of adopting ASC 606, and 0.2% of higher To Go supply costs. These increases were partially offset by 0.5% of sales leverage.

Depreciation and amortization decreased \$3.8 million, or 2.5%, in fiscal 2019 as compared to fiscal 2018 primarily due to a decrease of \$22.1 million related to fully depreciated assets and restaurant closures, and \$7.6 million from the reduction of restaurants assets sold as part of the sale leaseback transactions. These decreases were partially offset by \$24.1 million of additions for existing restaurants primarily related to Chili's remodels and \$1.8 million of new restaurant additions.

General and administrative expenses increased \$13.1 million, or 9.6%, in fiscal 2019 as compared to fiscal 2018 as follows:

	General and Administrative
Fiscal year ended June 27, 2018	\$ 136.0
Change from:	
Performance-based compensation	7.6
Legal and professional fees	2.2
Stock-based compensation	1.9
Payroll-related expenses	0.9
Other	0.5
Fiscal year ended June 26, 2019	<u>\$ 149.1</u>

Other (gains) and charges during fiscal 2018 and 2019 primarily included the transactions below, refer to Note 5—Other Gains and Charges in the Consolidated Financial Statements for further composition and details:

- Sale leaseback (gain), net of transaction charges during fiscal 2019 included gains of \$35.2 million, less transaction costs of \$7.9 million related to professional services, legal and accounting fees.
- (Gain) on sale of assets, net during fiscal 2019 primarily included \$5.8 million for the net gain recognized on the sale of the owned-portion of our previous corporate headquarters building.
- Property damages, net of (insurance recoveries) during fiscal 2018 of \$5.1 million primarily included expenses associated with Hurricanes Harvey and Irma primarily related to employee relief payments and inventory spoilage.
- Restaurant impairment charges during fiscal 2019 included \$10.8 million primarily related to the long-lived assets and reacquired franchise rights of 11 underperforming Chili's restaurants. During fiscal 2018, Restaurant impairment charges totaling \$10.9 million primarily included charges of \$7.2 million associated with the closure of nine Canadian Chili's restaurants, and \$3.7 million related to other restaurant impairment charges.
- Remodel-related costs during fiscal 2019 totaled \$7.7 million and were related to write-offs associated with the Chili's remodel project. During fiscal 2018 Remodel-related costs of \$1.5 million were written-off.
- Corporate headquarters relocation charges during fiscal 2019 of \$5.3 million included lease reserve and other closure costs associated with the leased portion of our previous corporate headquarters location, in addition to moving and certain readiness costs of transition to the new corporate headquarters location during fiscal 2019.
- Restaurant closure charges during fiscal 2019 were \$4.3 million which primarily related to Chili's lease termination charges and certain Chili's restaurant closure costs. During fiscal 2018, Restaurant closure charges of \$7.5 million primarily included expenses of \$4.6 million associated with the Canada closures and related lease termination charges, \$1.8 million in lease termination expenses related to sublet Macaroni Grill locations. Additionally, during fiscal 2018 we recorded \$1.1 million primarily related to lease termination charges and closure costs associated with certain Chili's restaurants closed during fiscal 2018.

Interest expense increased \$2.6 million, or 4.4%, in fiscal 2019 as compared to fiscal 2018 consisting of higher average borrowing balances and a higher interest rate on our revolving credit facility in fiscal 2019, partially offset by the matured \$250.0 million 2.60% notes that were repaid using the revolving credit facility in the fourth quarter of fiscal 2018.

Other (income), net was unfavorable \$0.4 million, or 12.9%, in fiscal 2019 as compared to fiscal 2018 due to a \$0.4 million decrease in sub-lease income. Other (income), net during fiscal 2019 and fiscal 2018 includes \$1.5 million and \$1.9 million, respectively, of sublease income primarily from franchisees as part of their respective lease agreements, as well as other subtenants.

Segment Results

Fiscal 2019 versus Fiscal 2018

Chili's Segment

	Fiscal Years Ended		Favorable (Unfavorable) Variance
	June 26, 2019	June 27, 2018	
	ASC 606	Legacy GAAP	
Company sales	\$ 2,692.6	\$ 2,628.3	\$ 64.3
Franchise and other revenues ⁽¹⁾	89.6	71.9	17.7
Total revenues	2,782.2	2,700.2	82.0
Company restaurant expenses ⁽²⁾⁽³⁾	2,329.6	2,224.0	(105.6)
Depreciation and amortization	120.1	125.0	4.9
General and administrative	38.7	39.6	0.9
Other gains and charges	(6.4)	24.5	30.9
Total operating costs and expenses	2,482.0	2,413.1	(68.9)
Operating income	\$ 300.2	\$ 287.1	\$ 13.1
Operating income as a percentage of Total revenues	10.8%	10.6%	0.2%

- (1) With the adoption of ASC 606, beginning in fiscal 2019, Franchise and other revenues was further disaggregated prospectively into Royalties and Franchise fees and other revenues. The fiscal 2018 year was not restated.
- (2) Advertising contributions received from franchisees are recorded within Franchise fees and other revenues within Total revenues, which differs from fiscal 2018 that includes advertising contributions recorded net within Company restaurant expenses.
- (3) Company restaurant expenses include Cost of sales, Restaurant labor, and Restaurant expenses, including advertising.

Chili's Operating income, as a percentage of Total revenues, increased 0.2% in fiscal 2019 as compared to fiscal 2018 primarily related to the decrease in Other gains and charges, partially offset by the increase in Company restaurant expenses. Chili's Total revenues for fiscal 2019 increased by \$82.0 million, or 3.0%, compared to fiscal 2018, refer to "Revenues" section above for more details.

Company restaurant expenses for Chili's, as a percentage of Company sales, increased 1.9% in fiscal 2019 as compared to fiscal 2018, primarily due to 1.4% of higher rent expenses associated primarily with the new operating leases entered into during fiscal 2019 as part of the sale leaseback transactions, 0.7% of unfavorable menu mix, 0.7% of higher advertising and marketing related expenses from the impact of adopting ASC 606, 0.6% of higher hourly wages, 0.3% of higher To Go supply costs, and 0.2% of unfavorable commodity pricing primarily related to produce. These increases were partially offset by 1.0% of incremental sales leverage, 0.5% of increased menu

pricing impact on cost of sales, 0.3% of lower expenditures for advertising and marketing related expenses compared to prior year, and 1% of other favorable Company restaurant expenses.

Other gains and charges for Chili's during fiscal 2019 primarily included gains of \$26.8 million related to 151 sale leaseback transactions, \$1.1 million on the gain on sale of land, \$0.8 million foreign currency transaction gain and a \$0.7 million gain related to net insurance recoveries from property damage claims. These gains were partially offset by charges of \$10.8 million related to restaurant impairments, \$7.7 million of Chili's remodel write-offs, \$4.0 million in charges related to restaurant closure expenses, and \$0.5 million in other net charges.

Other gains and charges for Chili's during fiscal 2018 primarily included restaurant impairment charges and restaurant closure charges of \$7.2 million and \$4.6 million, respectively, related to nine underperforming Canadian Chili's restaurants closed in fiscal 2018, \$4.6 million of property damages, net of insurance recoveries primarily related to Hurricanes Harvey and Irma, restaurant impairment charges of \$2.7 million related to certain underperforming restaurants, \$1.9 million of sale leaseback transaction fees, \$1.5 million of Chili's remodel write-offs, \$1.5 million of restaurant closure charges, and \$0.4 million of other net charges.

Depreciation and amortization expenses for Chili's decreased \$4.9 million, or 3.9%, in fiscal 2019 as compared to fiscal 2018 primarily due to a decrease of \$18.9 million related to fully depreciated assets and restaurant closures, and \$5.1 million in reduced depreciation from the sale of assets in connection with the sale leaseback transactions. These decreases were partially offset by \$17.6 million of additions for existing restaurants primarily related to the Chili's remodels and \$1.8 million of new restaurants additions.

General and administrative expenses for Chili's decreased \$0.9 million, or 2.3%, in fiscal 2019 as compared to fiscal 2018 primarily due to \$1.4 million decrease in stock-based compensation expenses, \$1.0 million in lower research and development expenses, and \$0.3 million of lower payroll costs. These decreases were partially offset by an increase of \$1.9 million in performance-based compensation expenses.

Maggiano's Segment

	Fiscal Years Ended		Favorable (Unfavorable) Variance
	June 26, 2019	June 27, 2018	
	ASC 606	Legacy GAAP	
Company sales	\$ 413.6	\$ 413.2	\$ 0.4
Franchise and other revenues ⁽¹⁾	22.1	22.0	0.1
Total revenues	435.7	435.2	0.5
Company restaurant expenses ⁽²⁾	364.8	362.8	(2.0)
Depreciation and amortization	16.2	15.9	(0.3)
General and administrative	6.1	5.5	(0.6)
Other gains and charges	1.0	1.1	0.1
Total operating costs and expenses	388.1	385.3	(2.8)
Operating income	\$ 47.6	\$ 49.9	\$ (2.3)
Operating income as a percentage of Total revenues	10.9%	11.4%	(0.5)%

(1) With the adoption of ASC 606, beginning in fiscal 2019, Franchise and other revenues was further disaggregated prospectively into Royalties and Franchise fees and other revenues. The fiscal 2018 year was not restated.

- (2) Company restaurant expenses includes Cost of sales, Restaurant labor, and Restaurant expenses, including advertising expenses.

Maggiano's Operating income, as a percentage of Total revenues, decreased 0.5% in fiscal 2019 as compared to fiscal 2018 primarily related to an increase in Company restaurant expenses, as a percentage of sales. Maggiano's Total revenues for fiscal 2019 increased by \$0.5 million, or 0.1%, compared to fiscal 2018, refer to "Revenues" section above for more details.

Company restaurant expenses for Maggiano's, as a percentage of Company sales, increased 0.4% in fiscal 2019 as compared to fiscal 2018, primarily due to 0.7% of higher rent and property tax expenses (including the new operating lease entered into during fiscal 2019 as part of the sale leaseback transaction), 0.2% of unfavorable commodity pricing primarily related to produce, 0.2% of higher hourly wage rates, and 0.1% of higher To Go supply costs. These increases were primarily offset by 0.3% of increased menu pricing impact on cost of sales, 0.1% of favorable menu mix, 0.2% of lower manager expenses, 0.1% of sales leverage and 0.1% of favorable net other Company restaurant expenses.

Income Taxes

Fiscal 2019 versus Fiscal 2018

	Fiscal Years Ended		Change
	June 26, 2019	June 27, 2018	
Effective income tax rate	9.8%	26.0%	(16.2)%

The effective income tax rate in fiscal 2019 decreased compared to fiscal 2018 which included the impact of the Tax Cuts and Jobs Act of 2017 (the "Tax Act") that was enacted on December 22, 2017 in the second quarter of fiscal 2018. The Tax Act lowered the federal statutory tax rate from 35.0% to 21.0% effective January 1, 2018.

Our fiscal 2019 effective income tax rate includes a full year impact of the 21.0% lower federal statutory tax rate, and was further lowered due to an increase in the FICA tax credit benefit, partially offset by the impact of the taxable gain related to the sale leaseback transactions. During fiscal 2019, the sale leaseback transactions, as described in Note 3 - Sale Leaseback Transactions in the Consolidated Financial Statements, resulted in tax expenses of \$78.6 million, which were paid in full during fiscal 2019.

Our federal statutory tax rate for fiscal 2018 was 28.1%, representing a blended tax rate for the fiscal year based on the number of days in the fiscal year before and after the effective date. Our fiscal 2018 effective income tax rate included the blended partial-year positive impact of lowering the federal statutory tax rate, partially offset by the negative impact of the \$8.2 million revaluation of the Company's deferred tax accounts pursuant to the Tax Act. In accordance with ASC 740, we re-measured our deferred tax accounts as of the enactment date using the new federal statutory tax rate and recognized the change as a discrete item in the Provision of income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash Flows from Operating Activities

	Fiscal Years Ended	
	June 26, 2019	June 27, 2018
Net cash provided by operating activities	\$ 212.7	\$ 284.5

During fiscal 2019, net cash flow provided by operating activities decreased \$71.8 million compared to fiscal 2018 primarily due to tax on the sale leaseback transactions gain paid of \$78.6 million during fiscal 2019.

Cash Flows from Investing Activities

	Fiscal Years Ended	
	June 26, 2019	June 27, 2018
Cash flows from investing activities		
Payments for property and equipment	\$ (167.6)	\$ (101.3)
Payments for franchise restaurant acquisitions	(3.1)	—
Proceeds from sale of assets	1.6	19.9
Insurance recoveries	1.7	1.7
Proceeds from note receivable	2.8	1.9
Proceeds from sale leaseback transactions, net of related expenses	485.9	—
Net cash provided by (used in) investing activities	<u>\$ 321.3</u>	<u>\$ (77.8)</u>

During fiscal 2019, net cash provided by investing activities increased \$399.1 million compared to the net cash used in fiscal 2018 primarily due to \$485.9 million of net cash proceeds received from the sale leaseback transactions during fiscal 2019, partially offset by a \$66.3 million increase in capital expenditures primarily related to the Chili's remodel program and new corporate headquarters.

Cash Flows from Financing Activities

	Fiscal Years Ended	
	June 26, 2019	June 27, 2018
Cash flows from financing activities		
Borrowings on revolving credit facility	\$ 853.0	\$ 1,016.0
Payments on revolving credit facility	(1,150.0)	(588.0)
Purchases of treasury stock	(167.7)	(303.2)
Payments on long-term debt	(9.5)	(260.3)
Payments of dividends	(60.3)	(70.0)
Proceeds from issuances of treasury stock	3.0	2.3
Payments for debt issuance costs	—	(1.6)
Net cash used in financing activities	<u>\$ (531.5)</u>	<u>\$ (204.8)</u>

During fiscal 2019, net cash used in financing activities increased \$326.7 million compared to fiscal 2018 primarily due to \$725.0 million of net repayment activity on the revolving credit facility during fiscal 2019, partially offset by a \$250.8 million decrease in payments on long-term debt, a \$135.5 million decrease in share repurchases and a \$9.7 million decrease in dividends paid.

Net repayments of \$297.0 million were made during fiscal 2019 on the \$1.0 billion revolving credit facility primarily from proceeds received from the sale leaseback transactions, partially offset by borrowings for share repurchases. As of June 26, 2019, \$523.3 million was outstanding under the revolving credit facility. Subsequent to the end of the fiscal year, net borrowings of \$8.0 million were drawn on the revolving credit facility.

Our \$1.0 billion revolving credit facility generally bears interest of LIBOR plus an applicable margin, which is a function of our credit rating and debt to cash flow ratio, but is subject to a maximum of LIBOR plus 2.00%. In the fourth quarter of fiscal 2018, an amendment to the revolving credit facility was executed to provide the ability to complete certain sale-leaseback transactions. For a period of 180 days following the fiscal 2018 amendment to the revolving credit facility that occurred in May 2018, we paid interest at a rate of LIBOR plus 1.70%. Effective

October 2018, we resumed paying interest at a rate of LIBOR plus 1.38% for a total of 3.78%. One month LIBOR at June 26, 2019 was approximately 2.40%. As of June 26, 2019, \$476.7 million of credit was available under the revolving credit facility. As of June 26, 2019, we are in compliance with all financial covenants.

In August 2018, our Board of Directors authorized a \$300.0 million increase to our existing share repurchase program resulting in total authorizations of \$4.9 billion. During the fiscal year ended June 26, 2019, we repurchased 3.6 million shares of our common stock for \$167.7 million. Subsequent to the end of the fiscal year, we repurchased approximately 0.3 million shares of our common stock for \$10.0 million. 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 shares are reflected as an increase in Treasury stock within Shareholders' deficit in the Consolidated Balance Sheets.

During fiscal 2019 we paid dividends of \$60.3 million to common stock shareholders, compared to \$70.0 million in fiscal 2018. We also declared a quarterly dividend on April 29, 2019, that was paid subsequent to fiscal 2019, on June 27, 2019, in the amount of \$0.38 per share. A dividend accrual of \$14.2 million was included in Other accrued liabilities in the Consolidated Balance Sheets as of June 26, 2019 related to this dividend. Subsequent to the end of fiscal 2019, on August 12, 2019, our Board of Directors declared a quarterly dividend of \$0.38 per share to be paid on September 26, 2019 to shareholders of record as of September 6, 2019.

Cash Flow Outlook

We believe that our various sources of capital, including future cash flow from operating activities 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. We will continue to periodically evaluate ways to monetize the value of our remaining owned real estate and should alternatives become available that are more cost effective than our financing options currently available, we will consider execution of those alternatives.

Chili's Restaurant Acquisitions

From time to time we have purchased restaurants from our franchisees in order to support our growth objectives in certain markets. During the fiscal year ended June 26, 2019, we purchased three restaurants previously owned and operated by our franchisees. In the fourth quarter of fiscal 2019, we executed a letter of intent to acquire 116 Chili's restaurants owned by ERJ Dining, a franchisee, located in the Midwest United States. The closing of this transaction is expected to occur in the first quarter of fiscal 2020. We plan to integrate the acquired restaurants into our Chili's operations structure. The purchase price will be funded with availability under our existing revolving credit facility. The results of operations of these restaurants are expected to be included in the consolidated financial statements from the date of acquisition beginning in fiscal 2020. The acquired restaurants are expected to generate approximately \$300.0 million of annualized revenues which will be partially offset by the loss of average annualized royalty and advertising revenues of approximately \$22.0 million. We are in the process of evaluating the fair value of the assets and liabilities to be acquired through internal studies and third-party valuations and expect to complete a preliminary purchase price allocation in the first quarter of fiscal 2020. This acquisition represents an opportunity to create value for our shareholders and generate additional earnings and cash flow growth. We remain committed to supporting the growth of our existing franchisees.

Future Commitments and Contractual Obligations

Payments due under our contractual obligations for outstanding indebtedness, leases, and purchase obligations as defined by the Securities and Exchange Commission (“SEC”) as of June 26, 2019 are as follows:

	Payments Due by Period					Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years		
Long-term debt ⁽¹⁾	\$ —	\$ 523.3	\$ 300.0	\$ 350.0	\$ 1,173.3	
Interest ⁽²⁾	51.4	62.4	46.6	8.8	169.2	
Capital leases	12.3	18.3	12.7	17.4	60.7	
Operating leases	156.8	303.1	265.3	771.7	1,496.9	
Purchase obligations ⁽³⁾	31.6	55.0	29.2	26.7	142.5	

(1) Long-term debt consists of principal amounts owed on the revolving credit facility, 3.875% and 5.00% notes. As of June 26, 2019, \$476.7 million of credit is available under the revolving credit facility.

(2) Interest consists of remaining interest payments on the 3.875% and 5.00% notes totaling \$142.8 million and remaining interest payments on the revolver totaling \$26.4 million. The interest rates on the notes are fixed whereas the interest rate on the revolver is variable based on LIBOR and our applicable margin. We have assumed that the revolver balance carried will be \$589.0 million in fiscal 2020 and \$524.3 million in fiscal 2021 until the maturity date of September 12, 2021 using the interest rate as of June 26, 2019, which was approximately 3.78%. LIBOR is set to terminate in December 2021, however our revolver will expire before this date and we anticipate any new financings will be at the applicable interest rates.

(3) Purchase obligations are 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 and professional services contracts and exclude agreements that are cancelable without significant penalty.

In addition to the amounts shown in the table above, \$2.1 million of unrecognized tax benefits have been recorded as liabilities. The timing and amounts of future cash payments related to these liabilities are uncertain.

Expiration of the revolving credit facility amounts available as of June 26, 2019 are as follows:

	Amount of Revolving Credit Facility Expiration by Period					Total Commitment
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years		
Revolving credit facility	\$ 110.0	\$ 890.0	\$ —	\$ —	\$ 1,000.0	

The \$110.0 million portion of the revolving credit facility is due in March 2020. As of June 26, 2019, there are no borrowings against this current portion of the revolver.

Although not a contractual obligation, we expect to incur additional costs, and are a defendant in a lawsuit related to the fiscal 2018 cyber security incident. We maintain insurance for this type of incident, and anticipate future costs to be reimbursable under our coverage, refer to Note 15 - Commitments and Contingencies for more details.

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.

OFF-BALANCE SHEET ARRANGEMENTS

We have obligations for guarantees on certain lease agreements and letters of credit as disclosed in Note 15 - Commitments and Contingencies in the Consolidated Financial Statements included in this report. Other than these items, we do not have any off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are disclosed in Note 1 - Nature of Operations and Summary of Significant Accounting Policies in the 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 expenses for our performance awards granted that contain a company-specific performance condition at the grant date fair value of the awards that are expected to vest based on management's periodic estimates. Management's estimates require highly judgmental assumptions regarding our future operating performance and could result in estimates of compensation expenses that vary significantly over the vesting period. Changes in estimates of compensation expenses are recognized as an adjustment in the period of the change, as appropriate.

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 recognize compensation expenses 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

We make certain estimates and judgments in the calculation of tax expenses 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 revenues and expenses. 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 have recorded deferred tax assets reflecting the benefit of income tax credits and state loss carryforwards, which expire in varying amounts. Realization is dependent on generating sufficient taxable income in the relevant jurisdiction prior to expiration of the income tax credits and state loss carryforwards. Although realization is not assured, management believes it is more likely than not that the recognized deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

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 expenses. 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.

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. The impairment test is a two-step process. Step one includes comparing the operating cash flows of the restaurants over their remaining service life to the carrying value of the asset group. If the cash flows exceed the carrying value, then the asset group is not impaired and no further evaluation is required. If the carrying value of the asset group exceeds its cash flows, impairment may exist and performing step two is necessary to determine the impairment loss. If the carrying amount is not recoverable, we record an impairment charge for the excess of the carrying amount over the fair value of the asset group. We determine fair value based on discounted projected future operating cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the inherent risk. 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. We compare the fair value of our reporting units to their carrying value. If the fair value exceeds the carrying value then the goodwill balance is not impaired and no further analysis is required. If the carrying value of the reporting unit exceeds its fair value then the impairment will be measured as the difference between the carrying value and fair value of the reporting unit in accordance with ASU 2017-04 which we adopted effective fiscal 2019. This ASU simplified the calculation of the amount of impairment loss by eliminating the requirement in previous guidance to perform a second fair value allocation as if the unit were being acquired in a business combination in order to calculate an implied goodwill value which would then be used to determine the amount of impairment loss, if any.

We determine fair value based on a combination of market-based values and discounted projected future operating cash flows of the reporting units 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 values of our reporting units were substantially in excess of the carrying values as of our fiscal 2019 goodwill impairment tests that were 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 2019.

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.

Gift Card Revenues

Proceeds from the sale of gift cards are recorded as deferred revenues and recognized as revenues when the gift card is redeemed by the holder. Breakage income represents the value associated with the portion of gift cards sold that will most likely never be redeemed. Effective fiscal 2019, with the adoption of ASC 606, breakage revenues are recognized proportionate to the pattern of related gift card redemptions. Before fiscal 2019, based on our historical gift card redemption patterns and considering our gift cards did not have expiration dates or dormancy fees, we reasonably estimated the amount of gift card balances for which redemption was remote and recorded

breakage income based on this estimate. We recognize breakage income within the franchise and other revenues caption in the Consolidated Statements of Comprehensive Income.

We update our breakage rate estimate periodically and, if necessary, adjust the deferred revenues balance accordingly. If actual redemption patterns vary from our estimate, actual gift card breakage income may differ from the amounts recorded. Changing our breakage-rate assumption used to record fiscal 2019 breakage by 25 basis points would result in an impact to the consolidated statement of comprehensive income of approximately \$0.5 million.

Effect of New Accounting Standards

The impact of new accounting pronouncements can be found at Note 18—Effect of New Accounting Standards in the Consolidated Financial Statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

Interest Rate 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 revolving credit facility. At June 26, 2019, \$523.3 million 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 26, 2019 would be approximately \$5.2 million.

Commodity Price Risk

We purchase certain commodities such as beef, pork, poultry, seafood, produce, dairy and natural gas. 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.

Impact of Inflation

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate. Inflation did not have a material impact on our operations in fiscal 2019, 2018 or 2017. However, severe increases in inflation could affect the United States or global economies and have an adverse impact on our business, financial condition and results of operations. If several of the various costs in our business experience inflation at the same time, such as commodity price increases beyond our ability to control and increased labor costs, we may not be able to adjust prices to sufficiently offset the effect of the various cost increases without negatively impacting consumer demand.

BRINKER INTERNATIONAL, INC.
Consolidated Statements of Comprehensive Income
(In millions, except per share amounts)

	Fiscal Years Ended		
	June 26, 2019	June 27, 2018	June 28, 2017
Revenues			
Company sales	\$ 3,106.2	\$ 3,041.5	\$ 3,062.5
Franchise and other revenues (Note1)	111.7	93.9	88.3
Total revenues	<u>3,217.9</u>	<u>3,135.4</u>	<u>3,150.8</u>
Operating costs and expenses			
Company restaurants (excluding depreciation and amortization)			
Cost of sales	823.0	796.0	791.3
Restaurant labor	1,059.7	1,033.9	1,017.9
Restaurant expenses (Note1)	812.3	757.5	773.5
Company restaurant expenses	2,695.0	2,587.4	2,582.7
Depreciation and amortization	147.6	151.4	156.4
General and administrative	149.1	136.0	132.8
Other (gains) and charges	(4.5)	34.5	22.7
Total operating costs and expenses	<u>2,987.2</u>	<u>2,909.3</u>	<u>2,894.6</u>
Operating income	230.7	226.1	256.2
Interest expense	61.6	59.0	49.6
Other (income), net	(2.7)	(3.1)	(1.9)
Income before provision for income taxes	171.8	170.2	208.5
Provision for income taxes	16.9	44.3	57.7
Net income	<u>\$ 154.9</u>	<u>\$ 125.9</u>	<u>\$ 150.8</u>
Basic net income per share			
	<u>\$ 4.04</u>	<u>\$ 2.75</u>	<u>\$ 2.98</u>
Diluted net income per share			
	<u>\$ 3.96</u>	<u>\$ 2.72</u>	<u>\$ 2.94</u>
Basic weighted average shares outstanding			
	<u>38.3</u>	<u>45.7</u>	<u>50.6</u>
Diluted weighted average shares outstanding			
	<u>39.1</u>	<u>46.3</u>	<u>51.2</u>
Other comprehensive income (loss)			
Foreign currency translation adjustment	\$ 0.2	\$ 0.2	\$ (0.3)
Other comprehensive income (loss)	0.2	0.2	(0.3)
Comprehensive income	<u>\$ 155.1</u>	<u>\$ 126.1</u>	<u>\$ 150.5</u>

See accompanying Notes to the Consolidated Financial Statements.

BRINKER INTERNATIONAL, INC.
Consolidated Balance Sheets
(In millions, except per share amounts)

	June 26, 2019	June 27, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13.4	\$ 10.9
Accounts receivable, net	55.0	53.7
Inventories	23.2	24.2
Restaurant supplies	47.1	46.7
Prepaid expenses	23.7	20.8
Income taxes receivable, net	14.6	—
Total current assets	<u>177.0</u>	<u>156.3</u>
Property and equipment, at cost		
Land	33.4	154.0
Buildings and leasehold improvements	1,454.6	1,673.3
Furniture and equipment	757.5	722.0
Construction-in-progress	19.2	22.1
	<u>2,264.7</u>	<u>2,571.4</u>
Less accumulated depreciation and amortization	(1,509.6)	(1,632.5)
Net property and equipment	<u>755.1</u>	<u>938.9</u>
Other assets		
Goodwill	165.5	163.8
Deferred income taxes, net	112.0	33.6
Intangibles, net	22.3	24.0
Other	26.4	30.7
Total other assets	<u>326.2</u>	<u>252.1</u>
Total assets	<u>\$ 1,258.3</u>	<u>\$ 1,347.3</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Current installments of long-term debt	\$ 9.7	\$ 7.1
Accounts payable	97.5	104.7
Gift card liability	100.9	119.1
Accrued payroll	82.1	74.5
Other accrued liabilities	131.4	127.2
Income taxes payable, net	—	1.7
Total current liabilities	<u>421.6</u>	<u>434.3</u>
Long-term debt, less current installments	1,206.6	1,499.6
Deferred gain on sale leaseback transactions	255.3	—
Other liabilities	153.0	131.7
Commitments and contingencies (Note 10 and Note 15)		
Shareholders' deficit		
Common stock (250.0 million authorized shares; \$0.10 par value; 176.2 million shares issued and 37.5 million shares outstanding at June 26, 2019, and 176.2 million shares issued and 40.8 million shares outstanding at June 27, 2018)	17.6	17.6
Additional paid-in capital	522.0	511.6
Accumulated other comprehensive loss	(5.6)	(5.8)
Retained earnings	2,771.2	2,683.0
	<u>3,305.2</u>	<u>3,206.4</u>
Less treasury stock, at cost (138.7 million shares at June 26, 2019, and 135.4 million shares at June 27, 2018)	(4,083.4)	(3,924.7)
Total shareholders' deficit	<u>(778.2)</u>	<u>(718.3)</u>
Total liabilities and shareholders' deficit	<u>\$ 1,258.3</u>	<u>\$ 1,347.3</u>

See accompanying Notes to the Consolidated Financial Statements.

BRINKER INTERNATIONAL, INC.
Consolidated Statements of Cash Flows
(In millions)

	Fiscal Years Ended		
	June 26, 2019	June 27, 2018	June 28, 2017
Cash flows from operating activities			
Net income	\$ 154.9	\$ 125.9	\$ 150.8
Adjustments to reconcile Net income to Net cash provided by operating activities:			
Depreciation and amortization	147.6	151.4	156.4
Stock-based compensation	16.4	14.2	14.5
Restructure charges and other impairments	26.5	21.7	14.4
Net (gain) loss on disposal of assets	(33.1)	1.6	(0.4)
Undistributed loss on equity investments	—	0.3	—
Other	3.0	3.1	3.0
Changes in assets and liabilities:			
Accounts receivable, net	(3.0)	(3.3)	3.5
Inventories	1.0	—	—
Restaurant supplies	(0.6)	(1.2)	(1.5)
Prepaid expenses	(3.0)	(1.7)	(0.7)
Deferred income taxes, net	(75.8)	3.4	(22.7)
Other assets	0.9	0.3	0.3
Accounts payable	(4.1)	1.6	3.0
Gift card liability	(10.1)	(7.3)	4.2
Accrued payroll	6.8	4.2	(0.7)
Other accrued liabilities	(7.7)	(6.8)	(5.8)
Current income taxes	(12.7)	(14.9)	(7.7)
Other liabilities	5.7	(8.0)	4.5
Net cash provided by operating activities	<u>212.7</u>	<u>284.5</u>	<u>315.1</u>
Cash flows from investing activities			
Payments for property and equipment	(167.6)	(101.3)	(102.6)
Payments for franchise restaurant acquisitions	(3.1)	—	—
Proceeds from sale of assets	1.6	19.9	3.2
Proceeds from note receivable	2.8	1.9	—
Insurance recoveries	1.7	1.7	—
Proceeds from sale leaseback transactions, net of related expenses	485.9	—	—
Net cash provided by (used in) investing activities	<u>321.3</u>	<u>(77.8)</u>	<u>(99.4)</u>
Cash flows from financing activities			
Borrowings on revolving credit facility	853.0	1,016.0	250.0
Payments on revolving credit facility	(1,150.0)	(588.0)	(388.0)
Purchases of treasury stock	(167.7)	(303.2)	(370.9)
Payments of dividends	(60.3)	(70.0)	(70.8)
Payments on long-term debt	(9.5)	(260.3)	(3.8)
Proceeds from issuances of treasury stock	3.0	2.3	5.6
Payments for debt issuance costs	—	(1.6)	(10.2)
Proceeds from issuance of long-term debt	—	—	350.0
Net cash used in financing activities	<u>(531.5)</u>	<u>(204.8)</u>	<u>(238.1)</u>
Net change in cash and cash equivalents	2.5	1.9	(22.4)
Cash and cash equivalents at beginning of period	10.9	9.0	31.4
Cash and cash equivalents at end of period	<u>\$ 13.4</u>	<u>\$ 10.9</u>	<u>\$ 9.0</u>

See accompanying Notes to the Consolidated Financial Statements.

BRINKER INTERNATIONAL, INC.
Consolidated Statements of Shareholders' Deficit
(In millions)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount					
Balances at June 29, 2016	55.4	\$ 17.6	\$ 495.1	\$ 2,545.8	\$ (3,272.4)	\$ (11.6)	\$ (225.5)
Net income	—	—	—	150.8	—	—	150.8
Other comprehensive loss	—	—	—	—	—	(0.3)	(0.3)
Dividends (\$1.36 per share)	—	—	—	(69.5)	—	—	(69.5)
Stock-based compensation	—	—	14.5	—	—	—	14.5
Purchases of treasury stock	(7.5)	—	(1.8)	—	(369.1)	—	(370.9)
Issuances of common stock	0.5	—	(7.4)	—	13.0	—	5.6
Excess tax benefit from stock-based compensation	—	—	1.7	—	—	—	1.7
Balances at June 28, 2017	48.4	17.6	502.1	2,627.1	(3,628.5)	(11.9)	(493.6)
Net income	—	—	—	125.9	—	—	125.9
Other comprehensive income	—	—	—	—	—	0.2	0.2
Dividends (\$1.52 per share)	—	—	—	(70.0)	—	—	(70.0)
Stock-based compensation	—	—	14.2	—	—	—	14.2
Purchases of treasury stock	(7.9)	—	(0.2)	—	(303.0)	—	(303.2)
Issuances of common stock	0.3	—	(4.5)	—	6.8	—	2.3
Disposition of equity method investment	—	—	—	—	—	5.9	5.9
Balances at June 27, 2018	40.8	17.6	511.6	2,683.0	(3,924.7)	(5.8)	(718.3)
Adoption of new accounting standards	—	—	—	(7.4)	—	—	(7.4)
Net income	—	—	—	154.9	—	—	154.9
Other comprehensive income	—	—	—	—	—	0.2	0.2
Dividends (\$1.52 per share)	—	—	—	(59.3)	—	—	(59.3)
Stock-based compensation	—	—	16.4	—	—	—	16.4
Purchases of treasury stock	(3.6)	—	(0.6)	—	(167.1)	—	(167.7)
Issuances of common stock	0.3	—	(5.4)	—	8.4	—	3.0
Balances at June 26, 2019	37.5	\$ 17.6	\$ 522.0	\$ 2,771.2	\$ (4,083.4)	\$ (5.6)	\$ (778.2)

See accompanying Notes to the Consolidated Financial Statements.

BRINKER INTERNATIONAL, INC.
Notes to the Consolidated Financial Statements

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 26, 2019, we owned, operated, or franchised 1,665 restaurants, consisting of 1,001 Company-owned restaurants and 664 franchised restaurants, located in the United States, 29 countries and two United States territories.

Basis of Presentation

The Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, and 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 2019, 2018 and 2017, which ended on June 26, 2019, June 27, 2018 and June 28, 2017, respectively, each contained 52 weeks. All amounts within the Notes to the Consolidated Financial Statements are presented in millions unless otherwise specified.

Revenues are presented in two separate captions in the Consolidated Statements of Comprehensive Income to provide more clarity around Company-owned restaurant revenues and operating expenses trends: Company sales and Franchise and other revenues.

We report certain labor and related expenses in a separate caption on the Consolidated Statements of Comprehensive Income titled Restaurant labor. 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 multi-restaurant (or above-restaurant) supervision is included in Restaurant expenses.

New Accounting Standards Implemented

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) - In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, and subsequently amended this update by issuing additional ASU's that provide clarification and further guidance around areas identified as potential implementation issues. These updates provide a comprehensive new revenue recognition model that requires a company to recognize revenues to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. These updates also require additional disclosure about the nature, amount, timing and uncertainty of revenues and cash flows arising from customer contracts. These updates are effective for annual and interim periods for fiscal years beginning after December 15, 2017, which required us to adopt these provisions in the first quarter of fiscal 2019. Refer to the Revenue significant accounting policy below, Note 2 - Revenue Recognition, and Note 16 - Segment Information for our adoption disclosures.

ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230) - In August 2016, the FASB issued ASU 2016-15, this update provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2017, which required us to adopt these provisions in the first quarter of fiscal 2019. The update was applied on a retrospective basis. The adoption of this guidance did not have an impact on the Consolidated Financial Statements or debt covenants.

ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment - In January 2017, the FASB issued ASU 2017-04, this update eliminates step two of the goodwill impairment analysis. Companies will no longer be required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, they will measure impairment as the difference between the carrying amount and the fair value of the reporting unit. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed with measurement dates after January 1, 2017. We elected to early adopt this guidance as of fiscal 2019. The guidance was adopted prospectively. The adoption of this guidance did not have an impact on the Consolidated Financial Statements. Refer to Note 6 - Goodwill and Intangibles for disclosure about goodwill.

ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract - In August 2018, the FASB issued ASU 2018-15, this update aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update is effective for annual and interim periods in fiscal years beginning after December 15, 2019, and early adoption is permitted. We elected to early adopt this guidance during fiscal 2019, using a prospective approach. The adoption of this guidance did not have a material impact on the Consolidated Financial Statements.

Use of Estimates

The preparation of the Consolidated Financial Statements is in conformity with generally accepted accounting principles in the United States and requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Revenue

Effective fiscal 2019, we adopted FASB Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), from the previous guidance ASC Topic 605, *Revenue Recognition* and ASC Subtopic 952-605, *Franchisors - Revenue Recognition* (together, “Legacy GAAP”). Our transition to ASC 606 represents a change in accounting principle. The Consolidated Financial Statements for fiscal 2019 reflect the application of ASC 606 guidance using the modified retrospective transition method, while the Consolidated Financial Statements for prior periods were prepared under Legacy GAAP. Revenues are presented in Company sales and Franchise and other revenues captions in the Consolidated Statements of Comprehensive Income. Refer below for our significant revenue accounting policies, to Note 2 - Revenue Recognition for deferred revenues and new standard transition disclosures, and to Note 16 - Segment Information for disaggregation of revenues detail.

Company Sales

Company sales include revenues generated by the operation of Company-owned restaurants including gift card redemptions. The adoption of ASC 606 did not impact revenue recognition related to Company sales. We will continue to record the revenues from the sale of food, beverages and alcohol as products are sold.

Franchise and Other Revenues

Franchise and other revenues include royalties, advertising fees (effective fiscal 2019), Maggiano’s banquet service charge income, gift card breakage, digital entertainment revenues, gift card equalization, delivery fee income, franchise and development fees, retail royalty revenues, merchandise income, and gift card discount costs from third-party gift card sales.

Royalties - Franchise royalties are based on a percentage of the sales generated by our franchised restaurants. The provisions of ASC 606 did not impact the recognition of these royalties, as the performance obligation related to

franchise sales is considered complete upon the sale of food, beverages and alcohol. Royalty revenues attributable to franchise restaurants will continue to be recognized in the same period the sales are generated at the franchise restaurants.

Advertising Fees - Domestic franchisees are contractually obligated to contribute into certain advertising and marketing funds. The adoption of ASC 606 did not impact the timing of revenue recognition of the advertising fees received; however, effective fiscal 2019, advertising fees are now presented on a gross basis within Franchise and other revenues. Under Legacy GAAP, the advertising funds received from franchisees were considered a reimbursement of advertising expenses and were presented on a net basis as a reduction to advertising expenses in Restaurant expenses in the Consolidated Statements of Comprehensive Income.

Initial Development and Franchise Fees - We receive development fees from franchisees for territory development arrangements and franchise fees for new restaurant openings. Under ASC 606, the performance obligation related to these arrangements will be collectively deferred as a contract liability and recognized on a straight-line basis into Franchise and other revenues in the Consolidated Statements of Comprehensive Income over the term of the underlying agreements. Deferred franchise and development fees are classified within Other accrued liabilities for the current portion expected to be recognized within the next 12 months, and Other liabilities for the long-term portion in the Consolidated Balance Sheets. Under Legacy GAAP, development fees were recognized as income upon the execution of the agreement, when development rights were conveyed to the franchisee. Franchise fees were recognized as income when the obligations under the franchise agreement were satisfied, generally upon the opening of the new franchise restaurant.

Gift Card Breakage Income - Breakage revenues represent the monetary value associated with outstanding gift card balances for which redemption is considered remote. We estimate this amount based on our historical gift card redemption patterns and update the breakage rate estimate periodically and if necessary, adjust the deferred revenues balance within the Gift card liability account in the Consolidated Balance Sheets accordingly. In accordance with ASC 606, breakage revenues will be recognized proportionate to the pattern of related gift card redemptions. Under Legacy GAAP, breakage revenues were recognized when redemption was considered remote. We do not charge dormancy or any other fees related to monitoring or administering the gift card program to cardholders.

Additionally, proceeds from the sale of gift cards will continue to be recorded as deferred revenues in the Gift card liability in the Consolidated Balance Sheets and recognized as Company sales when the gift card is redeemed by the holder.

Gift Card Discount Costs - Our gift cards are sold through various outlets such as in-store, Chili's and Maggiano's websites, directly to other businesses, and through third-party distributors that sell our gift cards at various retail locations. We incur incremental direct costs related to gift card sales, such as commissions and activation fees, for gift cards sold by third-party businesses and distributors. These initial direct costs are deferred and amortized against revenues proportionate to the pattern of related gift card redemption.

Other Revenues - Other revenues not described above, such as Maggiano's banquet service charge income, digital entertainment revenues, retail royalty revenues and delivery fee income had no change in recognition from the adoption of ASC 606.

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.

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.

Accounts Receivable

Accounts receivable, net of the allowance for doubtful accounts, represents the estimated net realizable value. Our primary account receivables are due from franchisees, gift card sales, store purchases made on credit cards, and from time-to-time, insurance recoveries, vendor rebates and landlord related receivables. 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.

Inventories

Inventories consist of food, beverages and supplies and are valued at the lower of cost or net realizable value, using the first-in, first-out or "FIFO" method.

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 term of the lease, including certain 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 7 years. Depreciation expenses related to property and equipment for the fiscal years ended June 26, 2019, June 27, 2018, and June 28, 2017 of \$146.5 million, \$150.1 million, and \$155.0 million, respectively, was recorded in Depreciation and amortization in the Consolidated Statements of Comprehensive Income. 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. We have determined the restaurant level is the lowest level of identifiable cash flows. 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 discounted projected future operating cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the inherent risk. Impairment charges are included in Other (gains) and charges in the Consolidated Statements of Comprehensive Income.

Definite-lived Intangible Assets

Definite-lived intangible assets primarily include reacquired franchise rights resulting from our acquisitions and are amortized using the straight-line method over the estimated useful lives of the assets. We determine the fair value of reacquired franchise rights based on discounted projected future operating cash flows of the restaurants associated with these franchise rights. We review the carrying amount semi-annually or whenever events or changes in 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. Impairment charges are included in Other (gains) and charges in the Consolidated Statements of Comprehensive Income.

Operating Leases

Rent expenses 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 expenses includes any 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 expenses at the point in time we determine that it is probable that such sales levels will be achieved. Landlord contributions are recorded when received as a deferred rent liability in Other accrued liabilities and/or Other liabilities in the Consolidated Balance Sheets, depending on the current or long-term nature, and amortized as a reduction of rent expenses on a straight-line basis over the lease term.

The majority of our restaurant facilities with operating leases have terms expiring at various dates through fiscal 2035. The restaurant leases have cumulative renewal clauses of 1 to 34 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. We include other rent-related costs in rent expenses, such as common area maintenance, taxes and amortization of landlord contributions. Rent expenses related to restaurants is included in Restaurant expenses, and office space rent is included in General and administrative in the Consolidated Statements of Comprehensive Income. Refer to Note 7 - Accrued and Other Liabilities for further details on accrued straight-line rent and landlord contributions.

Effective fiscal 2020, we will adopt the new lease accounting standard that will impact the recording of operating leases. Refer to Note 18 - Effect of New Accounting Standards for more details about this adoption.

Advertising

Advertising production costs are expensed in the period when the advertising first takes place. Other advertising costs are expensed as incurred.

Effective fiscal 2019, we adopted the *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, that reclassified the presentation of advertising contributions in the Consolidated Statements of Comprehensive Income. Refer to the “Revenue - Advertising Fees” significant accounting policy above for further details on this adoption. In the fiscal year ended June 26, 2019, advertising costs of \$88.5 million are included in Restaurant expenses, and advertising contributions from franchisees of \$20.3 million are recorded in Franchise and other revenues in the Consolidated Statements of Comprehensive Income. Advertising costs, net of advertising contributions from franchisees, were \$75.7 million and \$79.7 million in fiscal years ended June 27, 2018 and June 28, 2017, respectively, and were included in Restaurant expenses in the Consolidated Statements of Comprehensive Income.

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 operating segments and reporting units.

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 discounted projected 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 tests as the fair value of our reporting units was substantially in excess of the carrying values. No indicators of impairment were identified through the end of fiscal 2019. Refer to Note 6—Goodwill and Intangibles for additional disclosures.

We occasionally acquire restaurants from our franchisees. Goodwill from these acquisitions represents the excess of the cost of the 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 will allocate

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 is based on the relative fair values of the disposal group and the portion of the reporting unit that was retained. Additionally, if we sell restaurants with reacquired franchise rights, we will include those assets in the gain or loss on the disposition.

Liquor Licenses

The costs of obtaining non-transferable liquor licenses from local government agencies are expensed over the specified term of the license. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived intangible assets and included in Intangibles, net in the Consolidated Balance Sheets.

Transferable liquor licenses are tested for impairment semi-annually or more frequently if events or circumstances indicate that the asset might be impaired. Impairment charges are recognized based on the excess of carrying value over fair value. We determine fair value based on prices in the open market for licenses in same or similar jurisdictions. Impairment charges are included in Other (gains) and charges in the Consolidated Statements of Comprehensive Income. Refer to Note 6 - Goodwill and Intangibles and Note 11 - Fair Value Measurements for additional disclosures.

Sales Taxes

Taxes assessed by a governmental authority that are both imposed on and concurrent with specific revenue transactions and collected from a customer have been excluded from revenues under both Legacy GAAP and ASC 606. The obligation is included in Other accrued liabilities in the Consolidated Balance Sheets until the taxes are remitted to the appropriate taxing authorities.

Self-Insurance Program

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. The estimated incurred but unreported costs to settle unpaid claims are included in Other accrued liabilities and Other liabilities, depending on the current or long-term nature, in the Consolidated Balance Sheets.

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 that is not more-likely-than-not to be realized. We recognize any interest and penalties related to unrecognized tax benefits in Provision for income taxes in the Consolidated Statements of Comprehensive Income.

We reinvest foreign earnings, therefore, United States deferred income taxes have not been provided on foreign earnings. Additionally, Income taxes are computed on a consolidated legal jurisdiction basis with no regard to brand. Refer to Note 8 - Income Taxes for additional disclosures.

Stock-Based Compensation

We measure and recognize compensation cost at fair value for all share-based payments. We record compensation expenses using a graded-vesting schedule or on a straight-line basis, as applicable, over the vesting period, or to the date on which retirement eligibility is achieved, if shorter. We recognize compensation expenses 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.

Certain employees are eligible to receive stock options, performance stock options, performance shares, restricted stock, and restricted stock units, while non-employee members of the Board of Directors (the “Board”) are eligible to receive stock options, restricted stock and restricted stock units. Awards granted to the Board are non-forfeitable and are fully expensed upon grant. Awards to eligible employees may vest over a specified period of time, or service period, only or may also contain performance-based conditions. The fair value of restricted stock and restricted stock units that do not contain a performance condition are based on our closing stock price on the date of grant, while the fair value of stock options is estimated using the Black-Scholes option-pricing model on the date of grant.

Performance shares represent a right to receive shares of common stock upon satisfaction of Company performance goals at the end of a three-fiscal-year cycle. Vesting of performance shares granted are contingent upon meeting Company performance goals based on a specified rate of earnings growth at the end of the three-fiscal-year period. Compensation expenses for the performance shares is recorded based on management’s periodic estimates of the number of shares that will ultimately be issued and the fair value of the shares as determined by our closing stock price on the date of grant. A cumulative expenses adjustment is recognized when that estimate changes.

Stock-based compensation expenses totaled approximately \$16.4 million, \$14.2 million and \$14.5 million for fiscal years ended June 26, 2019, June 27, 2018 and June 28, 2017, respectively. The total income tax benefit recognized in the Consolidated Statements of Comprehensive Income related to stock-based compensation expenses was approximately \$3.0 million, \$4.3 million and \$5.7 million during the fiscal years ended June 26, 2019, June 27, 2018 and June 28, 2017, respectively.

The weighted average fair values of option grants were \$8.25, \$4.51 and \$9.30 during fiscal years ended June 26, 2019, June 27, 2018 and June 28, 2017, respectively. The fair value of stock options is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Fiscal Years Ended		
	June 26, 2019	June 27, 2018	June 28, 2017
Expected volatility	27.2%	25.2%	25.5%
Risk-free interest rate	2.9%	1.9%	1.3%
Expected lives	5 years	6 years	5 years
Dividend yield	3.5%	4.4%	2.6%

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 United States Treasury Note with a term equal to the expected life of the stock options. The dividend yield is based on the most recent quarterly dividend per share declared and the closing stock price on the declaration date. Refer to Note 12—Stock-based Compensation for additional disclosures.

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 26, 2019, no preferred shares were issued.

Shareholders' Deficit

In fiscal 2019, our Board of Directors authorized a \$300.0 million increase to our existing share repurchase program resulting in total authorizations of \$4.9 billion. We repurchased approximately 3.6 million shares of our common stock for \$167.7 million during fiscal 2019. The repurchased shares included shares purchased as part of our share repurchase program and shares repurchased to satisfy team member tax withholding obligations on the vesting of restricted shares.

As of June 26, 2019, approximately \$197.8 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. Additionally, during fiscal 2019, approximately 0.1 million stock options were exercised resulting in cash proceeds of approximately \$3.0 million.

During the fiscal year ended June 26, 2019, we paid dividends of \$60.3 million to common stock shareholders, compared to \$70.0 million in the fiscal year ended June 27, 2018. Our Board of Directors approved quarterly dividends of \$0.38 per share paid each quarter during fiscal 2019. We also declared a quarterly dividend of \$0.38 per share in April 2019 which was paid subsequent to the end of fiscal 2019 year in the amount of \$14.2 million. The dividend accrual was included in Other accrued liabilities in the Consolidated Balance Sheets as of June 26, 2019.

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. For the fiscal years ended June 26, 2019, June 27, 2018 and June 28, 2017, Comprehensive income consists of Net income and Foreign currency translation adjustment. The Foreign currency translation adjustment for the three fiscal years included the unrealized impact of translating the financial statements from Canadian dollars to United States dollars of the Canadian restaurants. For the fiscal years ended June 27, 2018 and June 28, 2017, foreign currency translation adjustment also included the impact of translating the Mexico joint venture with CMR, S.A.B. de C.V. from Mexican pesos to United States dollars. The Accumulated other comprehensive loss ("AOCL") is presented in the Consolidated Balance Sheets.

During fiscal 2018, the Mexico joint venture was sold to CMR. Refer to Note 4 - Equity Method Investment for further details on the transaction including the note receivable.

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. Stock options and restricted share awards with an anti-dilutive effect are not included in the dilutive earnings per share calculation.

Basic weighted average shares outstanding is reconciled to diluted weighted average shares outstanding as follows:

	June 26, 2019	June 27, 2018	June 28, 2017
Basic weighted average shares outstanding	38.3	45.7	50.6
Dilutive stock options	0.2	0.1	0.2
Dilutive restricted shares	0.6	0.5	0.4
	<u>0.8</u>	<u>0.6</u>	<u>0.6</u>
Diluted weighted average shares outstanding	<u>39.1</u>	<u>46.3</u>	<u>51.2</u>
Awards excluded due to anti-dilutive effect on earnings per share	<u>0.9</u>	<u>1.1</u>	<u>1.0</u>

Segment Reporting

Operating segments are components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing operating performance. We manage our business on the basis of two operating segments, Chili's and Maggiano's. The brands operate Company-owned restaurants principally in the United States, within the full-service casual dining segment of the industry. The Chili's segment also has Company-owned restaurants in Canada and franchised locations in the United States, 29 countries and two United States territories. Maggiano's segment has Company-owned restaurants and opened its first franchise location in the United States during fiscal 2019. Refer to Note 16 - Segment Information for additional segment disclosures.

2. REVENUE RECOGNITION

Deferred Development and Franchise Fees

We receive development fees for territory development arrangements and franchise fees for new restaurant openings from our franchisees that are deferred as a contract liability and recognized on a straight-line basis into Franchise and other revenues in the Consolidated Statements of Comprehensive Income over the term of the underlying agreements. The unrecognized fees received from franchisees are classified within Other accrued liabilities for the current portion expected to be recognized within the next 12 months, and Other liabilities for the long-term portion in the Consolidated Balance Sheets. A summary of significant changes to the related deferred balance during the fiscal year ended June 26, 2019 is presented below, along with the revenues expected to be recognized in the subsequent periods.

	Deferred Development and Franchise Fees
Balance at June 27, 2018	\$ —
Cumulative effect adjustment from adoption of ASC 606	18.1
Additions	0.9
Amount recognized to Franchise and other revenues	<u>(2.8)</u>
Balance at June 26, 2019	<u>\$ 16.2</u>

Fiscal Year	Development and Franchise Fees Revenue Recognition
2020	\$ 1.4
2021	1.4
2022	1.3
2023	1.3
2024	1.3
Thereafter	9.5
	<u>\$ 16.2</u>

The development and franchise fees that will be recognized in future years are based on contracts with franchisees. These amounts represent the amount that will be recognized pursuant to the satisfaction of the contractual performance obligations of the current agreements. These amounts are based on active contracts and any modifications or terminations of these contracts may affect the timing of the recognition. We also expect to have future year royalties and advertising fees related to our franchise contracts, however under ASC 606, these future year revenues are not yet determinable due to unsatisfied performance obligations based upon a sales-based royalty.

Financial Statement Impact of Transition to ASC 606

ASC 606 was applied to all contracts with customers as of the first day of fiscal 2019, June 28, 2018. The cumulative effect was applied using the modified retrospective approach. The Consolidated Balance Sheets reflect the transition to ASC 606 as an adjustment at June 28, 2018 as follows:

	June 27, 2018	ASC 606 Cumulative Effect Adjustments	June 28, 2018
ASSETS			
Other assets			
Deferred income taxes, net ⁽¹⁾	\$ 33.6	\$ 2.5	\$ 36.1
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current liabilities			
Gift card liability ⁽²⁾	119.1	(8.2)	110.9
Other accrued liabilities ⁽³⁾	127.2	1.5	128.7
Other liabilities ⁽³⁾	131.7	16.6	148.3
Shareholders' deficit ^{(2) (3)}	(718.3)	(7.4)	(725.7)

- (1) Deferred income taxes, net adjustment relates to the net change in liabilities and equity as a result of the adoption of ASC 606 described in notes ⁽²⁾ and ⁽³⁾ below.
- (2) Gift card liability is adjusted for the ASC 606 adoption impact of the change to recognize gift card breakage proportionate to the pattern of related gift card redemption. Under Legacy GAAP, gift card breakage was recognized when the likelihood of redemption was deemed remote. The cumulative effect of applying ASC 606 accounting to gift card balances outstanding at June 28, 2018 resulted in an \$8.2 million decrease in Gift card liability due to the change in timing of recognition between ASC 606 and Legacy GAAP, and a corresponding \$2.0 million decrease in Deferred income taxes, net, and a \$6.2 million decrease in Shareholders' deficit.
- (3) Other liabilities \$16.6 million and Other accrued liabilities \$1.5 million adjustments relate to the deferral of previously recognized franchise and development fees received from franchisees, with a corresponding \$4.5 million increase in Deferred income taxes, net, and a \$13.6 million increase to Shareholders' deficit at June 28, 2018.

Comparison of Fiscal 2019 Periods if Legacy GAAP Had Been in Effect

The following tables reflect the impact to the Consolidated Statement of Income for the fiscal year ended June 26, 2019, Cash flows from operating activities for the fiscal year ended June 26, 2019, and Consolidated Balance Sheet at June 26, 2019 as if the Legacy GAAP was still in effect.

The adjustments presented below in the Consolidated Statement of Income include under ASC 606, advertising fees now presented on a gross basis as a component of Franchise and other revenues. Under Legacy GAAP, the advertising fees were recorded as a reduction to advertising expenses within Restaurant expenses in the Consolidated Statements of Comprehensive Income. Additionally, the recognition timing change for franchise related fees and gift card breakage is included within Franchise and other revenues.

The adjustments presented below in the Consolidated Balance Sheet relate to the cumulative effect impact described above in the “Financial Statement Impact of Transition to ASC 606” section, as well as the impact from the change in the gift card breakage, deferred development and franchise fees, and corresponding deferred tax and retained earnings balances as of June 26, 2019.

Consolidated Statement of Income

	Fiscal Year Ended June 26, 2019		
	As Reported ASC 606 Amounts	Adjustments	Legacy GAAP Amounts
Revenues			
Company sales	\$ 3,106.2	\$ —	\$ 3,106.2
Franchise and other revenues	111.7	(24.6)	87.1
Total revenues	<u>3,217.9</u>	<u>(24.6)</u>	<u>3,193.3</u>
Operating costs and expenses			
Company restaurants (excluding depreciation and amortization)			
Cost of sales	823.0	—	823.0
Restaurant labor	1,059.7	—	1,059.7
Restaurant expenses	<u>812.3</u>	<u>(20.3)</u>	<u>792.0</u>
Company restaurant expenses	2,695.0	(20.3)	2,674.7
Depreciation and amortization	147.6	—	147.6
General and administrative	149.1	—	149.1
Other (gains) and charges	<u>(4.5)</u>	<u>—</u>	<u>(4.5)</u>
Total operating costs and expenses	<u>2,987.2</u>	<u>(20.3)</u>	<u>2,966.9</u>
Operating income	230.7	(4.3)	226.4
Interest expense	61.6	—	61.6
Other (income), net	<u>(2.7)</u>	<u>—</u>	<u>(2.7)</u>
Income before provision for income taxes	171.8	(4.3)	167.5
Provision for income taxes	<u>16.9</u>	<u>(1.1)</u>	<u>15.8</u>
Net income	<u>\$ 154.9</u>	<u>\$ (3.2)</u>	<u>\$ 151.7</u>
Basic net income per share	<u>\$ 4.04</u>	<u>\$ (0.08)</u>	<u>\$ 3.96</u>
Diluted net income per share	<u>\$ 3.96</u>	<u>\$ (0.08)</u>	<u>\$ 3.88</u>

Consolidated Balance Sheet

	June 26, 2019		
	As Reported ASC 606 Amounts	Adjustments	Legacy GAAP Amounts
ASSETS			
Current assets			
Total current assets	\$ 177.0	\$ —	\$ 177.0
Property and equipment, at cost			
Net property and equipment	755.1	—	755.1
Other assets			
Goodwill	165.5	—	165.5
Deferred income taxes, net	112.0	(1.3)	110.7
Intangibles, net	22.3	—	22.3
Other	26.4	—	26.4
Total other assets	326.2	(1.3)	324.9
Total assets	\$ 1,258.3	\$ (1.3)	\$ 1,257.0
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current liabilities			
Current installments of long-term debt	\$ 9.7	\$ —	\$ 9.7
Accounts payable	97.5	—	97.5
Gift card liability	100.9	10.6	111.5
Accrued payroll	82.1	—	82.1
Other accrued liabilities	131.4	(1.2)	130.2
Total current liabilities	421.6	9.4	431.0
Long-term debt, less current installments	1,206.6	—	1,206.6
Deferred gain on sale leaseback transactions	255.3	—	255.3
Other liabilities	153.0	(14.7)	138.3
Shareholders' deficit			
Common stock	17.6	—	17.6
Additional paid-in capital	522.0	—	522.0
Accumulated other comprehensive loss	(5.6)	—	(5.6)
Retained earnings	2,771.2	4.0	2,775.2
Less treasury stock, at cost	(4,083.4)	—	(4,083.4)
Total shareholders' deficit	(778.2)	4.0	(774.2)
Total liabilities and shareholders' deficit	\$ 1,258.3	\$ (1.3)	\$ 1,257.0

Cash flows from operating activities

	Fiscal Year Ended June 26, 2019		
	As Reported ASC 606 Amounts	Adjustments	Legacy GAAP Amounts
Net income	\$ 154.9	\$ (3.2)	\$ 151.7
Adjustments to reconcile Net income to Net cash provided by operating activities:			
Depreciation and amortization	147.6	—	147.6
Stock-based compensation	16.4	—	16.4
Restructure charges and other impairments	26.5	—	26.5
Net (gain) loss on disposal of assets	(33.1)	—	(33.1)
Other	3.0	—	3.0
Changes in assets and liabilities:			
Accounts receivable, net	(3.0)	—	(3.0)
Inventories	1.0	—	1.0
Restaurant supplies	(0.6)	—	(0.6)
Prepaid expenses	(3.0)	—	(3.0)
Deferred income taxes, net	(75.8)	(1.1)	(76.9)
Other assets	0.9	—	0.9
Accounts payable	(4.1)	—	(4.1)
Gift card liability	(10.1)	2.3	(7.8)
Accrued payroll	6.8	—	6.8
Other accrued liabilities	(7.7)	0.2	(7.5)
Current income taxes	(12.7)	—	(12.7)
Other liabilities	5.7	1.8	7.5
Net cash provided by operating activities	\$ 212.7	\$ —	\$ 212.7

3. SALE LEASEBACK TRANSACTIONS

Restaurant Properties Sale Leaseback Transactions

During the fiscal year ended June 26, 2019, we completed sale leaseback transactions of 152 restaurant properties in the United States sold for aggregate consideration of \$495.0 million. Of the transactions completed, 151 were Chili's properties, and one was a Maggiano's property. The balances attributable to the restaurant assets sold include Land of \$114.4 million, Buildings and leasehold improvements of \$240.5 million, certain fixtures included in Furniture and equipment of \$10.2 million, and Accumulated Depreciation of \$179.8 million. The total gain was \$309.7 million and the net proceeds from these sale leaseback transactions have been used to repay borrowings on our revolving credit facility.

Lease Details

The initial terms of all leases are for 15 years, plus renewal options at our discretion, which contain scheduled rent increases. All of the leases were determined to be operating leases. Rent expenses associated with these operating leases are being recognized on a straight-line basis over the lease terms. As of June 26, 2019, \$2.8 million of straight-line rent accrual has been recorded for these operating leases in Other liabilities in the Consolidated Balance Sheets.

Gain and Deferred Gain Recognition

We recognized the portion of the gross gain in excess of the present value of the future minimum lease payments, and deferred the remainder of the gain to be recognized straight-line in proportion to the operating lease terms. During the fiscal year ended June 26, 2019, \$35.2 million of the gain was recognized to Other (gains) and charges in the Consolidated Statements of Comprehensive Income. The remaining balance of the deferred gain of \$274.6 million as of June 26, 2019 was recorded in Other accrued liabilities (current portion) and Deferred gain on sale leaseback transactions (long-term portion) in the Consolidated Balance Sheets. Effective fiscal 2020, upon adoption of the new lease accounting standard, the remaining deferred gain will be recorded as a cumulative transition adjustment to equity. Refer to Note 18 - Effect of New Accounting Standards for more details about this adoption.

Corporate Headquarters Relocation

During fiscal 2018, we sold the owned portion of our corporate headquarters property for net proceeds of \$13.7 million which was deferred in Other accrued liabilities in the Consolidated Balance Sheets until fiscal 2019 when we moved to our new corporate headquarters location, and fully relinquished possession of the sold property and terminated our involvement. As such, during fiscal 2019, we recognized the sale, removed the balances attributable to the previous corporate headquarters assets sold that included Land of \$5.9 million, Buildings and leasehold improvements of \$10.6 million, Furniture and equipment of \$0.7 million, and Accumulated Depreciation of \$9.3 million, and recorded the related net gain of \$5.8 million to Other (gains) and charges in the Consolidated Statements of Comprehensive Income. Refer to Note 5 - Other Gains and Charges for further details, including accelerated depreciation recorded to Other (gains) and charges in the Consolidated Statements of Comprehensive Income related to the sold property.

4. EQUITY METHOD INVESTMENT

We had a joint venture agreement with CMR, S.A.B. de C.V. to develop 50 Chili's restaurants in Mexico, with a total of 45 Chili's restaurants operating in the joint venture as of June 28, 2017. We accounted for the joint venture investment under the equity method of accounting. During fiscal 2018, we sold our Dutch subsidiary that held the equity interest in the joint venture to CMR, S.A.B. de C.V. for \$18.0 million. During fiscal 2018, we recorded a gain of \$0.2 million to Other (gains) and charges in the Consolidated Statements of Comprehensive Income which included the recognition of \$5.4 million of foreign currency translation losses reclassified from AOCL consisting of \$5.9 million of foreign currency translation losses from previous years, partially offset by \$0.5 million of fiscal 2018 foreign currency translation gains.

We received a note as consideration for the sale to be paid in 72 equal installments, with one installment payment made at closing and the other payments to be made over 71 months pursuant to the note. The note is denominated in Mexican pesos and is re-measured to United States dollars at the end of each period resulting in a gain or loss from foreign currency exchange rate changes included in Other (gains) and charges in the Consolidated Statements of Comprehensive Income for the periods presented, refer to Note 5 - Other Gains and Charges for more information. The current portion of the note, which represents the cash payments to be received over the next 12 months, is included within Accounts receivable, net while the long-term portion of the note is included within Other assets in the Consolidated Balance Sheets. Refer to Note 11 - Fair Value Measurements for the fair value and carrying value of the note receivable as of June 26, 2019.

Before the sale of the joint venture during fiscal 2018, we recorded our share of the Mexico joint venture net income or loss of the investee within Operating income since their operations were similar to our ongoing operations. These amounts were included in Restaurant expenses in the Consolidated Statements of Comprehensive Income due to their immaterial nature. The investment in the joint venture was included in Other assets in the Consolidated Balance Sheets.

5. OTHER GAINS AND CHARGES

Other (gains) and charges in the Consolidated Statements of Comprehensive Income consist of the following:

	Fiscal Years Ended		
	June 26, 2019	June 27, 2018	June 28, 2017
Sale leaseback (gain), net of transaction charges	\$ (27.3)	\$ 2.0	\$ —
(Gain) on sale of assets, net	(6.9)	(0.3)	(2.7)
Foreign currency transaction (gain) loss	(0.7)	1.2	—
Property damages, net of (insurance recoveries)	(0.7)	5.1	—
Lease guarantee charges (credits)	(0.4)	1.9	1.1
Restaurant impairment charges	10.8	10.9	5.2
Remodel-related costs	7.7	1.5	—
Corporate headquarters relocation charges	5.3	—	—
Restaurant closure charges	4.3	7.5	4.1
Accelerated depreciation	1.0	1.9	2.0
Severance and other benefit charges	0.9	0.3	6.6
Cyber security incident charges	0.4	2.0	—
Information technology restructuring	—	—	2.7
Other	1.1	0.5	3.7
	<u>\$ (4.5)</u>	<u>\$ 34.5</u>	<u>\$ 22.7</u>

Fiscal 2019

- Sale leaseback (gain), net of transaction charges during the fiscal year ended June 26, 2019 included gains of \$35.2 million, less transaction costs of \$7.9 million related to professional services, legal and accounting fees. Refer to Note 3 - Sale Leaseback Transactions for further details on this transaction.
- (Gain) on sale of assets, net during the fiscal year ended June 26, 2019 primarily included \$5.8 million for the net gain recognized on the sale of the owned-portion of our previous corporate headquarters building, and \$0.8 million of gain recognized on the sale of land in Scottsdale, AZ and Pensacola, FL.
- Foreign currency transaction (gain) loss during the fiscal year ended June 26, 2019 included a gain of \$0.7 million, resulting from the change in value of the Mexican peso as compared to that of the United States dollar on our Mexican peso denominated note receivable that we received as consideration from the sale of our equity interest in our Mexico joint venture during fiscal 2018. Refer to Note 4 - Equity Method Investment for further details.
- Property damages, net of (insurance recoveries) during the fiscal year ended June 26, 2019 included \$0.7 million of insurance proceeds received related to a previously filed fire claim and final proceeds received from the Hurricane Harvey claim, partially offset by expenses associated with storm damages at certain restaurant locations.
- Lease guarantee charges (credits) during the fiscal year ended June 26, 2019 of a \$0.4 million credit were recorded from releasing the remaining lease reserves related to leases that we were secondarily liable for Macaroni Grill, a divested brand, that were reserved during their fiscal 2018 bankruptcy proceedings that have since concluded. Refer to Note 15 - Commitments and Contingencies for further details.
- Restaurant impairment charges during the fiscal year ended June 26, 2019 included \$10.8 million primarily related to the long-lived assets and reacquired franchise rights of 11 underperforming Chili's restaurants.

- Remodel-related costs during the fiscal year ended June 26, 2019 totaled \$7.7 million and were related to write-offs associated with the Chili's remodel project.
- Corporate headquarters relocation charges during the fiscal year ended June 26, 2019 of \$5.3 million included lease reserve and other closure costs associated with the leased portion of our previous corporate headquarters location, in addition to moving and certain readiness costs of transition to the new corporate headquarters location during fiscal 2019.
- Restaurant closure charges during the fiscal year ended June 26, 2019 totaling \$4.3 million primarily related to Chili's lease termination charges and certain Chili's restaurant closure costs.
- Accelerated depreciation during the fiscal year ended June 26, 2019 included \$1.0 million of depreciation on certain leasehold improvements associated with the leased portion of our previous corporate headquarters property which closed during fiscal 2019.
- Severance and other benefit charges during the fiscal year ended June 26, 2019 of \$0.9 million primarily related to the restructuring of certain Maggiano's back-office positions.
- Cyber security incident charges during the fiscal year ended June 26, 2019 of \$0.4 million was recorded related to professional services associated with our response to the incident that are not believed to be covered by our insurance. Refer to Note 15 - Commitments and Contingencies for further details.

Fiscal 2018

- Restaurant impairment charges during the fiscal year ended June 27, 2018 totaling \$10.9 million primarily includes charges of \$7.2 million recorded in the first quarter of fiscal 2018 associated with nine Alberta, Canada Chili's restaurants closed in the second quarter of fiscal 2018. Alberta has an oil dependent economy and has experienced an economic recession in recent years related to lower oil production. The slower economy has negatively affected traffic at the restaurants. The decision to close these restaurants was driven by management's belief that the long-term profitability of these restaurants would not meet our required level of return. Additionally, during fiscal 2018, we recorded Restaurant impairment charges of \$3.7 million primarily related to the long-lived assets and reacquired franchise rights of certain underperforming Maggiano's and Chili's restaurants that will continue to operate. Refer to Note 11 - Fair Value Measurements for further details.
- Restaurant closure charges during the fiscal year ended June 27, 2018 totaling \$7.5 million primarily includes expenses of \$4.6 million associated with the Canada closures and related lease termination charges. We also recorded \$1.8 million in lease termination expenses related to locations where we are the primary lessee of leases that were sublet to the Macaroni Grill, a divested brand, currently in bankruptcy proceedings, that discontinued sublease rental payments and closed the restaurants. Additionally, we recorded Restaurant closure charges of \$1.1 million primarily related to lease termination charges and closure costs associated with Chili's restaurants closed during fiscal 2018.
- Property damages, net of (insurance recoveries) include incurred expenses associated with Hurricanes Harvey and Irma primarily related to employee relief payments and inventory spoilage. Our restaurants were closed in the areas affected by these disasters and our team members were unable to work. Payments were made to assist our team members during these crises and to promote retention. We carry insurance coverage for these types of natural disasters. It was determined that Hurricane Irma damage was below insurance claim deductible limits, and we did not have any insurance proceeds related to this storm. During fiscal 2018, we received insurance proceeds related to certain Hurricane Harvey property damage of \$1.0 million that was mostly offset by the long-lived asset write-off, of which the net amount of \$0.1 million was included within Other (gains) and charges in the Consolidated Statements of Comprehensive Income. In the fourth quarter of fiscal 2018, the Hurricane Harvey insurance claim was

substantially finalized. We recorded an insurance receivable within Accounts receivable, net in the Consolidated Balance Sheets for \$1.0 million which includes \$0.6 million of business interruption funds recorded within Restaurant expenses in the Consolidated Statements of Comprehensive Income and \$0.4 million for property damages recorded within Other (gains) and charges in the Consolidated Statements of Comprehensive Income.

During the fiscal year ended June 27, 2018, we received property damage insurance proceeds of \$0.5 million related to natural flooding in Louisiana that were recorded within Other (gains) and charges in the Consolidated Statements of Comprehensive Income. Additionally, we received business interruption funds of \$0.4 million related to the Louisiana flooding from insurers that are recorded within Restaurant expenses in the Consolidated Statements of Comprehensive Income.

- Cyber security incident charges during the fiscal year ended June 27, 2018 totaling \$2.0 million were recorded related to professional services due to legal and other costs associated with our response to the incident. We first reported the incident in the fourth quarter of fiscal 2018, refer to Note 15 - Commitments and Contingencies for further details.
- Sale leaseback (gain), net of transaction charges during the fiscal year ended June 27, 2018 totaling \$2.0 million includes professional service fees for brokers, legal, due diligence and other professional services firms in connection with the sale-leaseback transaction that marketed certain Company-owned restaurant properties. These transactions closed during fiscal 2019, refer to Note 3 - Sale Leaseback Transactions for further details.
- Lease guarantee charges (credits) during the fiscal year ended June 27, 2018 totaling \$1.9 million were recorded during fiscal 2018 related to the Macaroni Grill, a divested brand, which was in bankruptcy proceedings, for certain leases under which we were secondarily liable. Refer to Note 15 - Commitments and Contingencies for further details.
- Accelerated depreciation during the fiscal year ended June 27, 2018 totaling \$1.9 million was recorded primarily related to depreciation on certain leasehold improvements at the corporate headquarters property pursuant to the corporate relocation. We completed the relocation in fiscal 2019, refer to Note 3 - Sale Leaseback Transactions for further details.
- Remodel-related costs during the fiscal year ended June 27, 2018 totaling \$1.5 million were recorded related to existing fixed asset write-offs associated with the Chili's remodel project.
- Foreign currency transaction (gain) loss during the fiscal year ended June 27, 2018 relates to our sold equity interest in our Mexico joint venture that we received a note as consideration denominated in Mexican pesos which is re-measured to United States dollars at the end of each period resulting in a gain or loss from foreign currency exchange rate changes. For fiscal 2018 a net loss of \$1.2 million was recorded because the value of the Mexican peso decreased as compared to the United States dollar during the fiscal year. The sale of our equity interest resulted in a gain of \$0.2 million which was recorded within (Gain) on sale of assets, net and included the recognition of prior period foreign currency translation losses reclassified from AOCL. Refer to Note 4 - Equity Method Investment for further details.

Fiscal 2017

- During fiscal 2017, we completed a reorganization of the Chili's restaurant operations team and certain departments at the corporate headquarters to better align our staffing with the current management strategy and resource needs. This employee separation action resulted in severance charges and accelerated stock-based compensation expenses of \$6.6 million. All of the severance amounts were paid by the end of fiscal 2017.

- We recorded restaurant impairment charges of \$5.2 million primarily related to the long-lived assets and reacquired franchise rights of ten underperforming Chili's restaurants which will continue to operate. Refer to Note 11 - Fair Value Measurements for additional information. Additionally, we recorded restaurant closure charges of \$4.1 million primarily related to lease charges and other costs associated with closed restaurants.
- We incurred \$2.7 million of professional fees and severance associated with our information technology restructuring offset by a \$2.7 million gain on the sale of property. We also recorded accelerated depreciation charges of \$2.0 million related to long-lived assets to be disposed of and lease guarantee charges of \$1.1 million related to leases that were assigned to a divested brand. For additional lease guarantee disclosures, refer to Note 15 - Commitments and Contingencies.
- Other charges primarily include \$2.4 million of expenses for consulting fees related to a special project.

6. GOODWILL AND INTANGIBLES

There have been no impairments of Goodwill for the fiscal years ended June 26, 2019, June 27, 2018 and June 28, 2017. The changes in the carrying amount of Goodwill by segment are as follows:

	June 26, 2019			June 27, 2018		
	Chili's	Maggiano's	Consolidated	Chili's	Maggiano's	Consolidated
Balance at beginning of year	\$ 125.4	\$ 38.4	\$ 163.8	\$ 125.6	\$ 38.4	\$ 164.0
Changes in goodwill:						
Additions ⁽¹⁾	1.6	—	1.6	—	—	—
Foreign currency translation adjustment	0.1	—	0.1	(0.2)	—	(0.2)
Balance at end of year	\$ 127.1	\$ 38.4	\$ 165.5	\$ 125.4	\$ 38.4	\$ 163.8

- (1) During the fiscal year ended June 26, 2019, we acquired 3 domestic Chili's restaurants previously owned by franchise partners.

Intangible assets, net are as follows:

	June 26, 2019			June 27, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets						
Chili's reacquired franchise rights ⁽¹⁾	\$ 13.3	\$ (5.5)	\$ 7.8	\$ 13.6	\$ (4.4)	\$ 9.2
Chili's other	5.6	(1.5)	4.1	5.6	(1.3)	4.3
	\$ 18.9	\$ (7.0)	\$ 11.9	\$ 19.2	\$ (5.7)	\$ 13.5
Indefinite-lived intangible assets						
Chili's liquor licenses	\$ 9.5		\$ 9.5	\$ 9.6		\$ 9.6
Maggiano's liquor licenses	0.9		0.9	0.9		0.9
	\$ 10.4		\$ 10.4	\$ 10.5		\$ 10.5

- (1) We recorded an impairment charge of \$0.5 million during fiscal 2019, and \$1.5 million during fiscal 2018, in Other (gains) and charges in the Consolidated Statements of Comprehensive Income. Refer to Note 5 - Other Gains and Charges and Note 11 - Fair Value Measurements and for additional disclosures.

Additions of \$0.1 million during the fiscal year ended June 26, 2019 were recorded related to the reacquired franchise rights associated with the 3 acquired Chili's restaurants previously owned by franchise partners.

Foreign currency translation impact is included in the gross carrying amount and accumulated amortization, and was \$0.1 million and \$0.1 million for fiscal 2019 and fiscal 2018, respectively.

Amortization expenses for all definite-lived intangible assets was \$1.2 million, \$1.3 million and \$1.4 million in the fiscal years ended June 26, 2019, June 27, 2018, and June 28, 2017, respectively, recorded in Depreciation and amortization in the Consolidated Statements of Comprehensive Income. Annual amortization expenses for definite-lived intangible assets will approximate \$0.9 million for each of the next five fiscal years.

7. ACCRUED AND OTHER LIABILITIES

Other accrued liabilities consist of the following:

	June 26, 2019	June 27, 2018
Deferred liabilities and sale leaseback gains ⁽¹⁾	\$ 19.3	\$ 15.5
Insurance	17.9	17.8
Property tax	17.3	17.4
Dividends	14.9	16.3
Sales tax	14.6	14.2
Interest	7.5	7.8
Straight-line rent ⁽²⁾	5.1	5.2
Landlord contributions	2.7	2.7
Deferred franchise and development fees ⁽³⁾	1.4	—
Cyber security incident ⁽⁴⁾	0.8	1.4
Other ⁽⁵⁾	29.9	28.9
	<u>\$ 131.4</u>	<u>\$ 127.2</u>

- (1) Deferred liabilities and sale leaseback gains at June 26, 2019 relates to \$19.3 million for the current portion of the deferred gain related to the sale leaseback transactions executed during the fiscal year ended June 26, 2019. As of June 27, 2018, Deferred liabilities and sale leaseback gains primarily includes \$13.7 million related to the sale of our previous corporate headquarters location that was recognized during fiscal 2019. Refer to Note 3 - Sale Leaseback Transactions and Note 5 - Other Gains and Charges for further details.
- (2) Straight-line rent includes the current portion of the straight-line rent of operating leases. During the fiscal years ended June 26, 2019, June 27, 2018 and June 28, 2017, \$1.0 million of expenses, \$0.9 million of credit and \$0.5 million of credit, related to straight-line rent were recognized into Restaurant expenses in the Consolidated Statements of Comprehensive Income, respectively.
- (3) Deferred franchise and development fees relates to the current portion of upfront initial franchise and development fees recorded as part of adopting ASC 606. Refer to Note 2 - Revenue Recognition for further details, and the Other liabilities table below for the long-term portion of the deferred revenues.
- (4) Cyber security incident accrual relates to the fiscal 2018 event, refer to Note 15 - Commitments and Contingencies for further details.
- (5) Other primarily consists of accruals for certain lease reserves, utilities, banquet deposits for Maggiano's events, rent-related expenses and other various accruals.

Other liabilities consist of the following:

	June 26, 2019	June 27, 2018
Straight-line rent ⁽¹⁾	\$ 57.2	\$ 55.6
Insurance	36.8	40.1
Landlord contributions ⁽²⁾	32.9	23.3
Deferred franchise and development fees ⁽³⁾	14.8	—
Unfavorable leases	2.8	3.8
Unrecognized tax benefits	2.1	2.9
Other	6.4	6.0
	<u>\$ 153.0</u>	<u>\$ 131.7</u>

- (1) Straight-line rent is the long-term portion of the straight-line rent of operating leases. The June 26, 2019 balance includes \$2.8 million for the straight-line rent accrued for 152 restaurants sold as part of the sale leaseback transactions. Refer to Note 3 - Sale Leaseback Transactions for more details, and the above Other accrued liabilities table for the current portion of straight-line rent recorded.
- (2) Landlord contributions as of June 26, 2019 includes \$10.0 million related to the construction allowance associated with the new corporate headquarters location.
- (3) Deferred franchise and development fees relates to the long-term portion of upfront initial franchise and development fees recorded as part of adopting of ASC 606. Refer to Note 2 - Revenue Recognition for further details, and the Other accrued liabilities table above for the current portion of the deferred revenues.

8. INCOME TAXES

Income before provision for income taxes consists of the following:

	Fiscal Years Ended		
	June 26, 2019	June 27, 2018	June 28, 2017
Domestic	\$ 168.1	\$ 182.1	\$ 186.7
Foreign	3.7	(11.9)	21.8
Income before provision for income taxes	<u>\$ 171.8</u>	<u>\$ 170.2</u>	<u>\$ 208.5</u>

The provision for income taxes and effective tax rate consists of the following:

	Fiscal Years Ended		
	June 26, 2019	June 27, 2018	June 28, 2017
Current income tax expenses:			
Federal	\$ 63.3	\$ 28.7	\$ 64.4
State	28.8	12.2	13.4
Foreign	0.6	0.0	2.5
Total current income tax expenses	<u>92.7</u>	<u>40.9</u>	<u>80.3</u>
Deferred income tax (benefits) expenses:			
Federal	(58.5)	6.6	(19.6)
State	(18.0)	0.1	(3.1)
Foreign	0.7	(3.3)	0.1
Total deferred income tax (benefits) expenses	<u>(75.8)</u>	<u>3.4</u>	<u>(22.6)</u>
Provision for income taxes	<u>\$ 16.9</u>	<u>\$ 44.3</u>	<u>\$ 57.7</u>
Effective tax rate	9.8%	26.0%	27.7%

A reconciliation between the reported provision for income taxes and the amount computed by applying the statutory Federal income tax rate to Provision for income taxes is as follows:

	Fiscal Years Ended		
	June 26, 2019	June 27, 2018	June 28, 2017
Income tax expense at statutory rate	\$ 36.1	\$ 47.8	\$ 73.0
FICA tax credit	(28.2)	(22.6)	(20.7)
State income taxes, net of Federal benefit	8.5	8.7	5.9
Tax reform impact	—	8.2	—
Stock based compensation tax shortfall	0.5	1.1	—
Other	0.0	1.1	(0.5)
Provision for income taxes	<u>\$ 16.9</u>	<u>\$ 44.3</u>	<u>\$ 57.7</u>

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

	June 26, 2019	June 27, 2018
Deferred income tax assets:		
Leasing transactions	\$ 25.3	\$ 22.7
Stock-based compensation	9.9	9.1
Restructure charges and impairments	3.0	2.4
Insurance reserves	11.5	12.1
Employee benefit plans	0.0	0.1
Gift cards	12.3	15.1
Net operating losses	3.7	6.1
Federal credit carryover	9.0	10.7
State credit carryover	2.6	3.5
Deferred gain on sale leaseback transactions	68.6	—
Other, net	11.2	3.8
Less: Valuation allowance	(5.5)	(6.1)
Total deferred income tax assets	<u>151.6</u>	<u>79.5</u>
Deferred income tax liabilities:		
Prepaid expenses	13.6	13.5
Goodwill and other amortization	20.6	20.3
Depreciation and capitalized interest on property and equipment	4.3	11.1
Other, net	1.1	1.0
Total deferred income tax liabilities	<u>39.6</u>	<u>45.9</u>
Deferred income taxes, net	<u>\$ 112.0</u>	<u>\$ 33.6</u>

As of June 26, 2019, we have deferred tax assets of \$4.6 million reflecting the benefit of state loss carryforwards, before federal benefit and valuation allowance, which expire at various dates between fiscal 2020 and fiscal 2038. We have deferred tax assets of \$9.0 million of federal and \$3.3 million of state tax credits, before federal benefit and valuation allowance, which expire at various dates between fiscal 2024 and fiscal 2035. The recognized deferred tax asset for the state loss carryforwards is \$0.2 million and the federal tax credits is \$9.0 million. The federal credit carryover is limited by Section 382 of the Internal Revenue Code.

The valuation allowance decreased by \$0.6 million in fiscal 2019 to recognize certain state net operating loss benefits and state tax credits management believes are not more-likely-than-not to be realized. In assessing whether a deferred tax asset will be realized, we consider the likelihood of the realization, and the reversal of existing taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, as of June 26, 2019, we believe it is more-likely-than-not that we will realize the benefits of the deferred tax assets, net of the existing valuation allowances.

The Tax Cuts and Jobs Act of 2017 (the “Tax Act”) was enacted on December 22, 2017 with an effective date of January 1, 2018. The enactment date occurred prior to the end of the second quarter of fiscal 2018 and therefore the federal statutory tax rate changes stipulated by the Tax Act were reflected in the second quarter of fiscal 2018. The Tax Act lowered the federal statutory tax rate from 35.0% to 21.0% effective January 1, 2018. For the fiscal year ended June 26, 2019, our federal statutory tax rate was 21.0%. Our federal statutory tax rate for fiscal 2018 was 28.1%, representing a blended tax rate for the number of days in fiscal 2018 before and after the effective date. For the fiscal year ended June 28, 2017, our federal statutory tax rate was 35.0%. During the fiscal year ended June 27, 2018, in accordance with ASC 740, we re-measured our deferred tax accounts as of the enactment date using the new federal statutory tax rate and recognized the change as a discrete item in the Provision for income taxes, the adjustment was \$8.2 million.

A reconciliation of unrecognized tax benefits are as follows:

	June 26, 2019	June 27, 2018
Balance at beginning of year	\$ 3.9	\$ 4.1
Additions based on tax positions related to the current year	0.4	0.5
Additions based on tax positions related to prior years	—	—
Settlements with tax authorities	(0.1)	0.0
Expiration of statute of limitations	(0.7)	(0.7)
Balance at end of year	<u>\$ 3.5</u>	<u>\$ 3.9</u>

The total amount of unrecognized tax benefits, excluding interest and penalties, that would affect income tax expenses if resolved in our favor was \$2.7 million and \$3.1 million as of June 26, 2019 and June 27, 2018, respectively. We do not expect any material changes to our liability for uncertain tax positions during the next 12 months.

We recognize accrued interest and penalties related to unrecognized tax benefits in Provision for income taxes in the Consolidated Statements of Comprehensive Income. As of June 26, 2019, we had \$0.3 million (\$0.2 million net of a \$0.1 million Federal deferred tax benefit) of interest and penalties accrued, compared to \$0.5 million (\$0.4 million net of a \$0.1 million Federal deferred tax benefit) at June 27, 2018.

Our income tax returns are subject to examination by taxing authorities in the jurisdictions in which we operate. The periods subject to examination for our federal return are fiscal 2019 to fiscal 2020 and fiscal 2016 to fiscal 2019 for our Canadian returns. State income tax returns are generally subject to examination for a period of three to five years after filing. We have various state income tax returns in the process of examination or settlements. Our federal returns for fiscal 2019 and 2020 are currently under examination through the Internal Revenue Service: Compliance Assurance Process (CAP) program. There are no unrecorded liabilities associated with these examinations.

9. DEBT

Long-term debt consists of the following:

	June 26, 2019	June 27, 2018
Revolving credit facility	\$ 523.3	\$ 820.3
5.00% notes	350.0	350.0
3.875% notes	300.0	300.0
Capital lease obligations (refer to Note 10 - Leases)	48.4	43.0
Total long-term debt	1,221.7	1,513.3
Less unamortized debt issuance costs and discounts	(5.4)	(6.6)
Total long-term debt less unamortized debt issuance costs and discounts	1,216.3	1,506.7
Less current installment portion of long-term debt	(9.7)	(7.1)
Long-term debt, less current installments	\$ 1,206.6	\$ 1,499.6

Excluding capital lease obligations (refer to Note 10 - Leases) and interest, our long-term debt maturities for the five fiscal years following June 26, 2019 and thereafter are as follows:

	Long-Term Debt
2020	\$ —
2021	—
2022	523.3
2023	300.0
2024	—
Thereafter	350.0
	\$ 1,173.3

Revolving Credit Facility

During fiscal 2019, net repayments of \$297.0 million were made on the revolving credit facility primarily from the sale leaseback transactions, partially offset by share repurchases. As of June 26, 2019, \$476.7 million of credit was available under the revolving credit facility. During fiscal 2018, \$428.0 million was drawn on the revolving credit facility, which included the \$250.0 million utilized to repay the principal balance of the 2.60% notes that came due in May 2018.

In fiscal 2017, we amended the revolving credit facility to increase the borrowing capacity from \$750.0 million to \$1.0 billion. We capitalized debt issuance costs of \$4.0 million associated with the amendment of the revolving credit facility, which are included in Other assets in the Consolidated Balance Sheets as of June 26, 2019. Additionally, in fiscal 2018, an amendment to the revolving credit facility was executed to provide the ability to execute certain sale-leaseback transactions and to increase the restricted payment capacity. The related debt issuance costs of \$1.6 million are also included in Other assets in the Consolidated Balance Sheets as of June 26, 2019.

Under the amended \$1.0 billion revolving credit facility, the maturity date for \$890.0 million of the facility was extended from March 12, 2020 to September 12, 2021 and the remaining \$110.0 million remains due on March 12, 2020. The amended revolving credit facility generally bears interest of LIBOR plus an applicable margin, which is a function of our credit rating and debt to cash flow ratio, but is subject to a maximum of LIBOR plus 2.00%. For a period of 180 days following the fiscal 2018 amendment to the revolving credit facility that occurred in May 2018, we paid interest at a rate of LIBOR plus 1.70%. Effective October 2018, we resumed paying interest at a rate of LIBOR plus 1.38% for a total of 3.78% at June 26, 2019. One month LIBOR at June 26, 2019 was approximately

2.40%. LIBOR is set to terminate in December 2021, however our revolver will expire before this date and we anticipate any new financings will be at the applicable interest rates.

5.00% Notes

In fiscal 2017, we completed the private offering of \$350.0 million of our 5.00% senior notes due October 2024 (the “2024 Notes”). We received proceeds of \$350.0 million and utilized the proceeds to fund a \$300.0 million accelerated share repurchase agreement and to repay \$50.0 million on the amended \$1.0 billion revolving credit facility. The notes require semi-annual interest payments which began on April 1, 2017.

The indenture for the 2024 Notes contains certain covenants, including, but not limited to, limitations and restrictions on the ability of the Company and its Restricted Subsidiaries (as defined in the indenture) to (i) create liens on Principal Property (as defined in the Indenture) and (ii) merge, consolidate or amalgamate with or into any other person or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all of their property. These covenants are subject to a number of important conditions, qualifications, exceptions and limitations.

3.875% Notes

In fiscal 2013, we issued \$300.0 million of 3.875% notes due in May 2023. The notes require semi-annual interest payments which began in the second quarter of fiscal 2014.

Financial Covenants

Our debt agreements contain various financial covenants that, among other things, require the maintenance of certain leverage and fixed charge coverage ratios. The financial covenants were not significantly changed as a result of the new and amended debt agreements. We are currently in compliance with all financial covenants.

10. LEASES

Capital Leases

We lease certain buildings and equipment under capital leases. The building asset value of \$38.8 million and \$38.8 million and the related accumulated amortization of \$29.5 million and \$27.8 million at June 26, 2019 and June 27, 2018, respectively, are included in Buildings and leasehold improvements and Accumulated depreciation and amortization in the Consolidated Balance Sheets, respectively.

The technology and other restaurant equipment capital leases asset value of \$44.2 million and \$20.3 million, and the related accumulated amortization of \$21.8 million and \$5.1 million at June 26, 2019 and June 27, 2018, respectively, are included in Furniture and equipment and Accumulated depreciation and amortization in the Consolidated Balance Sheets, respectively.

Amortization expenses related to all assets under capital leases of \$8.7 million, \$5.6 million, and \$1.9 million for the fiscal years ended June 26, 2019, June 27, 2018, and June 28, 2017, respectively, was recorded in Depreciation and amortization in the Consolidated Statements of Comprehensive Income.

Operating Leases

We typically lease restaurant facilities and office space under operating leases. Rent expenses consists of the following:

	June 26, 2019	June 27, 2018	June 28, 2017
Straight-lined minimum rent	\$ 141.7	\$ 111.1	\$ 109.8
Contingent rent	3.3	3.2	3.8
Other	13.6	11.6	11.7
Total rent expenses	<u>\$ 158.6</u>	<u>\$ 125.9</u>	<u>\$ 125.3</u>

Effective fiscal 2020, we will adopt the new lease accounting standard that will bring right-of-use assets and related lease liabilities for operating leases onto the Consolidated Balance Sheets, among other adoption considerations. Refer to Note 18 - Effect of New Accounting Standards for further details on adoption.

Commitments

As of June 26, 2019, future minimum lease payments on both capital and operating leases were as follows:

Fiscal Year	Capital Leases	Operating Leases
2020	\$ 12.3	\$ 156.8
2021	10.1	154.5
2022	8.2	148.6
2023	6.7	137.7
2024	6.0	127.6
Thereafter	17.4	771.7
Total minimum lease payments ⁽¹⁾	60.7	\$ 1,496.9
Imputed interest (average rate of 6.18%)	(12.3)	
Present value of minimum lease payments	48.4	
Less current installments	(9.7)	
	<u>\$ 38.7</u>	

- ⁽¹⁾ Future minimum lease payments have not been reduced by minimum sublease rentals to be received in the future under non-cancelable subleases. The total of undiscounted future sublease rentals are approximately \$22.0 million and \$14.6 million for capital and operating subleases, respectively, as of June 26, 2019.

11. FAIR VALUE MEASUREMENTS

Non-Financial Assets Measured on a Non-Recurring Basis

We review the carrying amounts of property and equipment, reacquired franchise rights and transferable liquor licenses semi-annually or when events or circumstances indicate that the fair value may not substantially exceed the carrying amount. We record an impairment charge for the excess of the carrying amount over the fair value. All impairment charges were included in Other (gains) and charges in the Consolidated Statements of Comprehensive Income for the periods presented, refer to Note 5 - Other Gains and Charges for more information.

We determine the fair value of property and equipment and reacquired franchise rights based on discounted projected future cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the inherent risk that is considered Level 3. Refer to Note 1 - Nature of Operations and Summary of Significant Accounting Policies for definition of fair value levels.

Based on our fiscal 2019 semi-annual reviews, we impaired long-lived assets and reacquired franchise rights with carrying values of \$10.3 million and \$0.5 million, respectively, primarily related to eleven underperforming Chili's restaurants. We determined the leasehold improvements and other assets associated with the impaired restaurants had no fair value, based on Level 3 fair value measurements.

Based on our fiscal 2018 semi-annual reviews, long-lived assets and reacquired franchise rights with carrying values of \$3.7 million and \$0.3 million, respectively, primarily related to five underperforming restaurants, were determined to have a total fair value of \$0.3 million resulting in an impairment charge of \$3.7 million. Additionally during fiscal 2018, we impaired long-lived assets and reacquired franchise rights with carrying values of \$6.0 million and \$1.2 million, respectively, primarily related to nine underperforming Chili's restaurants located in Alberta, Canada which were identified for closure by management. We determined the leasehold improvements

and other assets associated with these Canada restaurants had no fair value, based on Level 3 fair value measurements, as the decision to close the restaurants in the second quarter of fiscal 2018 resulted in substantially all of the assets reverting to the landlords. This resulted in an impairment charge of \$7.2 million during fiscal 2018.

We determine the fair value of transferable liquor licenses based on prices in the open market for licenses in the same or similar jurisdictions that is considered Level 2. Based on our semi-annual review, during fiscal 2019 and fiscal 2018, we determined there was no impairment.

Other Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts because of the short maturity of these items. The carrying amount of debt outstanding related to the amended revolving credit facility approximates fair value as the interest rate on this instrument approximates current market rates (Level 2). The fair values of the 3.875% and 5.00% notes are based on quoted market prices and are considered Level 2 fair value measurements.

The 3.875% notes and 5.00% notes carrying amounts, which are net of unamortized debt issuance costs and discounts, and fair values are as follows, refer to Note 9 - Debt for further details:

	June 26, 2019		June 27, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
3.875% notes	\$ 298.6	\$ 296.3	\$ 298.2	\$ 285.3
5.00% notes	\$ 345.9	\$ 356.2	\$ 345.2	\$ 342.3

During fiscal 2018, we received an \$18.0 million long-term note receivable as consideration related to the sale of our equity interest in the Chili's joint venture in Mexico. We determined the fair value of this note based on an internally developed analysis relying on Level 3 inputs at inception. This analysis was based on a credit rating we assigned to the counterparty and comparable interest rates associated with similar debt instruments observed in the market. As a result of this analysis, we determined the fair value of this note was approximately \$16.0 million and recorded this fair value as its initial carrying value. We believe the fair value continues to approximate the note receivable carrying value, which as of June 26, 2019 was \$11.1 million. The current portion of the note represents cash payments to be received over the next 12 months and is included within Accounts receivable, net while the long-term portion of the note is included within Other assets in the Consolidated Balance Sheets. Refer to Note 4 - Equity Method Investment for further details about this note receivable.

Additionally, we have recorded certain lease obligations related to the previously divested Romano's Macaroni Grill restaurants. These lease obligations are based on Level 3 fair value measurements based on an estimate of the obligation associated with the lease locations, stated rent and other factors such as ability and probability of the landlord to mitigate damages by leasing to new tenants. Refer to Note 15 - Commitments and Contingencies for further details.

12. STOCK-BASED COMPENSATION

Our shareholders approved stock-based compensation plans including the Stock Option and Incentive Plan for employees ("Employee Plan") and the Stock Option and Incentive Plan for Non-Employee Directors and Consultants (collectively, and as may be amended, the "Plans"). The Plans provide for grants of options to purchase our common stock, restricted stock, restricted stock units, and stock appreciation rights. Additionally, grants to eligible employees may vest over a specified period of time or service period, or may contain performance-based conditions.

In fiscal 2019, our shareholders approved and we registered an additional 1.4 million shares of common stock of Brinker International, Inc. available for issuance under the Employee Plan. The total number of shares authorized for issuance to employees and non-employee directors and consultants under the Plans is currently 38.7 million.

Stock Options

In fiscal 2019 and fiscal 2018, certain eligible employees under the Plans were granted performance stock options whose vesting is contingent upon meeting Company performance goals based on our annual earnings at the end of fiscal 2021 and 2022. Expenses for performance stock options are recognized using a graded-vesting schedule over the vesting period based upon management's periodic estimates of the number of stock options that ultimately will vest. The options vest over a period of 4 to 5 years and have a contractual term to exercise of 8 years.

During fiscal 2019, we modified certain fiscal 2018 performance-based stock option awards and 0.2 million options were canceled. We subsequently granted fiscal 2019 performance-based stock option awards of 0.4 million options with a grant date fair value equivalent to the fair value of the canceled fiscal 2018 options as of the modification date. Vesting of the fiscal 2019 performance-based options is conditioned on achievement of the same performance targets and vest on the same schedule as the fiscal 2018 performance-based stock options. There is no incremental compensation cost as a result of this modification.

Stock options that do not contain a performance condition were also granted to eligible employees in fiscal 2019 and fiscal 2018, consistent with prior year grants. Expenses related to these stock options are 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 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.

Stock option transactions during fiscal 2019 were as follows (in millions, except option prices):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding at June 27, 2018	2.4	\$ 38.87		
Granted ⁽¹⁾	0.7	43.57		
Exercised	(0.1)	29.89		
Forfeited or canceled	(0.5)	35.17		
Options outstanding at June 26, 2019	2.5	\$ 41.33	5.3	\$ 6.6
Options exercisable at June 26, 2019	0.8	\$ 45.07	3.5	\$ 1.7

⁽¹⁾ There were 0.4 million performance stock options granted in fiscal 2019, all of which were outstanding at June 26, 2019.

At June 26, 2019, unrecognized compensation expenses related to stock options totaled approximately \$2.6 million and will be recognized over a weighted average period of 2.3 years. The intrinsic value of options exercised totaled approximately \$1.8 million, \$2.5 million and \$5.6 million for the fiscal years ended June 26, 2019, June 27, 2018, and June 28, 2017, respectively. The tax benefit realized on options exercised totaled approximately \$0.4 million, \$0.6 million and \$1.6 million for the fiscal years ended June 26, 2019, June 27, 2018, and June 28, 2017, respectively.

Restricted Share Awards

Restricted share awards consist of performance shares, restricted stock and restricted stock units. Eligible employees under the Plans were granted performance shares whose vesting is contingent upon meeting Company performance goals based on our rate of earnings growth at the end of a three-fiscal-year period. Expenses are recognized ratably over the vesting period, or to the date on which retirement eligibility is achieved, if shorter, based upon management's periodic estimates of the number of shares that ultimately will be issued.

Restricted stock units granted to eligible employees under the Plans generally vest in full on the third anniversary of the date of grant. Restricted stock units issued to eligible employees under our career equity plan generally vest upon each employee's retirement from the Company. Expenses are recognized ratably over the vesting period, or to the date on which retirement eligibility is achieved, if shorter. 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.

Restricted share awards and restricted stock units granted 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. The non-employee directors' awards are non-forfeitable and are expensed upon grant.

Restricted share awards during fiscal 2019 were as follows (in millions, except fair values):

	Number of Restricted Share Awards	Weighted Average Grant Date Fair Value Per Award
Restricted share awards outstanding at June 27, 2018	1.0	\$ 39.80
Granted	0.3	43.51
Vested	(0.2)	46.53
Forfeited	(0.1)	38.08
Restricted share awards outstanding at June 26, 2019	1.0	\$ 39.48

At June 26, 2019, unrecognized compensation expenses related to restricted share awards totaled approximately \$8.6 million and will be recognized over a weighted average period of 1.8 years. The fair value of shares that vested totaled approximately \$8.6 million, \$4.3 million and \$12.8 million, for the fiscal years ended June 26, 2019, June 27, 2018, and June 28, 2017, respectively.

13. SAVINGS PLAN

We sponsor a qualified defined contribution retirement plan covering all employees who have attained the age of 21, and have completed 1 year and 1,000 hours of service. Eligible employees are allowed 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 what an employee contributes at a rate of 100% of the first 3% and 50% of the next 2% with immediate vesting. For the fiscal years ended June 26, 2019, June 27, 2018, and June 28, 2017, we contributed approximately \$9.6 million, \$9.2 million and \$8.9 million, respectively, to the defined contribution plan.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for income taxes and interest is as follows:

	Fiscal Years Ended		
	June 26, 2019	June 27, 2018	June 28, 2017
Income taxes, net of refunds ⁽¹⁾	\$ 106.2	\$ 56.0	\$ 89.0
Interest, net of amounts capitalized	55.5	53.1	39.8

⁽¹⁾ Income taxes, net of refunds for the fiscal year ended June 26, 2019 included payments made for income tax liabilities resulting from the sale leaseback transactions completed in fiscal 2019. Refer to Note 3 - Sale Leaseback Transactions and Note 8 - Income Taxes for further details.

Non-cash investing and financing activities are as follows:

	Fiscal Years Ended		
	June 26, 2019	June 27, 2018	June 28, 2017
Retirement of fully depreciated assets	\$ 28.9	\$ 32.9	\$ 21.2
Dividends declared but not paid	15.6	17.0	17.3
Accrued capital expenditures	9.3	11.3	12.7
Capital lease additions	15.1	7.9	11.7

15. COMMITMENTS AND CONTINGENCIES

Lease Commitments and Guarantees

We have, in certain cases, divested brands or sold restaurants to franchisees and have not been released from lease guarantees or lease liability for the related restaurants. As of June 26, 2019 and June 27, 2018, we have outstanding lease guarantees or are secondarily liable for \$55.3 million and \$58.2 million, respectively. These amounts represent the maximum potential liability of future payments under the leases. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from fiscal 2020 through fiscal 2028. In the event of default under a lease by a franchisee or owner of a divested brand, the indemnity and default clauses in our agreements with such third parties and applicable laws govern our ability to pursue and recover amounts we may pay on behalf of such parties.

During fiscal 2018, Mac Acquisition LLC, the owner of Romano's Macaroni Grill restaurants, filed for Chapter 11 bankruptcy protection that was concluded during fiscal 2019. We had outstanding lease guarantees or are secondarily liable for certain of its leases rejected in bankruptcy. As of June 27, 2018, \$1.4 million was recorded in Other accrued liabilities in the Consolidated Balance Sheets based on our analysis of the potential obligations. Refer to Note 5 - Other Gains and Charges for more details. We paid \$0.9 million during the fiscal year ended June 26, 2019 to settle the obligations of two of the leases rejected in the Mac Acquisition, LLC bankruptcy proceeding. We do not expect additional leases to be rejected because the period for doing so in the bankruptcy period concluded and Mac Acquisition, LLC's plan for reorganization in the bankruptcy proceeding was confirmed. As such, as of June 26, 2019 no amount was recorded in Other accrued liabilities in the Consolidated Balance Sheets based on our analysis of the potential obligations.

We will continue to monitor leases for which we have outstanding guarantees or are secondarily liable to assess the likelihood of any incremental losses. No other liabilities related to this matter have been recorded as of June 26, 2019.

Letters of Credit

We provide letters of credit to various insurers to collateralize obligations for outstanding claims. As of June 26, 2019, we had \$29.0 million in undrawn standby letters of credit outstanding. All standby letters of credit are renewable within the next 3 to 12 months.

Cyber Security Incident

On May 12, 2018, we issued a public statement that malware had been discovered at certain Chili's restaurants that resulted in unauthorized access or acquisition of customer payment card data. We engaged third-party forensic firms and cooperated with law enforcement to investigate the matter. Based on the investigation of our third-party forensic experts, we believe most Company-owned Chili's restaurants were impacted by the malware during time frames that vary by restaurant, but we believe in each case began no earlier than March 21, 2018 and ended no later than April 22, 2018.

We expect to incur significant legal and professional services expenses associated with the cyber security incident in future periods, which could be material. We will recognize these expenses as services are received. Related to

this incident, payment card companies and associations may request us to reimburse them for unauthorized card charges and costs to replace cards and may also impose fines or penalties in connection with the cyber security incident, and regulatory authorities may also impose fines or other remedies against us. While we do not acknowledge responsibility to pay any such amounts imposed by any third parties, we may become obligated to pay such amounts or incur significant related settlement costs. We will record an estimate for losses at the time when it is both probable that a loss has been incurred and the amount of the loss is reasonably estimable.

To limit our exposure to cyber security events, we maintain cyber liability insurance coverage. This coverage and certain other insurance coverage may reduce our exposure for this incident. Our cyber liability insurance policy contains a \$2.0 million retention that was fully accrued during fiscal 2018. Since the incident, through June 26, 2019, we have incurred costs of \$4.2 million related to the cyber security incident. This includes the \$2.0 million retention recorded in fiscal 2018, an additional \$0.4 million for expenses not believed to be covered by our insurance coverage recorded to Other (gains) and charges in the Consolidated Statements of Comprehensive Income during the fiscal year ended June 26, 2019, and \$1.8 million of receivable for costs incurred that we believe are reimbursable and probable of recovery under our insurance coverage.

The Company was named as a defendant in putative class action lawsuits in the United States District Court for the Middle District of Florida, the United States District Court for the District of Nevada, and two in the United States District Court for the Central District of California, filed on May 24, 2018, May 30, 2018, June 14, 2018, and June 28, 2018, respectively (collectively, the "Litigation") relating to the cyber security incident described above. In the Litigation, plaintiffs assert various claims stemming from the cyber security incident at the Company's Chili's restaurants involving customer payment card information and seek monetary damages in excess of \$5.0 million, injunctive and declaratory relief and attorney's fees and costs. Since the initial filing of these cases, the Nevada plaintiff voluntarily dismissed this case and joined the Florida lawsuit. Counsel for all parties subsequently agreed to the transfer of the California cases to Florida, and they have been consolidated into a single matter with the case already pending there. On January 4, 2019, we filed a motion to dismiss all of plaintiffs' claims asserting that plaintiffs do not have standing to bring the lawsuit and that plaintiffs have failed to state a claim on which relief can be granted. Following completion of briefing by the parties, the court conducted a hearing on our motion on June 24, 2019. On August 1, 2019, the court granted our motion to dismiss for lack of standing as to two plaintiffs and denied the motion as to the remaining plaintiffs. The court deferred its ruling on our argument that plaintiffs failed to state a claim on which relief could be granted pending further briefing. In the meantime, the parties are engaging in written discovery and the exchange of documents. We believe we have defenses and intend to defend the Litigation. As such, as of June 26, 2019, we have concluded that a loss from this matter is not determinable, therefore, we have not recorded a liability related to the Litigation. We will continue to evaluate this matter based on new information as it becomes available.

Legal Proceedings

Evaluating contingencies related to litigation is a complex process involving subjective judgment on the potential outcome of future events, and the ultimate resolution of litigated claims may differ from our current analysis. Accordingly, we review the adequacy of accruals and disclosures pertaining to litigated matters each quarter in consultation with legal counsel and we assess the probability and range of possible losses associated with contingencies for potential accrual in the Consolidated Financial Statements.

We are engaged in various legal proceedings and have certain unresolved claims pending. Liabilities 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 the consolidated financial condition or results of operations.

16. SEGMENT INFORMATION

Our operating segments are Chili's and Maggiano's. The Chili's segment includes the results of our Company-owned Chili's restaurants in the United States and Canada as well as the results from our domestic and international franchise business. The Maggiano's segment includes the results of our Company-owned Maggiano's restaurants, and the first franchise location opened during fiscal 2019, all located in the United States. We do not rely on any major customers as a source of sales, and the customers and long-lived assets of our operating segments are predominantly in the United States. There were no material transactions amongst our operating segments.

Presented in the below fiscal 2019 table, we have disaggregated revenues by operating segment and major source. Revenues are presented in two separate captions in the Consolidated Statements of Comprehensive Income to provide more clarity around Company-owned restaurant revenues and operating expenses trends: Company sales and Franchise and other revenues. Company sales include revenues generated by the operation of Company-owned restaurants including gift card redemptions. Franchise and other revenues include:

- Royalties from franchises
- Franchise fees and other revenues include royalties, advertising fees (effective fiscal 2019), Maggiano's banquet service charge income, gift card breakage, digital entertainment revenues, gift card equalization, delivery fee income, franchise and development fees, retail royalty revenues, merchandise income, and gift card discount costs from third-party gift card sales

Our chief operating decision maker uses operating income as the measure for assessing performance of our segments. Operating income includes revenues and expenses directly attributable to segment-level results of operations. Company restaurant expenses include food and beverage costs, restaurant labor costs and restaurant expenses, including advertising expenses. The following tables reconcile our segment results to the consolidated results reported in accordance with GAAP:

	Fiscal Year Ended June 26, 2019			
	ASC 606			
	Chili's	Maggiano's	Other	Consolidated
Company sales	\$ 2,692.6	\$ 413.6	\$ —	\$ 3,106.2
Royalties	52.8	0.3	—	53.1
Franchise fees and other revenues ⁽¹⁾	36.8	21.8	—	58.6
Franchise and other revenues	89.6	22.1	—	111.7
Total revenues	2,782.2	435.7	—	3,217.9
Company restaurant expenses ⁽¹⁾	2,329.6	364.8	0.6	2,695.0
Depreciation and amortization	120.1	16.2	11.3	147.6
General and administrative	38.7	6.1	104.3	149.1
Other gains and charges ⁽²⁾	(6.4)	1.0	0.9	(4.5)
Total operating costs and expenses	2,482.0	388.1	117.1	2,987.2
Operating income (loss)	300.2	47.6	(117.1)	230.7
Interest expense	3.2	0.3	58.1	61.6
Other, net	—	—	(2.7)	(2.7)
Income (loss) before provision for income taxes	\$ 297.0	\$ 47.3	\$ (172.5)	\$ 171.8
Segment assets ⁽²⁾	\$ 1,002.8	\$ 163.9	\$ 91.6	\$ 1,258.3
Payments for property and equipment	129.1	10.8	27.7	167.6

Fiscal Year Ended June 27, 2018

	Legacy GAAP			
	Chili's	Maggiano's	Other	Consolidated
Company sales	\$ 2,628.3	\$ 413.2	\$ —	\$ 3,041.5
Franchise and other revenues	71.9	22.0	—	93.9
Total revenues	2,700.2	435.2	—	3,135.4
Company restaurant expenses ⁽¹⁾	2,224.0	362.8	0.6	2,587.4
Depreciation and amortization	125.0	15.9	10.5	151.4
General and administrative	39.6	5.5	90.9	136.0
Other gains and charges	24.5	1.1	8.9	34.5
Total operating costs and expenses	2,413.1	385.3	110.9	2,909.3
Operating income (loss)	287.1	49.9	(110.9)	226.1
Interest expense	—	—	59.0	59.0
Other, net	—	—	(3.1)	(3.1)
Income (loss) before provision for income taxes	\$ 287.1	\$ 49.9	\$ (166.8)	\$ 170.2
Segment assets	\$ 1,122.2	\$ 151.0	\$ 74.1	\$ 1,347.3
Payments for property and equipment	85.3	7.6	8.4	101.3

Fiscal Year Ended June 28, 2017

	Legacy GAAP			
	Chili's	Maggiano's	Other	Consolidated
Company sales	\$ 2,653.3	\$ 409.2	\$ —	\$ 3,062.5
Franchise and other revenues	66.7	21.6	—	88.3
Total revenues	2,720.0	430.8	—	3,150.8
Company restaurant expenses ⁽¹⁾	2,220.6	361.7	0.4	2,582.7
Depreciation and amortization	129.3	16.2	10.9	156.4
General and administrative	37.0	6.2	89.6	132.8
Other gains and charges	13.2	0.8	8.7	22.7
Total operating costs and expenses	2,400.1	384.9	109.6	2,894.6
Operating income (loss)	319.9	45.9	(109.6)	256.2
Interest expense	—	—	49.6	49.6
Other, net	—	—	(1.9)	(1.9)
Income (loss) before provision for income taxes	\$ 319.9	\$ 45.9	\$ (157.3)	\$ 208.5
Payments for property and equipment	\$ 76.0	\$ 13.3	\$ 13.3	\$ 102.6

- ⁽¹⁾ Company restaurant expenses includes Cost of sales, Restaurant labor and Restaurant expenses, including advertising. With the adoption of ASC 606, for the fiscal year ended June 26, 2019, advertising contributions received from Chili's franchisees are recorded as Franchise fees and other revenues within Total revenues, which differs from the fiscal years ended June 27, 2018 and June 28, 2017 that includes Chili's franchise advertising contributions recorded on a net basis within Company restaurant expenses.

- (2) During the fiscal year ended June 26, 2019 we completed sale leaseback transactions of 151 Chili's restaurant properties, and one Maggiano's property. As part of this transaction, we sold the related restaurant fixed assets, net of accumulated depreciation, totaling \$185.3 million. Additionally, Chili's recognized \$26.8 million, and Maggiano's recognized \$0.5 million of net gain on the sale, that consists of the immediate gain recognized upon sale, a certain portion of the deferred gain, partially offset by related transaction costs incurred in Other (gains) and charges in the Consolidated Statements of Comprehensive Income. Refer to Note 3 - Sale Leaseback Transactions for further details.

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following tables summarize the unaudited consolidated quarterly results of operations for fiscal 2019 and fiscal 2018 (in millions, except per share amounts):

	Fiscal Year Ended June 26, 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 753.8	\$ 790.7	\$ 839.3	\$ 834.1
Income before provision for income taxes	\$ 32.1	\$ 35.0	\$ 55.5	\$ 49.2
Net income	\$ 26.4	\$ 32.0	\$ 49.8	\$ 46.7
Basic net income per share	\$ 0.65	\$ 0.84	\$ 1.33	\$ 1.25
Diluted net income per share	\$ 0.64	\$ 0.83	\$ 1.31	\$ 1.22
Basic weighted average shares outstanding	40.4	38.1	37.5	37.5
Diluted weighted average shares outstanding	41.1	38.8	38.1	38.3

	Fiscal Year Ended June 27, 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 739.4	\$ 766.4	\$ 812.5	\$ 817.1
Income before provision for income taxes	\$ 15.2	\$ 41.1	\$ 58.9	\$ 55.0
Net income	\$ 9.9	\$ 25.3	\$ 46.9	\$ 43.8
Basic net income per share	\$ 0.20	\$ 0.55	\$ 1.03	\$ 1.03
Diluted net income per share	\$ 0.20	\$ 0.54	\$ 1.02	\$ 1.01
Basic weighted average shares outstanding	48.3	46.4	45.4	42.6
Diluted weighted average shares outstanding	48.7	46.9	46.0	43.5

Fiscal 2019

Net income for fiscal 2019 included:

- Sale leaseback transactions gains of \$20.1 million, \$4.6 million, \$4.7 million, and \$5.8 million were recognized in the first, second, third, and fourth quarters of fiscal 2019, respectively. The related sale leaseback transaction charges of \$6.8 million, \$0.2 million, \$0.4 million, and \$0.5 million were recorded in the first, second, third, and fourth quarters of fiscal 2019, respectively, related to legal, accounting, and other consulting fees.
- Gains on the sale of property of \$0.8 million, \$6.0 million, and \$0.1 million were recorded in the second, third, and fourth quarters of fiscal 2019, respectively.
- Foreign currency transaction gains of \$0.8 million, \$0.5 million, and \$0.2 million were recorded in the first, third, and fourth quarters of fiscal 2019, respectively, and foreign currency transaction losses of \$0.7 million were recorded in the second quarter of fiscal 2019.
- Insurance recoveries, net of property damages of \$0.8 million and \$0.2 million were recorded in the first and fourth quarters of fiscal 2019, respectively, and net property damages of \$0.2 million and \$0.1 million were recorded in the second and third quarters of fiscal 2019, respectively.

- Lease guarantee credits of \$0.4 million were recorded in the fourth quarter of fiscal 2019.
- Restaurant impairment charges of \$1.0 million, and \$9.8 million were recorded in the second, and fourth quarters of fiscal 2019, respectively.
- Remodel-related costs of \$0.5 million, \$2.6 million, \$1.7 million, and \$2.9 million were recorded in the first, second, third, and fourth quarters of fiscal 2019, respectively.
- Corporate headquarter relocation charges of \$5.2 million and \$0.1 million were recorded in the third and fourth quarters of fiscal 2019.
- Restaurant closure charges related to additional lease and other costs were recorded of \$1.7 million, \$2.1 million, \$0.2 million, and \$0.3 million in the first, second, third, and fourth quarters of fiscal 2019, respectively.
- Accelerated depreciation related to long-lived assets to be disposed of \$0.5 million was recorded in both the first and second quarters of fiscal 2019, respectively.
- Severance charges of \$0.1 million, \$0.1 million and \$0.7 million were recorded in the first, second and fourth quarter of fiscal 2019, respectively.
- Cyber security incident charges of \$0.4 million were recorded in the first quarter of fiscal 2019.

Fiscal 2018

Net income for fiscal 2018 included:

- Restaurant impairment charges of \$7.2 million, \$2.0 million, and \$1.8 million in the first, second, and fourth quarters of fiscal 2018, respectively.
- Closed restaurant lease and other costs associated with closed restaurants of \$0.2 million, \$4.3 million, \$2.8 million, and \$0.2 million in the first, second, third, and fourth quarters of fiscal 2018, respectively.
- Hurricane related costs, net of recoveries of \$4.6 million, \$0.6 million and \$0.2 million, and net recoveries of \$0.4 million were recorded in the first, second, third, and fourth quarters of fiscal 2018, respectively.
- Cyber security incident charges related to professional services of \$2.0 million were recorded in the fourth quarter of fiscal 2018.
- Sale leaseback transaction charges of \$2.0 million were recorded in the fourth quarter of fiscal 2018 related to legal, accounting, and other consulting fees.
- Lease guarantee charges of \$1.4 million and \$0.5 million were recorded in the second and third quarters of fiscal 2018, respectively.
- Accelerated depreciation related to long-lived assets to be disposed of \$0.5 million was recorded in each quarter of fiscal 2018.
- Remodel-related costs of \$1.4 million were recorded in the fourth quarter of fiscal 2018.
- Foreign currency transaction losses of \$0.9 million and \$1.2 million were recorded in the second and fourth quarters of fiscal 2018, respectively, and foreign currency transaction gains of \$0.9 million were recorded in the third quarter of fiscal 2018.
- Gains on the sale of property of \$0.3 million were recorded in the second quarter of fiscal 2018.
- Severance charges of \$0.3 million in the fourth quarter of fiscal 2018.

18. EFFECT OF NEW ACCOUNTING STANDARDS

ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement - In August 2018, the FASB issued ASU 2018-13, which modifies the

disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The amendments under ASU 2018-13 add an incremental requirement, among others, for entities to disclose (1) the range and weighted average used to develop significant unobservable inputs and (2) how the weighted average was calculated for fair value measurements categorized within Level 3 of the fair value hierarchy. Entities may disclose other quantitative information in lieu of the weighted average if they determine that such information embodies a more reasonable and rational method of reflecting the distribution of significant unobservable inputs used to develop Level 3 fair value measurements. The new guidance is effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, which will require us to adopt these provisions in the first quarter of fiscal 2021. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

ASU 2016-02, Leases (Topic 842) - In February 2016, the FASB issued ASU 2016-02, and has subsequently amended this update by issuing additional ASU's that provide clarification and further guidance around areas identified as potential implementation issues. These updates require a lessee to recognize in the balance sheet a liability to make lease payments and a corresponding right-of-use asset for virtually all leases, other than leases with a term of 12 months or less if the short-term lease exclusion expedient is elected. The update also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. The updates are effective for annual and interim periods for fiscal years beginning after December 15, 2018, which will require us to adopt these provisions in the first quarter of fiscal 2020. Early adoption is permitted for financial statements that have not been previously issued.

The guidance provides an option upon adoption of either a modified retrospective transition approach with application in all comparative periods presented, or an alternative transition method, which permits a company to use its effective date as the date of initial application without restating comparative period financial statements (effective date transition method). We expect to implement the standard using the effective date transition method and elect the package of practical expedients under which we will not reassess the classification of our existing leases, whether any expired or existing contracts are or contain leases or whether any previously capitalized initial direct costs would qualify for capitalization under the new guidance. Additionally, we expect to elect lessee and lessor practical expedients to not separate non-lease components, such as common area maintenance and property taxes, from lease components. We also anticipate electing the short-term lease exemption from balance sheet recognition for all leases that qualify, and the land easement practical expedient that allows entities to elect not to assess whether existing land easements are, or contain, leases in accordance with ASC 842 when transitioning to the new leasing standard. We do not expect to elect the hindsight practical expedient that permits a reassessment of lease terms for existing leases.

We have completed the final phase of a comprehensive plan for our implementation of the new guidance, including scoping analysis, data gathering, and implementation of a new lease accounting system.

Upon transition to the new guidance, based on our current volume of leases, we expect this adoption to have a material increase in Total assets and Total liabilities due to the recognition of right-of-use assets and related lease liabilities in the Consolidated Balance Sheets for operating leases where we are the lessee. We do not expect adoption will have a significant impact on the Consolidated Statements of Comprehensive Income or Consolidated Statements of Cash Flows. We have existing capital leases that will be treated as finance leases upon adoption. Additionally, as disclosed in Note 10—Leases, the Company has approximately \$1,496.9 million in undiscounted future minimum operating lease commitments as of June 26, 2019.

Upon adoption, the Company's lease liability will generally be based on the present value of the operating lease payments and the related right-of-use asset will generally be based on the lease liability, adjusted for amounts reclassified from other lease-related assets and liabilities, as specified by the new lease guidance, and impairment of certain right-of-use assets recognized in retained earnings. We anticipate recognizing additional lease liabilities of approximately \$1.2 billion and corresponding right-of-use assets of approximately \$1.0 billion. The amounts of

right-of-use assets and lease liabilities we ultimately recognize may differ from these estimates as we finalize the calculations upon adoption.

Additionally upon adoption, we will record an initial adjustment to retained earnings to derecognize the deferred gain from the sale leaseback transactions using the cumulative effect transition method, and will no longer recognize the amortization of this gain to Other gains and charges in the Consolidated Statements of Comprehensive Income starting in fiscal 2020. For any future sale leaseback transactions, the gain (adjusted for any off-market terms) will be recognized immediately in most cases. As of June 26, 2019, we had \$274.6 million recorded in Other accrued liabilities (current portion) and Deferred gain on sale leaseback transactions (long-term portion), and the related \$68.6 million in Deferred income taxes, net in the Consolidated Balance Sheets, refer to Note 3 - Sale Leaseback Transactions for further details.

19. SUBSEQUENT EVENTS

Dividend Declaration

On August 12, 2019, our Board of Directors declared a quarterly dividend of \$0.38 per share to be paid on September 26, 2019 to shareholders of record as of September 6, 2019.

Share Repurchases

We repurchased approximately 0.3 million shares of our common stock for \$10.0 million subsequent to the end of the fiscal year.

Revolver Net Payments

Additionally, net borrowings of \$8.0 million were drawn on the revolving credit facility subsequent to the end of the fiscal year.

Chili's Restaurant Acquisition

In the fourth quarter of fiscal 2019, we executed a letter of intent to acquire 116 Chili's restaurants owned by ERJ Dining, a franchisee, located in the Midwest United States. The closing of this transaction is expected to occur in the first quarter of fiscal 2020. We plan to integrate the acquired restaurants into our Chili's operations structure. The purchase price will be funded with availability under our existing revolving credit facility. The results of operations of these restaurants are expected to be included in the consolidated financial statements from the date of acquisition beginning in fiscal 2020. We will evaluate the fair value of the assets and liabilities of the acquired restaurants through internal studies and third-party valuations and upon transaction completion, we expect to complete a preliminary purchase price allocation in the first quarter of fiscal 2020.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Brinker International, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Brinker International, Inc. and subsidiaries (the Company) as of June 26, 2019 and June 27, 2018, the related consolidated statements of comprehensive income, shareholders' deficit, and cash flows for each of the years in the three-year period ended June 26, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 26, 2019 and June 27, 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended June 26, 2019, 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) (PCAOB), the Company's internal control over financial reporting as of June 26, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated August 22, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Notes 1 and 2 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition on June 28, 2018, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1984.

Dallas, Texas

August 22, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Brinker International, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Brinker International, Inc. and subsidiaries' (the Company) internal control over financial reporting as of June 26, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 26, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of June 26, 2019 and June 27, 2018, the related consolidated statements of comprehensive income, shareholders' deficit, and cash flows for each of the years in the three-year period ended June 26, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated August 22, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ KPMG LLP

Dallas, Texas

August 22, 2019

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The 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 consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- 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
- 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.

We have assessed the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) 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 26, 2019.

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

The effectiveness of our internal control over financial reporting as of June 26, 2019 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

Date: August 22, 2019

By: /s/ WYMAN T. ROBERTS
Wyman T. Roberts,
*President and Chief Executive Officer
and President of Chili's Grill & Bar
(Principal Executive Officer)*

Date: August 22, 2019

By: /s/ JOSEPH G. TAYLOR
Joseph G. Taylor,
*Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)*

**BRINKER INTERNATIONAL, INC., A DELAWARE CORPORATION
SUBSIDIARIES**

BI INTERNATIONAL SERVICES, LLC, a Delaware limited liability company
BI MEXICO HOLDING CORPORATION, a Delaware corporation
BRINKER RESTAURANT CORPORATION, a Virginia corporation
BRINKER INTERNATIONAL PAYROLL COMPANY, L.P., a Delaware limited partnership
BRINKER AIRPORTS, LLC, a Delaware limited liability company
BRINKER ALABAMA, INC., a Virginia corporation
BRINKER ARKANSAS, INC., a Virginia corporation
BRINKER ASIA, INC., a British Virgin Islands corporation
BRINKER BRAZIL, LLC, a Delaware limited liability company
BRINKER CB, LP, a Texas limited partnership
BRINKER CB MANAGEMENT, LLC, a Delaware limited liability company
BRINKER CANADIAN HOLDING CO., ULC, a British Columbia unlimited liability company
BRINKER CANADIAN RESTAURANT CO., ULC, a British Columbia unlimited liability company
BRINKER FHC B.V., a Netherlands private company
BRINKER FLORIDA, INC., a Virginia corporation
BRINKER FREEHOLD, INC., a New Jersey corporation
BRINKER GEORGIA, INC., a Virginia corporation
BRINKER LOUISIANA, INC., a Virginia corporation
BRINKER MICHIGAN, INC., a Virginia corporation
BRINKER MISSISSIPPI, INC., a Virginia corporation
BRINKER MISSOURI, INC., a Virginia corporation
BRINKER NEVADA, INC., a Nevada corporation
BRINKER NEW JERSEY, INC., a Virginia corporation
BRINKER NORTH CAROLINA, INC., a Virginia 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 Virginia corporation
BRINKER OPCO, LLC, a Virginia limited liability company
BRINKER PENN TRUST, a Pennsylvania business trust
BRINKER PROPCO FLORIDA, INC., a Delaware corporation
BRINKER PROPERTY CORPORATIN, a Delaware corporation
BRINKER PURCHASING, INC., a Delaware corporation
BRINKER RHODE ISLAND, INC., a Rhode Island corporation
BRINKER SERVICES CORPORATION, a Virginia corporation
BRINKER SOUTH CAROLINA, INC., a Virginia corporation
BRINKER TEXAS, INC., a Virginia corporation
BRINKER VIRGINIA, INC., a Virginia 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 Virginia corporation
MAGGIANO'S OF ANNAPOLIS, INC., a Maryland corporation
MAGGIANO'S OF HOWARD COUNTY, INC., a Maryland corporation
MAGGIANO'S OF KANSAS, INC., a Kansas corporation

MAGGIANO'S OF TYSON'S, INC., a Virginia corporation
MAGGIANO'S PROPERTY CORPORATION, a Delaware corporation
MAGGIANO'S TEXAS, INC., a Virginia corporation
PEPPER DINING HOLDING CORP., a Virginia corporation
PEPPER DINING, INC., a Virginia corporation
PEPPER DINING VERMONT, INC., a Vermont corporation
BIPC GLOBAL PAYROLL COMPANY, LLC, a Delaware limited liability company
BIPC MANAGEMENT, LLC, a Delaware limited liability company
BIPC INVESTMENTS, LLC, a Delaware limited liability company

Consent of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Brinker International, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-93755, 333-105720, 333-125289, 333-157050, 333-201929, and 333-230574) on Form S-8 and registration statement (No. 333-188252) on Form S-3 of Brinker International, Inc. of our reports dated August 22, 2019, with respect to the consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 26, 2019 and June 27, 2018, and the related consolidated statements of comprehensive income, shareholders' deficit, and cash flows for each of the years in the three-year period ended June 26, 2019, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of June 26, 2019, which reports appear in the June 26, 2019 annual report on Form 10-K of Brinker International, Inc.

Our report refers to a change of accounting for revenue recognition on June 28, 2018, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*.

/s/ KPMG LLP

Dallas, Texas

August 22, 2019

CERTIFICATION

I, Wyman T. Roberts, 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 accepted 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 22, 2019

/s/ WYMAN T. ROBERTS

Wyman T. Roberts,
*President and Chief Executive Officer
and President of Chili's Grill & Bar
(Principal Executive Officer)*

CERTIFICATION

I, Joseph G. Taylor, 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 accepted 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 22, 2019

/s/ JOSEPH G. TAYLOR
Joseph G. Taylor,
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting 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 26, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) 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 22, 2019

By: /s/ WYMAN T. ROBERTS
Name: Wyman T. Roberts,
Title: *President and Chief Executive Officer
and President of Chili’s Grill & Bar
(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 26, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) 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 22, 2019

By: /s/ JOSEPH G. TAYLOR
Name: Joseph G. Taylor,
Title: *Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)*

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BOARD OF DIRECTORS

John W. Chidsey
Former Executive Board Member
TopTech Holdings, LLC

Cynthia (Cindy) L. Davis
Former Executive
Nike Inc. and Nike Golf

Joseph M. DePinto
Chairman of the Board, Brinker International, Inc.
President and Chief Executive Officer
7-Eleven, Inc.

Harriet Edelman
Special Advisor to the Chairman
Emigrant Bank

Michael A. George
President and Chief Executive Officer
Qurate Retail, Inc.

William T. Giles
Chief Financial Officer and Executive Vice President,
Finance and Information Technology
AutoZone

James C. Katzman
Former Partner
Goldman Sachs

George R. Mrkonich
Non-Executive Chairman
MARU Group

Prashant N. Ranade
Mentor for Leaders
Atos Syntel

Wyman T. Roberts
President and Chief Executive Officer
Brinker International, Inc.

EXECUTIVE OFFICERS

Wyman T. Roberts
President and Chief Executive Officer and
President of Chili's Grill & Bar

Wade R. Allen
Senior Vice President and Chief Digital Officer

Richard A. Badgley
Executive Vice President and Chief Administrative Officer

Kelly C. Baltes
Executive Vice President and President of Maggiano's
Little Italy

Douglas N. Comings
Senior Vice President and Chief Operating Officer for
Chili's Grill & Bar

Eleanor B. Doty
Senior Vice President and Chief Marketing Officer for
Chili's Grill & Bar

Charles A. Lousignont
Senior Vice President and Chief Supply Chain Officer

Steve D. Provost
Executive Vice President, Chief Concept Officer for Chili's
Grill & Bar

Joseph G. Taylor
Executive Vice President and Chief Financial Officer

SHAREHOLDER INFORMATION

Principal Executive Office
Brinker International, Inc.
3000 Olympus Blvd.
Dallas, TX 75019
(972) 980-9917

Annual Meeting
Wednesday, November 20, 2019 at 9:00 a.m.
Brinker International, Inc.
3000 Olympus Blvd.
Dallas, TX 75019

Independent Public Accountants
KPMG LLP
717 N. Harwood, Suite 3100
Dallas, TX 75201

NYSE Symbol: **EAT**

Stock Transfer Agent And Registrar

Computershare
P.O. Box 505008
Louisville, KY 40233-9814

or

Meidinger Tower
462 S. 4th Street
Louisville, KY 40202
Customer Service (800) 213-5156
TDD for Hearing Impaired (800) 231-5469
Foreign Shareowners (201) 680-6578
You can now access your Brinker Shareholder Account
online via
Investor Centre at www.computershare.com

10-K Availability

The company will furnish to any shareholder, without charge, a copy of the company's annual report filed with the Securities and Exchange Commission on Form 10-K for the 2019 fiscal year from our website at: www.brinker.com or upon written request from the shareholder.

Please send your written request to:
Secretary/Investor Relations
Brinker International, Inc.
3000 Olympus Blvd.
Dallas, TX 75019

CEO/CFO Certifications

On November 16, 2018, the company submitted its annual Section 303A CEO certification to the New York Stock Exchange.

The company also filed the CEO and CFO certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 with the Securities and Exchange Commission as exhibits to its Annual Report on Form 10-K for the year ended June 26, 2019.

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