

**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 25, 2014

Commission File No. 1-10275

BRINKER INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

75-1914582

(I.R.S. Employer
Identification No.)

6820 LBJ Freeway, Dallas, Texas

(Address of principal executive offices)

75240

(Zip Code)

(972) 980-9917

(Registrant's telephone number, including area code)

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

Title of Each Class

Common Stock, \$0.10 par value

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$2,981,803,247.

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 11, 2014</u>
Common Stock, \$0.10 par value	64,617,734 shares

DOCUMENTS INCORPORATED BY REFERENCE

We have incorporated portions of our Annual Report to Shareholders for the fiscal year ended June 25, 2014 into Part II hereof, to the extent indicated herein. We have also incorporated by reference portions of our Proxy Statement for our annual meeting of shareholders on October 30, 2014, to be dated on or about September 15, 2014, into Part III hereof, to the extent indicated herein.

PART I

Item 1. BUSINESS.

General

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

We own, develop, operate and franchise the Chili’s Grill & Bar (“Chili’s”) and Maggiano’s Little Italy (“Maggiano’s”) restaurant brands. The Company was organized under the laws of the State of Delaware in September 1983 to succeed to the business operated by Chili’s, Inc., a Texas corporation, which was organized in August 1977. We completed the acquisition of Maggiano’s in August 1995.

Restaurant Brands

Chili’s Grill & Bar

Chili’s, a recognized leader in the Bar & Grill category of casual dining, has been operating restaurants for 39 years. Chili’s also enjoys a global presence with locations in 31 countries, including two U.S. territories, around the world. Consistent in all locations, whether domestic or international and company-owned or franchised, More Life Happens Here around every table, every day. Chili’s passion is making our guests feel special. Our Team Members, referred to as ChiliHeads, take special pride in proudly serving America’s Favorites Like No Place Else.

Chili’s varied menu features America’s favorites boldly flavored and freshly prepared, including several signature items such as Baby Back Ribs smoked in-house, Big Mouth Burgers, Signature Sizzling Fajitas, hand-battered Chicken Crispers and house-made Chips and Salsa. This year, Chili’s introduced our Fresh Mex category with new flavorful baked enchiladas and Fresh Mex bowls. The all-day menu offers our guests a generous selection of appetizers, entrees and desserts at affordable prices. Special lunch combos are available on weekdays. In addition to our flavorful food options, Chili’s offers a full selection of alcoholic beverages available from the bar, with Margaritas and draft beer being favorites of our guests. For guests seeking convenience, Chili’s offers To Go service that can be ordered on-line, via mobile app, or by calling the restaurant. Most Chili’s offer a separate To Go entrance for quick service.

During the year ended June 25, 2014, at our company-owned restaurants, entrée selections ranged in menu price from \$6.00 to \$17.69. The average revenue per meal, including alcoholic beverages, was approximately \$14.31 per person. During this same year, food and non-alcoholic beverage sales constituted approximately 85.9% of Chili’s total restaurant revenues, with alcoholic beverage sales accounting for the remaining 14.1%. Our average annual sales volume per Chili’s restaurant during this same year was \$3.1 million.

Maggiano’s Little Italy

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

During the year ended June 25, 2014, entrée selections ranged in menu price from \$12.95 to \$42.50. The average revenue per meal, including alcoholic beverages, was approximately \$26.72 per person. During this same year, food and non-alcoholic beverage sales constituted approximately 83.0% of Maggiano’s total restaurant revenues, with alcoholic beverage sales accounting for the remaining 17.0%. Sales from events at our banquet facilities made up 19.4% of our total restaurant revenues for the year. Our average annual sales volume per Maggiano’s restaurant during this same year was \$8.81 million.

Business Strategy

We are committed to strategies and initiatives that are centered on long-term sales and profit growth, enhancing the guest experience and team member engagement. These strategies are intended to differentiate our brands from the competition, reduce the costs associated with managing our restaurants and establish a strong presence for our brands in key markets around the world.

Key economic indicators such as total employment, spending levels and consumer confidence continued to improve steadily this fiscal year; however, the casual dining industry has continued to experience soft sales and traffic. Historically low interest rates have diverted consumer discretionary spending to bigger ticket items and housing. U.S. economic growth subsequent to the recession has been steady; however, wage growth has been slow. This slow recovery has challenged the restaurant industry and consumers since 2009 and as a result, our strategies and initiatives have been developed to provide a solid foundation for earnings growth going forward and are appropriate for all operating conditions.

Our current initiatives are designed to drive profitable sales and traffic growth and improve the guest experience in our restaurants. We have invested in upgraded kitchen equipment, operations software and reimage initiatives as components of our strategy.

The upgraded kitchen equipment has enabled us to provide a higher quality product at a faster pace, enhancing both profitability and customer satisfaction. We believe the usability and efficiency of the equipment will result in substantial labor savings over time. Also, the flexibility of our equipment allows for the development of new menu categories that we believe will provide opportunities for sales and customer traffic growth.

All company-owned Chili's and Maggiano's restaurants are now operating with an integrated point of sale and back office software system that was designed to enhance the efficiency of our restaurant operations and reporting capabilities. Timely and more detailed reporting in our restaurants has improved inventory and labor management while reducing software maintenance costs. Additionally, our management team will have more timely visibility into operating performance and trends which will enhance decision making and improve profitability.

We have also leveraged technology initiatives to drive traffic and enhance the guest experience in our restaurants. All company-owned Chili's restaurants are now outfitted with Ziosk table top devices which gives us the largest network of tabletop devices in the country. Ziosk is a multi-functional tablet which provides entertainment, ordering, guest survey and pay at the table capabilities. We plan to build on this momentum by investing in additional technology initiatives including upgrades to our on-line ordering and mobile platforms. We will also launch a loyalty program at Chili's in fiscal 2015 which will utilize Ziosk and provide us an opportunity to interact with our guests on a more personal basis.

We have reimaged approximately 80 percent of our company-owned Chili's restaurants. We plan to complete this program in our company-owned restaurants by end of fiscal 2015, and continue to work with our franchisees to reimage their restaurants. The reimage design is intended to revitalize Chili's in a way which enhances the relevance of the brand and raises customer expectations regarding the quality of the experience. The design is contemporary while staying true to the Chili's brand heritage. We believe that these updates will positively impact the customer perception of the restaurant in both the dining room and bar areas and provide a long-term positive impact to traffic and sales. In addition to our reimage initiative, we intend to grow our brands by opening restaurants in strategically desirable markets.

We continually evaluate our menu at Chili's to improve quality, freshness and value by introducing new items and improving existing favorites. We introduced the new Fresh Mex platform this year, upgraded some of our current offerings and added a variety of new entrees. New menu items include the Mix and Match Fajitas, Santa Fe Quesadillas and the Bacon Avocado Chicken sandwich, which remains the best-selling sandwich on our menu. Our \$20 dinner for two and lunch combo offerings, which continue to drive traffic and provide our customers an excellent value, have been refreshed with new menu items including Pork Carnitas Fajitas and the updated Grilled Chicken Fajitas. We will continually seek opportunities to reinforce value and create interest for Chili's with new and varied offerings to further enhance sales and drive incremental traffic. We are committed to offering a compelling everyday menu that provides items our customers prefer at a solid value. Chili's also introduced a new line of Chili's branded frozen entrees at the end of fiscal 2014 and is now available domestically in over 13,000 retail locations.

Improvements at Chili's will have the most significant impact on the business; however, our results also benefit through additional contributions from Maggiano's and our global business. Maggiano's continues to deliver sales growth and has opened two restaurants this year based on a new prototype, excluding banquet space. This new prototype will allow the brand to enter new markets that were not suitable for the existing model. Maggiano's offers a compelling menu and great value with On the House Classic Pasta, Marco's Meal and the new Stuffed Pasta entrees. A new lighter version of Maggiano's traditional menu items will be offered beginning in September. We will continue to strengthen the brand's business model with kitchen efficiency and inventory controls that we believe will continue to enhance profitability.

Global expansion allows further diversification which will enable us to build strength in a variety of markets and economic conditions. This expansion will come through acquisitions, franchise relationships, joint venture arrangements and equity investments, taking advantage of demographic and eating trends which we believe will accelerate in the international market over the next decade. We completed the acquisition of 11 Chili's restaurants in Alberta, Canada at the end of last fiscal year and are excited about the potential growth for the Chili's brand in Canada. Thirty-two new international Chili's restaurants were opened this year and we plan on opening another 35 to 39 international restaurants in the upcoming fiscal year. Our growing franchise operations both domestically and internationally enable us to improve margins as royalty payments impact the bottom line.

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

Company Development

In fulfilling our long-term vision, over the past fiscal year we continued the expansion of our restaurant brands domestically through a select number of new company-owned restaurants in strategically desirable markets. We will concentrate on the development of certain identified markets to achieve the necessary levels to improve our competitive position, 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.

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; 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 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 system-wide restaurants opened in fiscal 2014 and the planned openings in fiscal 2015:

	Fiscal 2014 Openings(1)	Fiscal 2015 Projected Openings
Chili's:		
Company-owned	10	8 - 10
Franchise(2)	2	5
Maggiano's	2	4
International:		
Company-owned(3)	3	1
Franchise(3)	29	34 - 38
Total	46	52 - 58

(1) The numbers in this column are the total of new restaurant openings and openings of relocated restaurants during fiscal 2014.

(2) The numbers on this line for fiscal 2015 are projected domestic franchise openings.

(3) The numbers on this line are for Chili's.

We periodically re-evaluate company-owned restaurant sites to ensure attributes have not deteriorated below our minimum standards. In the event site deterioration occurs, each brand makes a concerted effort to improve the restaurant's performance by providing physical, operating and marketing enhancements unique to each restaurant's situation. If efforts to restore the restaurant's performance to acceptable minimum standards are unsuccessful, the brand considers relocation to a proximate, more desirable site, or evaluates closing the restaurant if the brand's measurement criteria, such as return on investment and area demographic trends, do not support relocation. We closed eight company-owned restaurants in fiscal 2014. We perform a comprehensive analysis that examines restaurants not performing at a required rate of return. These closed restaurants were generally performing below our standards or were near or at the expiration of their lease term. Our strategic plan is targeted to support our long-term growth objectives, with a focus on continued development of those restaurant 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 will maintain expansion through our franchisees and joint venture partners.

As part of our strategy to expand through our franchisees, our franchise operations (domestically and internationally) increased in fiscal 2014. The following table illustrates the percentages of franchise operations as of June 25, 2014 for the Company and by restaurant brand, respectively:

	Percentage of Franchise Operated Restaurants		
	Domestic(1)	International(2)	Overall(3)
Brinker	33%	95%	45%
Chili's	35%	95%	47%
Maggiano's	—%	—%	—%

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

Domestic

Domestic expansion is also focused on growing our number of franchised restaurants. We are accomplishing this through existing, new or renewed development obligations with new or existing franchisees. In addition, we have from time to time also sold and may sell company-owned restaurants to our franchisees (new or existing). As of June 25, 2014, nine total domestic development arrangements existed. A typical domestic franchise development agreement provides for payment of development and initial franchise fees in addition to subsequent royalty and advertising fees based on the gross sales of each restaurant. We expect future domestic franchise development agreements to remain limited to enterprises having significant experience as restaurant operators and proven financial ability to support and develop multi-unit operations.

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

During the year ended June 25, 2014, our domestic franchisees opened two Chili's restaurants.

International

We continue our international growth through development agreements with new and existing franchisees and joint venture partners, introducing Chili's to new countries and expanding the brand within our existing markets. As of June 25, 2014, we had 22 total development arrangements. During fiscal year 2014, our international franchisees and joint venture partners opened 29 Chili's restaurants. In the same year, we entered into new development agreements with franchisees for development in Kuwait for five Chili's Express restaurants and Tunisia for five Chili's restaurants. We also entered into a new development agreement with one of our existing franchisees for development in Mexico City and certain surrounding Mexican states for 17 additional Chili's restaurants. Following the end of our fiscal year 2014, we also entered into a new development agreement with a franchisee for development in Morocco for five Chili's restaurants.

As we develop Chili's internationally, we will selectively pursue expansion through various means, including franchising, joint ventures and acquisitions. Similar to our domestic franchise agreements, a typical international franchise development agreement provides the vehicle for payment of development fees and franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. We expect future development agreements to remain limited to enterprises who demonstrate a proven track record as a restaurant operator and showcase financial strength that can support a multi-unit development agreement, as well as, in some instances, multi-brand operations.

During the year ended June 25, 2014, we opened three company-owned Chili's restaurants, two in Mexico City and one in Alberta, Canada.

Restaurant Management

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

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

We believe 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 turnover of managers and team members that is below industry averages.

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

Supply Chain

Our ability to maintain consistent quality and continuity of supply throughout each restaurant brand depends upon acquiring products from reliable sources. Our pre-approved suppliers and our restaurants are required to adhere to strict product and safety specifications established through our quality assurance and culinary programs. These requirements ensure 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 protein products, we do require our suppliers to adhere to humane processing standards for their respective industries and encourage them to evaluate new technologies for food safety and humane processing improvements. Due to the relatively rapid turnover of perishable food products, inventories in the restaurants, which consists primarily of food, beverages and supplies, have a modest aggregate dollar value in relation to revenues. Internationally, our franchisees and joint venture operations may encounter cultural and regulatory differences resulting in variances with product specifications for international restaurant locations.

Advertising and Marketing

Our brands generally target the 25 to 59 year-old age group, which constitutes approximately 47 percent of the United States population. It is our belief that these consumers value the benefits of the casual dining category for multiple meal occasions. Brinker has launched several brand initiatives aimed at making both brands more relevant for today's evolving consumer. From restaurant reimages designed to provide a more comfortable, up-to-date environment, to new kitchen equipment and procedures that deliver a more consistent food experience, to food innovation with quality ingredients, made with care and attractively presented, to brand messaging that leverages the unique connections each brand has with its guests. We engage with our target groups, through a mix of national television, digital, radio, print, outdoor, online advertising, as well as mail (direct and electronic), and social media with each of our restaurant brands utilizing one or more of these mediums to meet their communication strategy and budget.

Our 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 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 must first be approved by us.

Team Members

As of June 25, 2014, we employed approximately 55,586 team members, of which 614 were restaurant support center personnel in Dallas, and 4,023 were restaurant area directors, managers, or trainees. The remaining 51,949 were employed in non-management restaurant positions. Our executive officers have an average of 22 years of experience in the restaurant industry.

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

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

Trademarks

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

Available Information

We maintain an internet website with the address of <http://www.brinker.com>. You may obtain, free of charge, at our website, copies of our reports filed with, or furnished to, the Securities and Exchange Commission (the "SEC") on Forms 10-K, 10-Q and 8-K. Any amendments to such reports are also available for viewing and copying at our internet website. These reports will be available as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC. In addition, you may view and obtain, free of charge, at our website, copies of our corporate governance materials, including, Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Governance and Nominating Committee Charter, Code of Conduct and Ethical Business Policy, and Problem Resolution Procedure/Whistle Blower Policy.

Item 1A. RISK FACTORS.

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

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

Risks Related to Our Business

Competition may adversely affect our operations and financial results.

The restaurant business is highly competitive as to price, service, restaurant location, nutritional and dietary trends and food quality, and is often affected by changes in consumer tastes, economic conditions, population and traffic patterns. We compete within each market with locally-owned restaurants as well as national and regional restaurant chains, some of which operate more restaurants and have greater financial resources and longer operating histories than ours. Despite a slowly rebounding U.S. employment market, there is active competition for quality management personnel and hourly team members. We continue to face competition as a result of several factors, including quick service and fast casual restaurants also offering high quality food and beverage offerings, the convergence in grocery, deli and restaurant services, including the grocery industry offering of convenient meals in the form of improved entrees and side dishes. We compete primarily on the quality, variety and value perception of menu

items, as well as the quality and efficiency of service, the attractiveness of facilities and the effectiveness of advertising and marketing programs.

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

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

The slow global economic recovery continues to impact consumer discretionary spending and a continued and prolonged economic recovery could result in declines in consumer discretionary spending materially affecting our financial performance in the future.

The restaurant industry is dependent upon consumer discretionary spending. Consumer confidence has not fully recovered from prior lows impacting the public's ability and/or desire to spend discretionary dollars as a result of significantly limited job availability, slow recovering home values, limited investment gains in the financial markets and continued reduced access to credit. Economic headwinds were encountered in fiscal 2014, including increased personal income taxes and payroll taxes. Economic improvement in the restaurant industry continues to come from cost savings initiatives as well as our success to improve the guest experience within our existing restaurant locations. If this current slow economic recovery continues for a prolonged period of time and/or deepens in magnitude returning to the negative trends of the prior years, our business, results of operations and ability to comply with the covenants under our credit facility could be materially affected. Leading economic indicators such as employment and consumer confidence remain challenged and are only showing meaningful improvement towards the end of fiscal 2014. Deterioration in guest traffic and/or a reduction in the average amount guests spend in our restaurants will negatively impact our revenues. This will also result in lower royalties collected, sales deleverage, spreading fixed costs across a lower level of sales, and in turn, cause downward pressure on our profitability. The result could be further reductions in staff levels, asset impairment charges and potential restaurant closures.

Future slow global economic recovery or recessionary effects on us are unknown at this time and could have a potential material adverse affect on our financial position and results of operations. There is no assurance that the government's plan to restore fiscal responsibility or future plans to stimulate the economy will foster growth in consumer confidence, stabilize the financial markets, increase liquidity and the availability of credit, or result in lower unemployment.

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

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

Inflation may increase our operating expenses.

We have experienced impact from inflation. Inflation has caused added food, labor and benefits costs and increased our operating expenses. As operating expenses rise, we, to the extent permitted by competition, recover costs by raising menu prices,

or by reviewing, then implementing, alternative products or processes, or other 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.

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

We are subject to the Fair Labor Standards Act (which governs such matters as minimum wages, overtime and other working conditions), along with the Americans with Disabilities Act, the Immigration Reform and Control Act of 1986, various family leave mandates and a variety of other laws enacted, or rules and regulations promulgated by federal, state and local governmental authorities that govern these and other employment matters, including, tip credits, working conditions, safety standards and immigration status. We have experienced and continue to expect adjustments in payroll expenses as a result of federal and state mandated increases in the minimum wage; we cannot be certain there will be no additional significant increases in the future. Enactment and enforcement of various federal, state and local laws, rules and regulations on immigration and labor organizations may adversely impact the availability and costs of labor for our restaurants in a particular area or across the United States. Other labor shortages or increased team member turnover could also increase labor costs. In addition, our 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. We continue to review the Affordable Care Act and regulations issued related to the law to evaluate the potential impact of this law on our business, and to accommodate various parts of the law as they take effect. There are no assurances that a combination of cost management and price increases can accommodate all of the costs associated with compliance.

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

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

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

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

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

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

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, drought and hurricanes; the inability of our suppliers to obtain credit in a tight credit market; food safety warnings or advisories or the prospect of such pronouncements; or other conditions beyond our control, could adversely affect the availability, quality and cost of items we buy and the operations of our restaurants. Our inability to effectively manage supply chain risk could increase our costs and limit the availability of products critical to our restaurant operations.

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

We evaluate potential franchisees of new and existing restaurants and joint venture investments, as well as mergers, acquisitions and divestitures, as part of our strategic planning initiative. These transactions involve various inherent risks, including accurately assessing:

- the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of franchise and joint venture partner candidates;
- our ability to achieve projected economic and operating synergies; and
- unanticipated changes in business and economic conditions affecting an acquired business or the completion of a divestiture.

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

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

- increase gross sales and operating profits at existing restaurants with food and beverage options and high quality service desired by our guests through successful implementation of strategic initiatives;
- identify adequate sources of capital to fund and finance strategic initiatives, including reimagining of existing restaurants, new restaurant development and new equipment;
- identify available, suitable and economically viable locations for new restaurants;
- obtain all required governmental permits (including zoning approvals and liquor licenses) on a timely basis;
- hire all necessary contractors and subcontractors, obtain construction materials at suitable prices, and maintain construction schedules; and
- hire and train or retain qualified managers and team members for existing and new restaurants.

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

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

Additionally our international franchisees and joint venture partners are subject to risks not encountered by our domestic franchisees. These risks include:

- difficulties in achieving consistency of product quality and service as compared to U.S. 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, social and political conditions.

Our sales volumes generally decrease in winter months in North America.

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

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

Multi-unit restaurant businesses can be adversely affected by publicity resulting from poor food quality, illness or health concerns or operating issues stemming from one or a limited number of restaurants. In particular, since we depend heavily on the Chili's brand for a majority of our revenues, unfavorable publicity relating to one or more Chili's restaurants could have a material adverse effect on the Chili's brand, and consequently on our business, financial condition and results of operations. The speed at which negative publicity (whether or not accurate) can be disseminated has increased dramatically with the capabilities of electronic communication, including social media. 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.

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. 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. 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.

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. A security breach or cyber attack could include theft of credit card data or other personal information as well as our intellectual property. Significant capital investments might be required to remediate any problems.

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

We receive and maintain certain personal information about our guests and teammates. The use of this information by us is regulated at the federal and state levels, as well as by certain third party contracts. If we or our business associates fail to comply with these laws and regulations or our information systems are compromised as a result of a cyber attack or any other failure it could adversely and materially affect our reputation, as well as operations, results of operations and financial condition, and could result in litigation against us or the imposition of penalties. As privacy and information security laws and regulations change or cyber risks evolve pertaining to this data, we may incur additional costs to ensure we remain in compliance.

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

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

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

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

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

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

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

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

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

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

Other risk factors may adversely affect our financial performance.

Other risk factors that could cause our actual results to differ materially from those indicated in the forward-looking statements by affecting, among many things, pricing, consumer spending and consumer confidence, include, without limitation, changes in economic conditions and financial and credit markets (including rising interest rates and costs for consumers and reduced disposable income); credit availability; increased costs of food commodities; increased fuel costs and availability for our team members, customers and suppliers; increased health care costs; health epidemics or pandemics or the prospects of these events; consumer perceptions of food safety; changes in consumer tastes and behaviors; governmental monetary policies; changes in demographic

trends; availability of employees; terrorist acts; energy shortages and rolling blackouts; and weather (including, major hurricanes and regional winter storms) and other acts of God.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

Restaurant Locations

At June 25, 2014, our system of company-owned and franchised restaurants included 1,615 restaurants located in 50 states and Washington, D.C. We also have restaurants in the U.S. territories of Guam and Puerto Rico and the countries of Bahrain, Canada, Columbia, Costa Rica, Dominican Republic, Ecuador, Egypt, El Salvador, Germany, Guatemala, Honduras, India, Indonesia, Japan, Jordan, Kuwait, Lebanon, Malaysia, Mexico, Oman, Peru, Philippines, Qatar, Saudi Arabia, Singapore, South Korea, Taiwan, United Arab Emirates and Venezuela. We have provided you a breakdown of our portfolio of restaurants in the two tables below:

Table 1: Company-owned vs. franchise (by brand) as of June 25, 2014:

Chili's	
Company-owned (domestic)	824
Company-owned (international)	14
Franchise	731
Maggiano's	
Company-owned	46
Total	1,615

Table 2: Domestic vs. foreign locations (by brand) as of June 25, 2014 (company-owned and franchised):

	Domestic (No. of States)	Foreign (No. of countries and territories)
Chili's	1,262(50)	307(31)
Maggiano's	46(21 & D.C.)	—

Restaurant Property Information

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

	Chili's	Maggiano's
Square Feet	3,930-6,000	7,700-24,000
Dining Seats	150-252	200-700
Dining Tables	35-54	35-150

The leases typically provide for a fixed rental plus percentage rentals based on sales volume. At June 25, 2014, we owned the land and building for 189 of our 884 company-owned restaurant locations (domestic and international). For these 189 restaurant locations, the net book value for the land was \$143 million and for the buildings was \$120 million. For the remaining 695 restaurant locations leased by us, the net book value of the buildings and leasehold improvements was \$526 million. The 695 leased restaurant locations can be categorized as follows: 549 are ground leases (where we lease land only, but own the building) and 146 are retail leases (where we lease the land/retail space and building). We believe that our properties are suitable, adequate, well-maintained and sufficient for the operations contemplated. Some of our leased restaurants are leased for an initial lease term of five to 30 years, with renewal terms of one to 35 years.

Other Properties

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

Item 3. LEGAL PROCEEDINGS.

The aggregate litigation reserves of approximately \$39.5 million established in the fourth quarter of fiscal 2014 are based on the terms set forth in the applicable agreements and our reasonable expectations regarding future events. 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.

In August 2004, certain current and former hourly restaurant team members filed a putative class action lawsuit against us in California Superior Court alleging violations of California labor laws with respect to meal periods and rest breaks. The lawsuit sought penalties and attorney's fees and was certified as a class action by the trial court in July 2006. In July 2008, the California Court of Appeal decertified the class action on all claims with prejudice. In October 2008, the California Supreme Court granted a writ to review the decision of the Court of Appeal and oral arguments were heard by the California Supreme Court on November 8, 2011. On April 12, 2012, the California Supreme Court issued an opinion affirming in part, reversing in part, and remanding in part for further proceedings. The California Supreme Court's opinion resolved many of the legal standards for meal periods and rest breaks in our California restaurants. On September 26, 2013, the trial court granted plaintiffs' motion to certify a meal period subclass and denied our motion to decertify the rest period subclass.

On April 8, 2014, the parties participated in mediation where preliminary settlement discussions began, but a settlement was not achieved and significant issues remained outstanding. On August 6, 2014, the parties reached a preliminary settlement agreement, which remains subject to court approval, to resolve all claims in exchange for a settlement payment not to exceed \$56.5 million. We established a reserve of approximately \$39.0 million related to this pending class action litigation, but the actual amount of any settlement payment could vary from our reserve and will be subject to many factors including approval by the court, claims process, and other matters typically associated with the potential settlement of complex class action litigation.

We are engaged in various other legal proceedings and have certain unresolved claims pending. Reserves have been established based on our best estimates of our potential liability in certain of these matters. We are of the opinion that, apart from the discussion above, there are no matters pending or threatened which are likely to have a material adverse effect, individually or in the aggregate, on our consolidated financial condition or results of operations.

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”. Bid prices quoted represent interdealer prices without adjustment for retail markup, markdown and/or commissions, and may not necessarily represent actual transactions. The following table sets forth the quarterly high and low closing sales prices of the common stock, as reported by the NYSE.

Fiscal year ended June 25, 2014:

	High	Low
First Quarter	\$ 43.74	\$ 38.19
Second Quarter	\$ 47.37	\$ 38.87
Third Quarter	\$ 55.00	\$ 44.77
Fourth Quarter	\$ 53.55	\$ 48.04

Fiscal year ended June 26, 2013:

	High	Low
First Quarter	\$ 35.98	\$ 30.62
Second Quarter	\$ 35.30	\$ 28.71
Third Quarter	\$ 37.07	\$ 30.39
Fourth Quarter	\$ 41.60	\$ 37.25

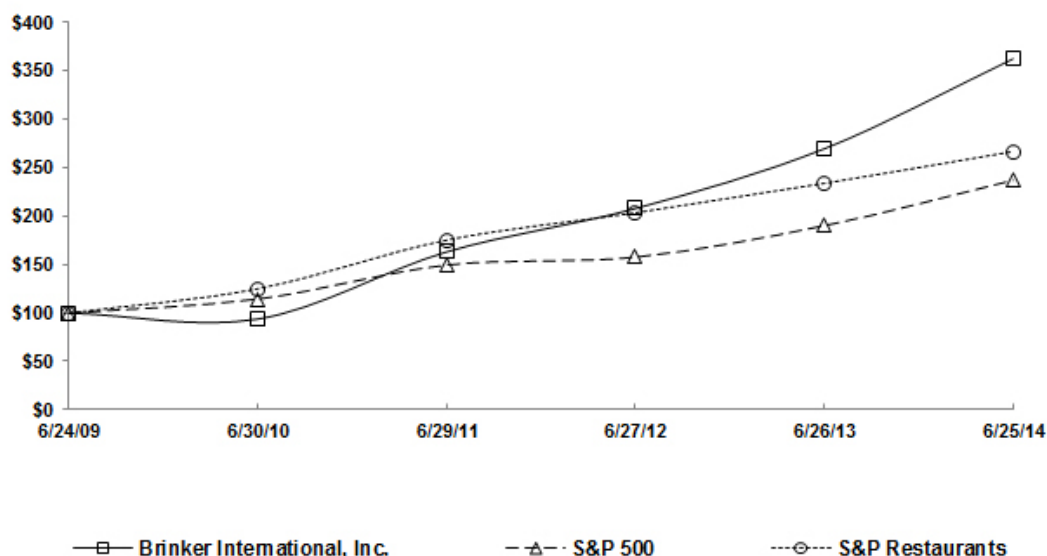
As of August 11, 2014, there were 547 holders of record of our common stock.

During the fiscal year ended June 25, 2014, we continued to declare quarterly cash dividends for our shareholders. We have set forth the dividends declared for the fiscal year in the following table on the specified dates:

Dividend Per Share of Common Stock	Declaration Date	Record Date	Payment Date
\$0.24	August 22, 2013	September 6, 2013	September 26, 2013
\$0.24	November 7, 2013	December 6, 2013	December 26, 2013
\$0.24	February 6, 2014	March 7, 2014	March 27, 2014
\$0.24	May 29, 2014	June 13, 2014	June 26, 2014

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 6/30/09 in stock or index, including reinvestment of dividends.
Fiscal year ending June 30.

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The graph assumes a \$100 initial investment and the reinvestment of dividends in our stock and each of the indexes on June 24, 2009 and its relative performance is tracked through June 25, 2014. The values shown are neither indicative nor determinative of future performance.

	2009	2010	2011	2012	2013	2014
Brinker International	\$ 100.00	\$ 93.74	\$ 163.11	\$ 207.88	\$ 269.56	\$ 362.47
S&P 500	\$ 100.00	\$ 114.43	\$ 149.55	\$ 157.70	\$ 190.18	\$ 236.98
S&P Restaurants(1)	\$ 100.00	\$ 125.12	\$ 175.31	\$ 203.54	\$ 233.94	\$ 266.69

(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.

In May 2013, the Company issued \$250.0 million in the aggregate principal amount at maturity of 2.600% Notes due 2018 (the "2018 Notes") and \$300.0 million in the aggregate principal amount at maturity of 3.875% Notes due 2023 (the "2023 Notes", and together with the 2018 Notes, the "Notes"). J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated served as the joint book-running managers for the offering. The Notes were issued in a public offering pursuant to a registration statement on Form S-3, File No. 333-188252, and are freely tradeable. The Notes are redeemable at the Company's option at any

time, in whole or in part. The proceeds of the offering were and will be used for general corporate purposes, including the redemption of the 5.75% notes due June 2014, pay down of the revolver and the repurchase of the Company's common stock pursuant to its share repurchase program.

During the three-year period ended on August 11, 2014, we issued no securities which were not registered under the Securities Act of 1933, as amended.

We continue to maintain our share repurchase program; on August 22, 2013, our Board of Directors increased our share repurchase authorization by \$200 million, bringing the total authorization to \$3,585 million. During the fourth quarter, we repurchased shares as follows (in thousands, except share and per share amounts):

	Total Number of Shares Purchased(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value that May Yet be Purchased Under the Program(b)
March 27, 2014 through April 30, 2014	385,924	\$ 51.81	385,856	\$ 334,651
May 1, 2014 through May 28, 2014	—	\$ —	—	\$ 334,651
May 29, 2014 through June 25, 2014	549,000	\$ 50.58	549,000	\$ 306,869
Total	<u>934,924</u>	<u>\$ 51.09</u>	<u>934,856</u>	

- (a) These amounts include shares purchased as part of our publicly announced programs and shares owned and tendered by team members to satisfy tax withholding obligations on the vesting of restricted share awards, which are not deducted from shares available to be purchased under publicly announced programs. Unless otherwise indicated, shares owned and tendered by team members to satisfy tax withholding obligations were purchased at the average of the high and low prices of the Company's shares on the date of vesting. During the fourth quarter of fiscal 2014, 68 shares were tendered by team members at an average price of \$53.56.
- (b) The final amount shown is as of June 25, 2014.

Item 6. SELECTED FINANCIAL DATA.

The information set forth in that section entitled "Selected Financial Data" in our 2014 Annual Report to Shareholders is presented on page F-1 of Exhibit 13 to this document. We incorporate that information in this document by reference.

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

The information set forth in that section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2014 Annual Report to Shareholders is presented on pages F-2 through F-12 of Exhibit 13 to this document. We incorporate that information in this document by reference.

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

The information set forth in that section entitled "Quantitative and Qualitative Disclosures About Market Risk" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" is in our 2014 Annual Report to Shareholders presented on page F-12 of Exhibit 13 to this document. We incorporate that information in this document by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

We refer you to the Index to Financial Statements attached hereto on page 21 for a listing of all financial statements in our 2014 Annual Report to Shareholders. This report is attached as part of Exhibit 13 to this document. We incorporate those financial statements in this document by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

Management’s Report on Internal Control over Financial Reporting

“Management’s Report on Internal Control over Financial Reporting” and the attestation report of the independent registered public accounting firm of KPMG LLP on internal control over financial reporting are in our 2014 Annual Report to Shareholders and are presented on pages F-33 through F-35 of Exhibit 13 to this document. We incorporate these reports in this document by reference.

Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our fourth quarter ended June 25, 2014, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

If you would like information about:

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

you should read the sections entitled “Election of Directors—Information About Nominees”, “Committees of the Board of Directors”, “Executive Officers”, and “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement to be dated on or about September 15, 2014, for the annual meeting of shareholders on October 30, 2014. 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.asp. You may obtain free of charge copies of the code from our website at the above internet address. Any amendment of, or waiver from, our code of ethics will be posted on our website within four business days of such amendment or waiver.

Item 11. EXECUTIVE COMPENSATION.

If you would like information about our executive compensation, you should read the section entitled “Executive Compensation—Compensation Discussion and Analysis” in our Proxy Statement to be dated on or about September 15, 2014, for the annual meeting of shareholders on October 30, 2014. We incorporate that information in this document by reference.

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

If you would like information about our security ownership of certain beneficial owners and management and related stockholder matters, you should read the sections entitled “Director Compensation for Fiscal 2014”, “Compensation Discussion and Analysis”, and “Stock Ownership of Certain Persons” in our Proxy Statement to be dated on or about September 15, 2014, for the annual meeting of shareholders on October 30, 2014. We incorporate that information in this document by reference.

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

If you would like information about certain relationships and related transactions, you should read the section entitled "Compensation Committee Interlocks and Insider Participation" in our Proxy Statement to be dated on or about September 15, 2014, for the annual meeting of shareholders on October 30, 2014. We incorporate that information in this document by reference.

If you would like information about the independence of our non-management directors and the composition of the Audit Committee, Compensation Committee and Governance and Nominating Committee, you should read the sections entitled "Director Independence" and "Committees of the Board of Directors" in our Proxy Statement to be dated on or about September 15, 2014, for the annual meeting of shareholders on October 30, 2014. We incorporate that information in this document by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

If you would like information about principal accountant fees and services, you should read the section entitled "Ratification of Independent Auditors" in our Proxy Statement to be dated on or about September 15, 2014, for the annual meeting of shareholders on October 30, 2014. We incorporate that information in this document by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) Financial Statements.

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

(a)(2) Financial Statement Schedules.

None.

(a)(3) Exhibits.

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

INDEX TO FINANCIAL STATEMENTS

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

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

INDEX TO EXHIBITS

Exhibit

3(a)	Certificate of Incorporation of the Registrant, as amended.(1)
3(b)	Bylaws of the Registrant.(2)
4(a)	Form of 2.600% Note due 2018.(3)
4(b)	Form of 3.875% Note due 2023.(3)
4(c)	Indenture between the Registrant and Wilmington Trust, National Association, as Trustee.(4)
4(d)	First Supplemental Indenture between Registrant and Wilmington Trust, National Association.(3)
4(e)	Second Supplemental Indenture between Registrant and Wilmington Trust, National Association.(3)
10(a)	Registrant's Stock Option and Incentive Plan.(5)
10(b)	Registrant's 1999 Stock Option and Incentive Plan for Non-Employee Directors and Consultants.(6)
10(c)	Registrant's Performance Share Plan Description.(7)
10(d)	Credit Agreement dated as of June 22, 2010, by and among Registrant, Brinker Restaurant Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities, LLC, Regions Capital Markets, a Division of Regions Bank, J.P. Morgan Chase Bank, N.A., Regions Bank, Compass Bank, and Wells Fargo Bank, National Association, as amended by Amendment No. 1, dated as of August 9, 2011.(8)
13	2014 Annual Report to Shareholders.(9)
21	Subsidiaries of the Registrant.(10)
23	Consent of Independent Registered Public Accounting Firm.(10)
31(a)	Certification by Wyman T. Roberts, President, Chief Executive Officer and President of Chili's Grill & Bar of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).(10)
31(b)	Certification by Marie L. Perry, Senior Vice President, Treasurer, Controller and Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).(10)
32(a)	Certification by Wyman T. Roberts, President, Chief Executive Officer and President of Chili's Grill & Bar of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(10)
32(b)	Certification by Marie L. Perry, Senior Vice President, Treasurer, Controller 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.(10)
99(a)	Proxy Statement of Registrant.(11)
101+	Interactive Data File
+	As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

-
- (1) Filed as an exhibit to annual report on Form 10-K for year ended June 28, 1995, and incorporated herein by reference.
 - (2) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended December 25, 2013, 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 Appendix A to Proxy Statement of Registrant to be filed on or about September 17, 2013, and incorporated herein by reference.
 - (6) Filed as an exhibit to quarterly report on Form 10-Q for the quarter ended December 28, 2005, and incorporated herein by reference.
 - (7) Filed as an exhibit to quarterly report on Form 10-Q for the quarter ended March 29, 2006, and incorporated herein by reference.
 - (8) Filed as an exhibit to current report on Form 8-K dated August 9, 2011, and incorporated herein by reference.
 - (9) Portions filed herewith, to the extent indicated herein.
 - (10) Filed herewith.
 - (11) To be filed on or about September 15, 2014.

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

	Fiscal Years				
	2014	2013	2012	2011	2010(a)
Income Statement Data:					
Revenues:					
Company sales	\$ 2,823,069	\$ 2,766,618	\$ 2,748,462	\$ 2,685,441	\$ 2,803,679
Franchise and other revenues	82,383	79,480	72,260	75,945	54,819
Total revenues	<u>2,905,452</u>	<u>2,846,098</u>	<u>2,820,722</u>	<u>2,761,386</u>	<u>2,858,498</u>
Operating Costs and Expenses:					
Company restaurants (excluding depreciation and amortization)					
Cost of sales	758,028	758,377	769,729	742,283	816,015
Restaurant labor	905,589	892,413	891,910	886,559	926,474
Restaurant expenses	682,271	655,214	649,830	655,060	660,922
Company restaurant expenses	<u>2,345,888</u>	<u>2,306,004</u>	<u>2,311,469</u>	<u>2,283,902</u>	<u>2,403,411</u>
Depreciation and amortization	136,081	131,481	125,054	128,447	135,832
General and administrative	132,094	134,538	143,388	132,834	136,270
Other gains and charges	49,224	17,300	8,974	10,783	28,485
Total operating costs and expenses	<u>2,663,287</u>	<u>2,589,323</u>	<u>2,588,885</u>	<u>2,555,966</u>	<u>2,703,998</u>
Operating income	242,165	256,775	231,837	205,420	154,500
Interest expense	28,091	29,118	26,800	28,311	28,515
Other, net	(2,214)	(2,658)	(3,772)	(6,220)	(6,001)
Income before provision for income taxes	216,288	230,315	208,809	183,329	131,986
Provision for income taxes	62,249	66,956	57,577	42,269	28,264
Income from continuing operations	154,039	163,359	151,232	141,060	103,722
Income from discontinued operations, net of taxes	0	0	0	0	33,982
Net income	<u>\$ 154,039</u>	<u>\$ 163,359</u>	<u>\$ 151,232</u>	<u>\$ 141,060</u>	<u>\$ 137,704</u>
Basic net income per share:					
Income from continuing operations	\$ 2.33	\$ 2.28	\$ 1.93	\$ 1.55	\$ 1.02
Income from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.33
Net income per share	<u>\$ 2.33</u>	<u>\$ 2.28</u>	<u>\$ 1.93</u>	<u>\$ 1.55</u>	<u>\$ 1.35</u>
Diluted net income per share:					
Income from continuing operations	\$ 2.26	\$ 2.20	\$ 1.87	\$ 1.53	\$ 1.01
Income from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.33
Net income per share	<u>\$ 2.26</u>	<u>\$ 2.20</u>	<u>\$ 1.87</u>	<u>\$ 1.53</u>	<u>\$ 1.34</u>
Basic weighted average shares outstanding	66,251	71,788	78,559	90,807	102,287
Diluted weighted average shares outstanding	<u>68,152</u>	<u>74,158</u>	<u>80,664</u>	<u>92,320</u>	<u>103,044</u>
Balance Sheet Data:					
Working capital(b)	\$ (255,256)	\$ (192,641)	\$ (203,974)	\$ (181,047)	\$ 56,799
Total assets(b)	1,490,604	1,452,603	1,439,408	1,487,762	1,857,713
Long-term obligations(b)	961,400	912,014	727,379	643,251	679,088
Shareholders' equity	63,094	149,357	309,873	438,910	728,748
Dividends per share	\$ 0.96	\$ 0.80	\$ 0.64	\$ 0.56	\$ 0.47
Number of Restaurants Open (End of Period):					
Company-operated	884	877	865	868	871
Franchised/Joint venture	731	714	716	711	679
Total	<u>1,615</u>	<u>1,591</u>	<u>1,581</u>	<u>1,579</u>	<u>1,550</u>
Revenues of franchisees(c)	<u>\$ 1,616,747</u>	<u>\$ 1,632,076</u>	<u>\$ 1,609,893</u>	<u>\$ 1,558,886</u>	

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

(b) Prior year amounts have been updated to conform with fiscal 2014 presentation.

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

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

GENERAL

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

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

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 25, 2014, we owned, operated, or franchised 1,615 restaurants.

We are committed to strategies and initiatives that are centered on long-term sales and profit growth, enhancing the guest experience and team member engagement. These strategies are intended to differentiate our brands from the competition, reduce the costs associated with managing our restaurants and establish a strong presence for our brands in key markets around the world.

Key economic indicators such as total employment, spending levels and consumer confidence continued to improve steadily this fiscal year; however, the casual dining industry has continued to experience soft sales and traffic. Historically low interest rates have diverted consumer discretionary spending to bigger ticket items and housing. U.S. economic growth subsequent to the recession has been steady; however, wage growth has been slow. This slow recovery has challenged the restaurant industry and consumers since 2009 and as a result, our strategies and initiatives have been developed to provide a solid foundation for earnings growth going forward and are appropriate for all operating conditions.

Our current initiatives are designed to drive profitable sales and traffic growth and improve the customer experience in our restaurants. We have invested in upgraded kitchen equipment, operations software and reimage initiatives as components of our strategy. The upgraded kitchen equipment has enabled us to provide a higher quality product at a faster pace, enhancing both profitability and customer satisfaction. We believe the usability and efficiency of the equipment will result in substantial labor savings over time. Also, the flexibility of our equipment allows for the development of new menu categories that we believe will provide opportunities for sales and customer traffic growth.

All company-owned Chili's and Maggiano's restaurants are now operating with an integrated point of sale and back office software system that was designed to enhance the efficiency of our restaurant operations and reporting capabilities. Timely and more detailed reporting in our restaurants has improved inventory and labor management while reducing software maintenance costs. Additionally, our management team will have more timely visibility into operating performance and trends which will enhance decision making and improve profitability.

We have also leveraged technology initiatives to drive traffic and enhance the guest experience in our restaurants. All company-owned Chili's restaurants are now outfitted with Ziosk table top devices which gives us the largest network of tabletop devices in the country. Ziosk is a multi-functional tablet which provides entertainment, ordering, guest survey and pay at the table capabilities. We plan to build on this momentum by investing in additional technology initiatives including upgrades to our on-line ordering and mobile platforms. Additionally, we will launch a loyalty program at Chili's in fiscal 2015 which will utilize Ziosk and provide us an opportunity to interact with our guests on a more personal basis.

We have reimaged approximately 80 percent of our company-owned Chili's restaurants and plan to complete the initiative by the end of fiscal 2015. The reimage design is intended to revitalize Chili's in a way which enhances the relevance of the brand and raises customer expectations regarding the quality of the experience. The design is contemporary while staying true to the Chili's brand heritage. We believe that these updates will positively impact the customer perception of the restaurant in both the dining room and bar areas and provide a long-term positive impact to traffic and sales. In addition to our reimage initiative, we intend to grow our brands by opening restaurants in strategically desirable markets. We anticipate opening eight to ten company-

owned Chili's restaurants in fiscal year 2015.

We continually evaluate our menu at Chili's to improve quality, freshness and value by introducing new items and improving existing favorites. We introduced the new Fresh Mex platform, upgraded some of our current menu items and added variety of new entrees. New menu items include the Mix and Match Fajitas, Santa Fe Quesadillas and the Bacon Avocado Chicken sandwich, which remains the best-selling sandwich on our menu. Our \$20 dinner for two and lunch combo offerings, which continue to drive traffic and provide our customers an excellent value, have been refreshed with new menu items including Pork Carnitas Fajitas and the updated Grilled Chicken Fajitas. We will continually seek opportunities to reinforce value and create interest for the brand with new and varied offerings to further enhance sales and drive incremental traffic. We are committed to offering a compelling everyday menu that provides items our customers prefer at a solid value.

Improvements at Chili's will have the most significant impact on the business; however, our results will also benefit through additional contributions from Maggiano's and our global business. Maggiano's continues to deliver sales growth and has opened two restaurants this year based on a new prototype, excluding banquet space. This new prototype will allow the brand to enter new markets that were not suitable for the existing model. Maggiano's offers a compelling menu and great value with On the House Classic Pasta, Marco's Meal and the new Stuffed Pasta entrees. A new lighter version of Maggiano's traditional menu items will be offered beginning in September. We will continue to strengthen the brand's business model with kitchen efficiency and inventory controls that we believe will continue to enhance profitability. We opened our newest Maggiano's in Columbia, Maryland in June 2014 and plan to open four additional locations in the coming fiscal year.

Global expansion allows further diversification which will enable us to build strength in a variety of markets and economic conditions. This expansion will come through franchise relationships, acquisitions, joint venture arrangements and equity investments, taking advantage of demographic and eating trends which we believe will accelerate in the international market over the next decade. We completed the acquisition of 11 Chili's restaurants in Alberta, Canada at the end of last fiscal year and are excited about the potential growth for the Chili's brand in Canada. Thirty-two new international Chili's restaurants were opened this year, including one company-owned location in Canada, and we plan on opening another 35 to 39 international restaurants in the upcoming fiscal year. Our growing franchise operations both domestically and internationally enable us to improve margins as royalty payments impact the bottom line.

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

RESULTS OF OPERATIONS FOR FISCAL YEARS 2014, 2013, AND 2012

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		
	2014	2013	2012
Revenues:			
Company sales	97.2 %	97.2 %	97.4 %
Franchise and other revenues	2.8 %	2.8 %	2.6 %
Total revenues	100.0 %	100.0 %	100.0 %
Operating Costs and Expenses:			
Company restaurants (excluding depreciation and amortization)			
Cost of sales ⁽¹⁾	26.9 %	27.4 %	28.0 %
Restaurant labor ⁽¹⁾	32.1 %	32.3 %	32.5 %
Restaurant expenses ⁽¹⁾	24.2 %	23.7 %	23.6 %
Company restaurant expenses ⁽¹⁾	83.1 %	83.4 %	84.1 %
Depreciation and amortization	4.7 %	4.6 %	4.4 %
General and administrative	4.5 %	4.7 %	5.1 %
Other gains and charges	1.7 %	0.6 %	0.3 %
Total operating costs and expenses	91.7 %	91.0 %	91.8 %
Operating income	8.3 %	9.0 %	8.2 %
Interest expense	1.0 %	1.0 %	0.9 %
Other, net	(0.1)%	(0.1)%	(0.1)%
Income before provision for income taxes	7.4 %	8.1 %	7.4 %
Provision for income taxes	2.1 %	2.4 %	2.0 %
Net income	5.3 %	5.7 %	5.4 %

⁽¹⁾ As a percentage of company sales.

REVENUES

Revenues are presented in two separate captions on the consolidated statements of comprehensive income to provide more clarity around company-owned restaurant revenue and operating expense trends. Company sales includes revenues generated by the operation of company-owned restaurants including gift card redemptions. Franchise and other revenues includes royalties, development fees, franchise fees, Maggiano's banquet service charge income, certain gift card activity (breakage and discounts) and Ziosk gaming revenue.

Total revenues for fiscal 2014 increased to \$2,905.5 million, a 2.1% increase from the \$2,846.1 million generated for fiscal 2013 driven by a 2.0% increase in company sales and a 3.7% increase in franchise and other revenues. The increase in company sales was primarily attributable to the acquisition of 11 restaurants in Canada at the end of the prior fiscal year, a 0.6% increase in comparable restaurant sales, as well as increases in capacity as follows:

	Fiscal Year Ended June 25, 2014				
	Comparable Sales	Price Increase	Mix Shift	Traffic	Capacity
Brinker International	0.6 %	1.2%	1.0 %	(1.6)%	1.6%
Chili's Company-owned ⁽¹⁾	0.6 %	1.2%	1.2 %	(1.8)%	1.6%
Maggiano's	0.6 %	1.5%	(0.7)%	(0.2)%	1.7%
Chili's Franchise ⁽²⁾	0.2 %				
U.S.	(0.3)%				
International	1.6 %				
Chili's Domestic ⁽³⁾	0.3 %				
System-wide ⁽⁴⁾	0.5 %				

⁽¹⁾ Chili's company-owned comparable restaurant sales do not include sales generated by the 11 restaurants acquired in Canada in June 2013. Acquired or newly opened restaurants are not included in this calculation until 18 months of operations are completed. Chili's capacity for fiscal 2014 includes the impact of the Canada restaurants.

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

⁽³⁾ 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.

⁽⁴⁾ 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 restaurants.

Chili's company sales increased to \$2,443.9 million in fiscal 2014, a 2.1% increase from \$2,392.9 million in fiscal 2013. The increase was primarily driven by the acquisition of 11 restaurants in Canada at the end of the prior fiscal year, a 0.6% increase in comparable restaurant sales, as well as increases in domestic restaurant capacity. Chili's company-owned restaurant capacity increased 1.6% (as measured by sales weeks) compared to the prior year due to the acquired Canada restaurants and five net restaurant openings during fiscal 2014.

Maggiano's company sales increased to \$379.1 million in fiscal 2014, a 1.4% increase from \$373.7 million in fiscal 2013 driven by an increase in restaurant capacity and menu pricing. Maggiano's capacity increased 1.7% for fiscal 2014 (as measured by sales weeks) compared to the prior year due to two restaurant openings during the fiscal year.

Franchise and other revenues increased to \$82.4 million in fiscal 2014 compared to \$79.5 million in fiscal 2013 driven primarily by revenues associated with Ziosk, partially offset by lower royalty income. Royalty income decreased primarily due to the Canada acquisition in June 2013 as these restaurants were franchised and five net domestic franchise restaurant closures during fiscal 2014, partially offset by an increase in international franchise royalty revenues due to 22 net restaurant openings in fiscal 2014. Our franchisees generated approximately \$1,617 million in sales in fiscal 2014.

Total revenues for fiscal 2013 increased to \$2,846.1 million, a 0.9% increase from the \$2,820.7 million generated for fiscal 2012 driven by a 0.7% increase in company sales and a 10.0% increase in franchise and other revenues. The increase in company sales was primarily attributable to an increase in comparable restaurant sales as follows:

	Fiscal Year Ended June 26, 2013				
	Comparable Sales	Price Increase	Mix Shift	Traffic	Capacity
Brinker International	0.5%	1.5%	0.8%	(1.8)%	0.0%
Chili's Company-owned	0.5%	1.4%	0.9%	(1.8)%	0.0%
Maggiano's	0.5%	1.8%	0.5%	(1.8)%	0.0%
Chili's Franchise ⁽¹⁾	1.9%				
U.S.	1.6%				
International	2.7%				
Chili's Domestic ⁽²⁾	0.8%				
System-wide ⁽³⁾	1.0%				

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

(2) 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.

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

Chili's company sales increased to \$2,392.9 million in fiscal 2013, a 0.7% increase from \$2,376.4 million in fiscal 2012. The increase was primarily driven by an increase in comparable restaurant sales of 0.5% resulting from increased menu pricing and mix, partially offset by traffic declines.

Maggiano's company sales increased to \$373.7 million in fiscal 2013, a 0.5% increase from \$372.0 million in fiscal 2012 driven by increased menu pricing and mix, partially offset by traffic declines.

Franchise and other revenues increased to \$79.5 million in fiscal 2013 compared to \$72.3 million in fiscal 2012. The increase was driven primarily by a \$5.2 million reduction in revenues in fiscal 2012 resulting from a change in the estimate of gift card breakage. Royalty revenues increased due to the net addition of nine franchised restaurants during fiscal 2013. Our franchisees generated approximately \$1,632 million in sales in fiscal 2013.

COSTS AND EXPENSES

Cost of sales, as a percent of company sales, decreased 0.5% in fiscal 2014 due to increased menu pricing, menu item changes, improved waste control, and efficiency gains in oil usage related to new fryer equipment. Commodity pricing was favorable primarily driven by other items and bread, partially offset by unfavorable pricing primarily related to cheese, seafood and pork. Cost of sales, as a percent of company sales, decreased 0.6% in fiscal 2013. Cost of sales was positively impacted by favorable commodity usage for proteins, decreased commodity usage by Maggiano's resulting from efforts to reduce waste and increased menu pricing, partially offset by unfavorable commodity pricing for beef and pork.

Restaurant labor, as a percent of company sales, decreased 0.2% in fiscal 2014 primarily driven by leverage related to higher company sales, decreased employee health insurance expenses resulting from favorable claims experience, as well as decreased employee training costs, partially offset by increased manager salaries primarily due to merit. Restaurant labor, as a percent of company sales, decreased 0.2% in fiscal 2013 primarily driven by reduced hourly labor costs resulting from the installation of new kitchen equipment and lower manager bonuses, partially offset by increased employee health insurance expenses resulting from an increase in both the severity and number of claims.

Restaurant expenses, as a percent of company sales, increased 0.5% in fiscal 2014 primarily driven by higher advertising, workers' compensation insurance expenses, new restaurant development, utilities expense and Ziosk equipment charges, partially offset by sales leverage on fixed costs related to higher company sales, lower research and development, and higher equity income. Restaurant expenses, as a percent of company sales, increased 0.1% in fiscal 2013 primarily driven by higher workers' compensation insurance expenses and advertising, partially offset by lower repair and maintenance expenses resulting from cost control initiatives

and limitations on discretionary spending, lower utilities expense and sales leverage on fixed costs related to higher company sales.

Depreciation and amortization increased \$4.6 million in fiscal 2014 primarily due to investments in the Chili's reimage program, fryers and kitchen equipment, new restaurant openings, as well as the acquisition of 11 restaurants in Canada, partially offset by an increase in fully depreciated assets. Depreciation and amortization increased \$6.4 million in fiscal 2013 primarily due to Chili's reimage, kitchen equipment and software investments in existing restaurants, partially offset by an increase in fully depreciated assets.

General and administrative expenses decreased \$2.4 million in fiscal 2014 primarily due to lower performance based compensation, a reduction in payroll primarily due to lower headcount, as well as a reduction in other benefits, partially offset by higher legal fees. General and administrative expenses decreased \$8.9 million in fiscal 2013 primarily due to lower performance based compensation, professional fees and relocation expenses, partially offset by higher stock-based compensation expense driven by a higher grant price in fiscal 2013.

Other gains and charges in fiscal 2014 included charges of approximately \$39.5 million related to various litigation matters including a class action litigation pending in California. We also recorded restaurant impairment charges of \$4.5 million related to underperforming restaurants that either continue to operate or are scheduled to close. Additionally, we recorded \$3.4 million of restaurant closure charges consisting primarily of lease termination charges and other costs associated with closed restaurants. We also incurred \$2.1 million in severance and other benefits related to organization changes made during the fiscal year. The severance charges include expense related to the accelerated vesting of stock-based compensation awards. Furthermore, a \$0.6 million gain was recorded primarily related to land sales.

Other gains and charges in fiscal 2013 primarily included a charge of \$15.8 million representing the remaining interest payments and unamortized debt issuance costs and discount resulting from the redemption of the 5.75% notes. Additionally, other gains and charges included \$5.3 million of charges related to the impairment of the company-owned restaurant in Brazil and certain underperforming restaurants, \$2.3 million of lease termination charges related to previously closed restaurants, and \$2.2 million in severance and other benefits. These charges were partially offset by net gains of \$11.2 million on the sale of assets, including an \$8.3 million gain on the sale of our remaining 16.6% interest in Macaroni Grill and net gains of \$2.9 million related to land sales.

Other gains and charges in fiscal 2012 primarily included \$3.2 million of lease termination charges related to previously closed restaurants, \$3.1 million of charges related to the impairment of certain underperforming restaurants, \$2.6 million of charges related to the impairment of certain liquor licenses, \$1.3 million of litigation charges and \$0.4 million of long-lived asset impairment charges resulting from closures. These charges were partially offset by net gains of \$3.3 million related to land sales.

Interest expense decreased \$1.0 million in fiscal 2014 resulting from lower interest rates partially offset by higher borrowing balances. Interest expense increased \$2.3 million in fiscal 2013 as a result of higher borrowing balances.

Other, net in fiscal 2014, 2013, and 2012 includes \$1.9 million, \$2.3 million and \$3.3 million, respectively, of sublease income primarily from franchisees as part of the respective sale agreements, as well as other subtenants.

INCOME TAXES

On a GAAP basis, the effective income tax rate for fiscal 2014 decreased to 28.8 percent compared to 29.1 percent in the prior year primarily due to the increased tax benefit resulting from litigation charges of \$39.5 million in the current year as well as reserve adjustments related to resolved tax positions.

On a GAAP basis, the effective income tax rate increased to 29.1 percent for fiscal 2013 from 27.6 percent in fiscal 2012 primarily due to increased earnings, lower tax credits and lower favorable reserve adjustments related to resolved tax positions, partially offset by the increased tax benefit resulting from higher special item charges in the current year. Excluding other gains and charges, the effective income tax rate increased to 29.9 percent in fiscal 2013 compared to 29.1 percent in the prior year primarily due to higher earnings.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash Flow from Operating Activities

During fiscal 2014, net cash flow provided by operating activities was \$359.8 million compared to \$290.7 million in the prior year. The increase was driven by an increase in current year earnings excluding non-cash charges primarily related to litigation reserves and the timing of operational payments.

The working capital deficit increased to \$255.3 million at June 25, 2014 from \$192.6 million at June 26, 2013. The increase was driven primarily by an increase in reserves related to litigation matters, the gift card liability and increased income taxes payable.

Cash Flow Used In Investing Activities

	2014	2013
Net cash used in investing activities (in thousands):		
Payments for property and equipment	\$ (161,066)	\$ (131,531)
Proceeds from sale of assets	888	17,157
Payments for purchase of restaurants	0	(24,622)
Insurance recoveries	0	1,152
	<u>\$ (160,178)</u>	<u>\$ (137,844)</u>

Net cash used in investing activities for fiscal 2014 increased to \$160.2 million compared to \$137.8 million in the prior year. Capital expenditures increased to \$161.1 million for fiscal 2014 compared to \$131.5 million for fiscal 2013 driven by increased new restaurant construction, purchases for the ongoing Chili's reimage program and fryer equipment. Capital expenditures in fiscal 2013 included purchases related to our kitchen retrofit initiative, which was completed in the second quarter of fiscal 2013. We estimate that our capital expenditures during fiscal 2015 will be approximately \$130 million to \$140 million and will be funded entirely by cash from operations.

During fiscal 2013, we purchased 11 Chili's restaurants located in Alberta, Canada from a franchisee for \$24.6 million. Additionally, we received \$17.2 million in proceeds from the sale of assets which primarily consisted of \$8.4 million related to land sales and \$8.3 million from the sale of our remaining interest in Macaroni Grill.

Cash Flow Used In Financing Activities

	2014	2013
Net cash used in financing activities (in thousands):		
Purchases of treasury stock	\$ (239,597)	\$ (333,384)
Borrowings on revolving credit facility	120,000	110,000
Payments of dividends	(63,395)	(56,343)
Payments on revolving credit facility	(40,000)	(150,000)
Proceeds from issuances of treasury stock	29,295	41,190
Payments on long-term debt	(26,521)	(316,380)
Excess tax benefits from stock-based compensation	18,872	8,778
Proceeds from issuance of long-term debt	0	549,528
Payments for deferred financing costs	0	(5,969)
	<u>\$ (201,346)</u>	<u>\$ (152,580)</u>

Net cash used in financing activities for fiscal 2014 increased to \$201.3 million compared to \$152.6 million in the prior year primarily due to the net impact of the debt offering in the prior year, partially offset by decreased spend on share repurchases.

We repurchased approximately 5.1 million shares of our common stock for \$239.6 million during fiscal 2014. Subsequent to the end of the fiscal year, we repurchased 100,000 shares for approximately \$4.8 million as part of our share repurchase program. We also repurchased approximately 123,000 shares for \$5.7 million to satisfy team member tax withholding obligations on the vesting of performance shares.

In May 2013, we issued \$550.0 million of notes consisting of two tranches - \$250.0 million of 2.60% notes due in May 2018 and \$300.0 million of 3.88% notes due in May 2023. We received proceeds totaling approximately \$549.5 million prior to debt issuance costs and utilized the proceeds to redeem the 5.75% notes due in June 2014, pay down the revolver and fund share repurchases. The new notes require semi-annual interest payments which began in the second quarter of fiscal 2014.

Our credit facility includes a \$250 million revolver and a \$250 million term loan and matures in August 2016. During fiscal 2014, \$120.0 million was drawn from the revolver to fund share repurchases. We repaid \$40.0 million of the outstanding balance leaving \$170 million of credit available under the revolver as of June 25, 2014. During fiscal 2014, we paid our required term loan installments totaling \$25.0 million bringing the outstanding balance to \$187.5 million. Subsequent to the end of the fiscal year, an additional \$25 million was borrowed from the revolver primarily to fund share repurchases discussed above.

The term loan and revolving credit facility bear interest at 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 2.50%. Based on our current credit rating, we are paying interest at a rate of LIBOR plus 1.63%. One month LIBOR at June 25, 2014 was approximately 0.15%. As of June 25, 2014, we were in compliance with all financial debt covenants.

As of June 25, 2014, our credit rating by Standard and Poor's ("S&P") was BBB- (investment grade) with a stable outlook. Our corporate family rating by Moody's was Ba1 (non-investment grade) and our senior unsecured rating was Ba2 (non-investment grade) with a stable outlook. Our credit rating by Fitch Ratings ("Fitch") was BBB- (investment grade) with a stable outlook. Our goal is to maintain our investment grade rating from S&P and Fitch and ultimately regain our investment grade rating from Moody's.

We paid dividends of \$63.4 million to common stock shareholders in fiscal 2014 compared to \$56.3 million in dividends paid in fiscal 2013. Our Board of Directors approved a 20% increase in the quarterly dividend from \$0.20 to \$0.24 per share effective with the September 2013 dividend. Additionally, we declared a quarterly dividend late in fiscal 2014 which was paid early in fiscal 2015 on June 26, 2014. Subsequent to the end of the fiscal year, our Board of Directors approved a 17% increase in the quarterly dividend from \$0.24 to \$0.28 per share effective with the September 2014 dividend which was declared in August 2014. We will continue to target a 40 percent dividend payout ratio to provide additional return to shareholders.

In August 2013, our Board of Directors authorized a \$200.0 million increase to our existing share repurchase program resulting in total authorizations of \$3,585.0 million. As of June 25, 2014, approximately \$307 million was available under our share repurchase authorizations. Subsequent to the end of the fiscal year, our Board of Directors authorized an additional \$350 million in share repurchases, bringing the total authorization to \$3,935.0 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 common stock is reflected as a reduction of shareholders' equity. During fiscal 2014, approximately 1.2 million stock options were exercised resulting in cash proceeds of \$29.3 million.

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

Cash Flow Outlook

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

Payments due under our contractual obligations for outstanding indebtedness, purchase obligations as defined by the Securities and Exchange Commission (“SEC”), and the expiration of the credit facility as of June 25, 2014 are as follows:

	Payments Due by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt(a)	\$ 947,725	\$ 43,125	\$ 278,750	\$ 279,614	\$ 346,236
Capital leases	64,898	5,692	11,515	10,723	36,968
Operating leases	491,192	111,314	179,280	94,952	105,646
Purchase obligations(b)	110,534	25,331	28,383	21,202	35,618
	Amount of Revolving Credit Facility Expiration by Period (in thousands)				
	Total Commitment	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Revolving credit facility	\$ 250,000	\$ 0	\$ 250,000	\$ 0	\$ 0

(a) Long-term debt consists of principal amounts owed on the five-year term loan and revolver, 2.60% notes and 3.88% notes, as well as remaining interest payments on the 2.60% and 3.88% notes totaling \$130.6 million. Variable-rate interest payments associated with the term loan and revolver are excluded.

(b) A “purchase obligation” is defined as an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase obligations primarily consist of long-term obligations for the purchase of fountain beverages and professional services contracts, and exclude agreements that are cancelable without significant penalty.

In addition to the amounts shown in the table above, \$7.4 million of unrecognized tax benefits have been recorded as liabilities. The timing and amounts of future cash payments related to these liabilities are uncertain.

IMPACT OF INFLATION

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

CRITICAL ACCOUNTING ESTIMATES

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

Stock-Based Compensation

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

Income Taxes

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

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

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

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. The useful lives of the assets are based upon our expectations for the period of time that the asset will be used to generate revenues. We periodically review the assets for changes in circumstances, which may impact their useful lives.

Impairment of Long-Lived Assets

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

Impairment of Goodwill

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

We determine fair value based on projected discounted future operating cash flows of the restaurant brands using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model. We make assumptions regarding

future profits and cash flows, expected growth rates, terminal values and other factors which could significantly impact the fair value calculations. In the event that these assumptions change in the future, we may be required to record impairment charges related to goodwill. The fair value of our reporting units was substantially in excess of the carrying value as of our fiscal 2014 goodwill impairment test that was performed at the end of the second quarter. No indicators of impairment were identified from the date of our impairment test through the end of fiscal year 2014.

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 Revenue

Proceeds from the sale of gift cards are recorded as deferred revenue and recognized as revenue 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. Based on our historical gift card redemption patterns and considering our gift cards have no expiration dates or dormancy fees, we can reasonably estimate the amount of gift card balances for which redemption is remote and record 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 estimate of our breakage rate periodically and, if necessary, adjust the deferred revenue balance accordingly. If actual redemption patterns vary from our estimate, actual gift card breakage income may differ from the amounts recorded.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue 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. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early application is not permitted. This update permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In July 2012, the FASB updated its guidance on testing indefinite-lived intangible assets for impairment to allow companies the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. Companies electing to perform a qualitative assessment are no longer required to calculate the fair value of an indefinite-lived intangible asset unless the company determines, based on a qualitative assessment, that it is "more likely than not" that the asset is impaired. The adoption of this updated guidance in fiscal 2014 did not have a significant impact on our consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. The variable rate financial instruments consist of the outstanding borrowings on our term loan and revolving credit facility. At June 25, 2014, \$187.5 million was outstanding under the term loan and \$80.0 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 25, 2014 would be approximately \$2.7 million.

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.

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

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

	Fiscal Years		
	2014	2013	2012
Revenues:			
Company sales	\$ 2,823,069	\$ 2,766,618	\$ 2,748,462
Franchise and other revenues	82,383	79,480	72,260
Total revenues	<u>2,905,452</u>	<u>2,846,098</u>	<u>2,820,722</u>
Operating Costs and Expenses:			
Company restaurants (excluding depreciation and amortization)			
Cost of sales	758,028	758,377	769,729
Restaurant labor	905,589	892,413	891,910
Restaurant expenses	682,271	655,214	649,830
Company restaurant expenses	<u>2,345,888</u>	<u>2,306,004</u>	<u>2,311,469</u>
Depreciation and amortization	136,081	131,481	125,054
General and administrative	132,094	134,538	143,388
Other gains and charges	49,224	17,300	8,974
Total operating costs and expenses	<u>2,663,287</u>	<u>2,589,323</u>	<u>2,588,885</u>
Operating income	242,165	256,775	231,837
Interest expense	28,091	29,118	26,800
Other, net	(2,214)	(2,658)	(3,772)
Income before provision for income taxes	216,288	230,315	208,809
Provision for income taxes	62,249	66,956	57,577
Net income	<u>\$ 154,039</u>	<u>\$ 163,359</u>	<u>\$ 151,232</u>
Basic net income per share	<u>\$ 2.33</u>	<u>\$ 2.28</u>	<u>\$ 1.93</u>
Diluted net income per share	<u>\$ 2.26</u>	<u>\$ 2.20</u>	<u>\$ 1.87</u>
Basic weighted average shares outstanding	<u>66,251</u>	<u>71,788</u>	<u>78,559</u>
Diluted weighted average shares outstanding	<u>68,152</u>	<u>74,158</u>	<u>80,664</u>
Other comprehensive income (loss):			
Foreign currency translation adjustment	\$ (940)	\$ 0	\$ 0
Other comprehensive loss	(940)	0	0
Comprehensive income	<u>\$ 153,099</u>	<u>\$ 163,359</u>	<u>\$ 151,232</u>
Dividends per share	<u>\$ 0.96</u>	<u>\$ 0.80</u>	<u>\$ 0.64</u>

See accompanying notes to consolidated financial statements.

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

	2014	2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 57,685	\$ 59,367
Accounts receivable	47,850	44,082
Inventories	23,643	24,628
Prepaid expenses and other	65,506	65,584
Income taxes receivable	0	4,930
Deferred income taxes	16,170	0
Total current assets	<u>210,854</u>	<u>198,591</u>
Property and Equipment:		
Land	149,184	147,581
Buildings and leasehold improvements	1,483,894	1,435,426
Furniture and equipment	593,344	580,115
Construction-in-progress	32,844	20,588
	<u>2,259,266</u>	<u>2,183,710</u>
Less accumulated depreciation and amortization	(1,202,812)	(1,147,895)
Net property and equipment	<u>1,056,454</u>	<u>1,035,815</u>
Other Assets:		
Goodwill	133,434	142,103
Deferred income taxes	30,090	24,064
Intangibles	18,841	10,696
Other	40,931	41,334
Total other assets	<u>223,296</u>	<u>218,197</u>
Total assets	<u>\$ 1,490,604</u>	<u>\$ 1,452,603</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current installments of long-term debt	\$ 27,884	\$ 27,596
Accounts payable	102,931	93,326
Accrued liabilities	328,017	269,465
Income taxes payable	7,278	0
Deferred income taxes	0	845
Total current liabilities	<u>466,110</u>	<u>391,232</u>
Long-term debt, less current installments	832,302	780,121
Other liabilities	129,098	131,893
Commitments and Contingencies (Notes 9 and 14)		
Shareholders' Equity:		
Common stock—250,000,000 authorized shares; \$.10 par value; 176,246,649 shares issued and 64,558,909 shares outstanding at June 25, 2014 and 176,246,649 shares issued and 67,444,099 shares outstanding at June 26, 2013	17,625	17,625
Additional paid-in capital	484,320	477,420
Accumulated other comprehensive loss	(940)	0
Retained earnings	2,306,532	2,217,623
	<u>2,807,537</u>	<u>2,712,668</u>
Less treasury stock, at cost (111,687,740 shares at June 25, 2014 and 108,802,550 shares at June 26, 2013)	(2,744,443)	(2,563,311)
Total shareholders' equity	<u>63,094</u>	<u>149,357</u>
Total liabilities and shareholders' equity	<u>\$ 1,490,604</u>	<u>\$ 1,452,603</u>

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
Balances at June 29, 2011	82,938	\$ 17,625	\$ 463,688	\$ 2,013,189	\$ (2,055,592)	\$ 0	\$ 438,910
Net income and comprehensive income	0	0	0	151,232	0	0	151,232
Dividends (\$0.64 per share)	0	0	0	(51,563)	0	0	(51,563)
Stock-based compensation	0	0	13,461	0	0	0	13,461
Purchases of treasury stock	(10,966)	0	(2,901)	0	(284,390)	0	(287,291)
Issuances of common stock	2,370	0	(9,175)	0	52,591	0	43,416
Excess tax benefit from stock-based compensation	0	0	1,708	0	0	0	1,708
Balances at June 27, 2012	74,342	17,625	466,781	2,112,858	(2,287,391)	0	309,873
Net income and comprehensive income	0	0	0	163,359	0	0	163,359
Dividends (\$0.80 per share)	0	0	0	(58,594)	0	0	(58,594)
Stock-based compensation	0	0	16,610	0	0	0	16,610
Purchases of treasury stock	(9,176)	0	(5,565)	0	(327,819)	0	(333,384)
Issuances of common stock	2,278	0	(10,709)	0	51,899	0	41,190
Excess tax benefit from stock-based compensation	0	0	10,303	0	0	0	10,303
Balances at June 26, 2013	67,444	17,625	477,420	2,217,623	(2,563,311)	0	149,357
Net income	0	0	0	154,039	0	0	154,039
Other comprehensive loss	0	0	0	0	0	(940)	(940)
Dividends (\$0.96 per share)	0	0	0	(65,130)	0	0	(65,130)
Stock-based compensation	0	0	16,888	0	0	0	16,888
Purchases of treasury stock	(5,079)	0	(6,103)	0	(233,494)	0	(239,597)
Issuances of common stock	2,194	0	(23,067)	0	52,362	0	29,295
Excess tax benefit from stock-based compensation	0	0	19,182	0	0	0	19,182
Balances at June 25, 2014	64,559	\$ 17,625	\$ 484,320	\$ 2,306,532	\$ (2,744,443)	\$ (940)	\$ 63,094

See accompanying notes to consolidated financial statements.

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

	Fiscal Years		
	2014	2013	2012
Cash Flows from Operating Activities:			
Net income	\$ 154,039	\$ 163,359	\$ 151,232
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	136,081	131,481	125,054
Litigation reserves	39,500	0	0
Restructure charges and other impairments	8,533	11,425	10,396
Deferred income taxes	(23,041)	(4,793)	11,808
Net loss (gain) on disposal of assets	5,161	(6,905)	490
Stock-based compensation	16,074	15,909	13,461
(Gain) loss on equity investments	(328)	851	1,350
Other	707	363	799
Changes in assets and liabilities:			
Accounts receivable	(5,372)	5,398	608
Inventories	912	908	(15)
Prepaid expenses and other	1,827	82	(2,984)
Intangibles and other assets	(3,397)	(4,115)	489
Current income taxes	14,087	749	(3,874)
Accounts payable	3,756	(9,339)	12,188
Accrued liabilities	14,617	(9,381)	(17,197)
Other liabilities	(3,314)	(5,304)	(367)
Net cash provided by operating activities	<u>359,842</u>	<u>290,688</u>	<u>303,438</u>
Cash Flows from Investing Activities:			
Payments for property and equipment	(161,066)	(131,531)	(125,226)
Proceeds from sale of assets	888	17,157	8,112
Payments for purchase of restaurants	0	(24,622)	(3,120)
Insurance recoveries	0	1,152	0
Investment in equity method investee	0	0	(3,170)
Net cash used in investing activities	<u>(160,178)</u>	<u>(137,844)</u>	<u>(123,404)</u>
Cash Flows from Financing Activities:			
Purchases of treasury stock	(239,597)	(333,384)	(287,291)
Borrowings on revolving credit facility	120,000	110,000	40,000
Payments of dividends	(63,395)	(56,343)	(50,081)
Payments on revolving credit facility	(40,000)	(150,000)	0
Proceeds from issuances of treasury stock	29,295	41,190	43,416
Payments on long-term debt	(26,521)	(316,380)	(18,749)
Excess tax benefits from stock-based compensation	18,872	8,778	1,406
Proceeds from issuance of long-term debt	0	549,528	70,000
Payments for deferred financing costs	0	(5,969)	(1,620)
Net cash used in financing activities	<u>(201,346)</u>	<u>(152,580)</u>	<u>(202,919)</u>
Net change in cash and cash equivalents	(1,682)	264	(22,885)
Cash and cash equivalents at beginning of year	59,367	59,103	81,988
Cash and cash equivalents at end of year	<u>\$ 57,685</u>	<u>\$ 59,367</u>	<u>\$ 59,103</u>

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations

We are principally engaged in the ownership, operation, development, and franchising of the Chili's Grill & Bar ("Chili's") and Maggiano's Little Italy ("Maggiano's") restaurant brands. At June 25, 2014, we owned, operated, or franchised 1,615 restaurants in the United States and 30 countries and two territories outside of the United States.

(b) Basis of Presentation

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

We have a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal years 2014, 2013, and 2012 which ended on June 25, 2014, June 26, 2013, and June 27, 2012, respectively, each contained 52 weeks.

Beginning in fiscal 2014, other comprehensive income is presented on the newly titled consolidated statements of comprehensive income. On June 1, 2013, we completed the acquisition of 11 Chili's restaurants in Alberta, Canada from an existing franchisee and have included the results of operations of the Canadian restaurants in our consolidated financial statements from the date of acquisition. The foreign currency translation adjustment included in comprehensive income represents the unrealized impact of translating the financial statements of the Canadian restaurants from Canadian dollars, the functional currency, to U.S. dollars. This amount is not included in net income and would only be realized upon disposition of the business. The accumulated other comprehensive loss is presented on the consolidated balance sheets. Additionally, certain prior year balances in the consolidated balance sheets have been reclassified to conform with fiscal 2014 presentation. These reclassifications have no effect on our net income as previously reported and an immaterial impact on our prior year consolidated balance sheets.

Revenues are presented in two separate captions on the consolidated statements of comprehensive income to provide more clarity around company-owned restaurant revenue and operating expense trends. Company sales includes revenues generated by the operation of company-owned restaurants including gift card redemptions. Franchise and other revenues includes royalties, development fees, franchise fees, Maggiano's banquet service charge income, certain gift card activity (breakage and discounts) and Ziosk gaming revenue.

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.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and costs and expenses during the reporting period. Actual results could differ from those estimates.

(d) Revenue Recognition

We record revenue from the sale of food, beverages and alcohol as products are sold. Initial fees received from a franchisee to establish a new franchise are recognized as income when we have performed our obligations required to assist the franchisee in opening a new franchise restaurant, which is generally upon the opening of such restaurant. Fees received for development arrangements are recognized as income upon payment of the fees. Continuing royalties, which are a percentage of net sales of franchised restaurants, are accrued as income when earned.

Proceeds from the sale of gift cards are recorded as deferred revenue and recognized as revenue 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. Based on our historical gift card redemption patterns and considering our gift cards have no expiration dates or dormancy fees, we can reasonably estimate the amount of gift card balances for which redemption is remote and record breakage income based on this estimate. We recognize breakage income within franchise and other revenues in the consolidated statements of comprehensive income. We update our estimate of our breakage rate periodically and, if necessary, adjust the deferred revenue balance accordingly.

(e) Fair Value Measurements

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

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

(f) Cash and Cash Equivalents

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

(g) Accounts Receivable

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

(h) Inventories

Inventories consist of food, beverages and supplies and are valued at the lower of cost or market. During fiscal 2013, we began implementing a new restaurant information system for all company-owned restaurants and changed from the weighted average cost method to the first-in, first-out or "FIFO" method. The system implementation process was completed in fiscal 2013 for all Chili's restaurants and in fiscal 2014 for all Maggiano's restaurants. As of June 25, 2014, all inventories are valued using the FIFO method. As of June 26, 2013, inventories located at all Chili's as well as the converted Maggiano's restaurants are valued using the FIFO method and inventories at non-converted Maggiano's restaurants are stated at weighted average cost. The change in inventory valuation methods did not have a material impact on our consolidated financial statements.

(i) Property and Equipment

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

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

(j) Operating Leases

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

(k) Advertising

Advertising production costs are expensed in the period when the advertising first takes place. Other advertising costs are expensed as incurred. Advertising costs, net of advertising contributions from franchisees, were \$92.2 million, \$82.8 million and

\$80.4 million million in fiscal 2014, 2013, and 2012, respectively, and are included in restaurant expenses in the consolidated statements of comprehensive income.

(l) Goodwill and Other Intangibles

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

Goodwill impairment tests consist of a comparison of each reporting unit's fair value with its carrying value. We determine fair value based on a combination of market based values and projected discounted future operating cash flows of the restaurant brands using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. We determined that there was no goodwill impairment during our annual test as the fair value of our reporting units was substantially in excess of the carrying value. No indicators of impairment were identified through the end of fiscal year 2014. See Note 5 for additional disclosures related to goodwill.

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. If we dispose of a restaurant brand and all related restaurants, the entire goodwill balance associated with the reporting unit or brand will be included in the disposal group for purposes of determining the gain or loss on the disposition. Additionally, if we sell restaurants with reacquired franchise rights, we will include those assets in the gain or loss on the disposition.

Reacquired franchise rights are also reviewed for impairment 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. We determined that there was no impairment of reacquired franchise rights during our annual test and no indicators of impairment were identified through the end of fiscal year 2014.

(m) 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.

Liquor licenses are reviewed for impairment 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. 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.

(n) Sales Taxes

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

(o) 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. Accrued and other liabilities include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims.

(p) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We record a liability for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return. We recognize any interest and penalties related to unrecognized tax benefits in income tax expense.

(q) Stock-Based Compensation

We measure and recognize compensation cost at fair value for all share-based payments. We record compensation expense 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 (non-substantive vesting period approach).

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

Stock-based compensation expense totaled approximately \$16.9 million, \$16.6 million and \$13.5 million for fiscal 2014, 2013 and 2012, respectively. The total income tax benefit recognized in the consolidated statements of comprehensive income related to stock-based compensation expense was approximately \$6.9 million, \$6.6 million and \$5.1 million during fiscal 2014, 2013 and 2012, respectively.

The weighted average fair values of option grants were \$14.75, \$12.94 and \$9.35 during fiscal 2014, 2013 and 2012, respectively. The fair value of stock options is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2014	2013	2012
Expected volatility	47.7%	53.4%	56.7%
Risk-free interest rate	1.6%	0.7%	0.9%
Expected lives	5 years	5 years	5 years
Dividend yield	2.2%	2.4%	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 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.

(r) 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 25, 2014, no preferred shares were issued.

(s) Shareholders' Equity

In August 2013, our Board of Directors authorized a \$200.0 million increase to our existing share repurchase program resulting in total authorizations of \$3,585.0 million. We repurchased approximately 5.1 million shares of our common stock for \$239.6 million during fiscal 2014. As of June 25, 2014, approximately \$307 million was available under our share repurchase authorizations. Our stock repurchase plan has been and will be used to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. We evaluate potential share repurchases under our plan based on several

factors, including our cash position, share price, operational liquidity, proceeds from divestitures, borrowings and planned investment and financing needs. Repurchased common stock is reflected as a reduction of shareholders' equity. During fiscal 2014, approximately 1.2 million stock options were exercised resulting in cash proceeds of \$29.3 million.

We paid dividends of \$63.4 million to common stock shareholders during fiscal 2014, compared to \$56.3 million in the prior year. Additionally, we declared a quarterly dividend of \$15.6 million, or \$0.24 per share, in May 2014 which was paid on June 26, 2014.

(t) Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Fiscal 2014 comprehensive income consists of net income and foreign currency translation adjustments. The foreign currency translation adjustment represents the unrealized impact of translating the financial statements of the Canadian restaurants from Canadian dollars, the functional currency, to U.S. dollars. We reinvest foreign earnings, therefore, United States deferred income taxes have not been provided on foreign earnings. Fiscal 2013 and 2012 comprehensive income consists of net income.

(u) Net Income Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted share awards, determined using the treasury stock method. We had approximately 113,000 stock options and restricted share awards outstanding at June 25, 2014, 193,000 stock options and restricted share awards outstanding at June 26, 2013, and 287,000 stock options and restricted share awards outstanding at June 27, 2012 that were not included in the dilutive earnings per share calculation because the effect would have been antidilutive.

Basic weighted average shares outstanding is reconciled to diluted weighted average shares outstanding as follows (in thousands):

	2014	2013	2012
Basic weighted average shares outstanding	66,251	71,788	78,559
Dilutive stock options	853	955	738
Dilutive restricted shares	1,048	1,415	1,367
	1,901	2,370	2,105
Diluted weighted average shares outstanding	68,152	74,158	80,664

(v) Segment Reporting

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Two or more operating segments may be aggregated into a single operating segment if they have similar economic characteristics and are similar in the following areas:

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

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

2. ACQUISITION OF CHILI'S RESTAURANTS

On June 1, 2013, we completed the acquisition of 11 Chili's restaurants in Alberta, Canada from an existing franchisee for \$24.6 million in cash. The results of operations of the Canadian restaurants are included in our consolidated financial statements from the date of acquisition. The assets and liabilities of the Canadian restaurants were recorded at their respective fair values as of the date of acquisition. During fiscal 2014, we completed the valuation of the reacquired franchise rights and recorded the asset at an estimated fair value of \$8.9 million in intangibles on the consolidated balance sheet, with a corresponding decrease to goodwill. This asset is amortized using the straight-line method over the estimated useful life of eleven years.

The excess of the purchase price over the aggregate fair value of net assets acquired was allocated to goodwill. We expect the majority of the goodwill balance to be deductible for tax purposes. The portion of the purchase price attributable to goodwill represents benefits expected as a result of the acquisition, including sales and unit growth opportunities. As a result of the acquisition, we incurred expenses of approximately \$0.4 million during fiscal 2013, which are included in other gains and charges in our consolidated statement of comprehensive income. Pro-forma financial information of the combined entities for periods prior to the acquisition is not presented due to the immaterial impact of the financial results of the Canadian restaurants on our consolidated financial statements.

3. INVESTMENTS AND OTHER DISPOSITIONS

(a) Investments

We have a joint venture agreement with CMR, S.A.B. de C.V. to develop 50 Chili's restaurants in Mexico. At June 25, 2014, 36 Chili's restaurants were operating in the joint venture. We account for the Mexico joint venture investment under the equity method of accounting and record our share of the net income or loss of the investee within operating income since their operations are similar to our ongoing operations. These amounts have been included in restaurant expense in our consolidated statements of comprehensive income due to the immaterial nature of the amounts. The investment in the joint venture is included in other assets in our consolidated balance sheets.

In fiscal 2011, we entered into a joint venture investment with BTTO Participacoes Ltda ("BTTO") to develop Chili's restaurants in Brazil. During fiscal 2012, we made capital contributions of \$1.6 million to the joint venture and opened one restaurant. We accounted for this investment under the equity method of accounting until April 2012 when we purchased BTTO's interest in the joint venture for approximately \$1.5 million and began consolidating the entity's results. In the fourth quarter of fiscal 2013, we fully impaired the property and equipment and recorded a charge in other gains and charges in the consolidated statement of comprehensive income. The restaurant was subsequently closed in July 2013.

(b) Other Dispositions

In April 2013, we sold our remaining ownership interest in Romano's Macaroni Grill ("Macaroni Grill") for approximately \$8.3 million in cash proceeds. This amount was recorded as a gain in other gains and charges in the consolidated statement of comprehensive income in fiscal 2013.

4. OTHER GAINS AND CHARGES

Other gains and charges consist of the following (in thousands):

	2014	2013	2012
Litigation reserves	\$ 39,500	\$ 0	\$ 0
Restaurant impairment charges	4,502	5,276	3,139
Restaurant closure charges	3,413	3,637	4,655
Severance and other benefits	2,140	2,235	0
Gain on the sale of assets, net	(608)	(11,228)	(3,306)
Loss on extinguishment of debt	0	15,768	0
Impairment of liquor licenses	0	170	2,641
Other	277	1,442	1,845
	<u>\$ 49,224</u>	<u>\$ 17,300</u>	<u>\$ 8,974</u>

Other gains and charges in fiscal 2014 includes charges of approximately \$39.5 million related to various litigation matters including a class action litigation pending in California. See Note 14 for additional disclosures.

During fiscal 2014, we recorded restaurant impairment charges of \$4.5 million related to underperforming restaurants that either continue to operate or are scheduled to close. We also recorded \$3.4 million of restaurant closure charges consisting primarily of lease termination charges and other costs associated with closed restaurants. Additionally, we incurred \$2.1 million in severance and other benefits related to organization changes made during the fiscal year. The severance charges include expense related to the accelerated vesting of stock-based compensation awards. Furthermore, a \$0.6 million gain was recorded primarily related to land sales.

In June 2013, we redeemed the 5.75% notes due May 2014, resulting in a charge of \$15.8 million representing the remaining interest payments and unamortized debt issuance costs and discount. See Note 8 for additional disclosures related to fiscal 2013 activity.

During fiscal 2013, we recorded restaurant impairment charges of \$5.3 million primarily related to the impairment of the company-owned restaurant in Brazil which subsequently closed in fiscal 2014. We also recorded \$3.6 million of restaurant closure charges, consisting primarily of \$2.3 million of lease termination charges and \$0.9 million related to the write-down of land associated with a closed facility. Additionally, we incurred \$2.2 million in severance and other benefits related to organizational changes. The severance charges include expense related to the accelerated vesting of stock-based compensation awards. In fiscal 2013, we also recognized gains of \$11.2 million on the sale of assets, including an \$8.3 million gain on the sale of our remaining interest in Macaroni Grill and net gains of \$2.9 million related to land sales.

During fiscal 2012, we recorded restaurant impairment charges of \$3.1 million related to underperforming restaurants that either continue to operate or are scheduled to close. We also recorded 2.6 million of impairment charges for the excess of the carrying amount of certain transferable liquor licenses over their fair value. Additionally, we incurred \$4.7 million of restaurant closure charges primarily related to lease termination charges associated with restaurants closed in prior years and a long-lived asset impairment charge of \$0.4 million resulting from closures. Furthermore, a \$3.3 million gain was recorded primarily related to land sales during the fiscal year.

The restaurant and liquor license impairment charges were measured as the excess of the carrying amount of property and equipment or liquor licenses over the fair value. See Note 10 for fair value disclosures related to these impairment charges.

5. GOODWILL AND INTANGIBLES

The changes in the carrying amount of goodwill for the fiscal years ended June 25, 2014 and June 26, 2013 are as follows (in thousands):

	2014	2013
Balance at beginning of year:		
Goodwill	\$ 204,937	\$ 188,438
Accumulated impairment losses(a)	(62,834)	(62,834)
	142,103	125,604
Changes in goodwill:		
Additions(b)	0	16,499
Adjustments(c)	(8,387)	0
Foreign currency translation adjustment	(282)	0
Balance at end of year:		
Goodwill	196,268	204,937
Accumulated impairment losses	(62,834)	(62,834)
	<u>\$ 133,434</u>	<u>\$ 142,103</u>

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

(b) Additions for the prior year reflect the preliminary goodwill acquired as a result of the Canada acquisition.

(c) The valuation of the reacquired franchise rights associated with the Canada acquisition was finalized during fiscal 2014 and a fair value of approximately \$8.9 million was assigned to the intangible asset. There was no value assigned to these rights in the preliminary purchase price allocation presented at June 26, 2013. Intangibles was increased by approximately \$8.9 million with a corresponding decrease to goodwill.

Intangible assets, net for the fiscal years ended June 25, 2014 and June 26, 2013 are as follows (in thousands):

	2014			2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets						
Reacquired franchise rights	\$ 9,107	\$ (1,121)	\$ 7,986	\$ 560	\$ (241)	\$ 319
Other	872	(292)	580	364	(210)	154
	<u>\$ 9,979</u>	<u>\$ (1,413)</u>	<u>\$ 8,566</u>	<u>\$ 924</u>	<u>\$ (451)</u>	<u>\$ 473</u>
Indefinite-lived intangible assets						
Liquor licenses	<u>\$ 10,275</u>			<u>\$ 10,223</u>		

Amortization expense for all definite-lived intangible assets was \$1.0 million, \$0.2 million and \$0.2 million in fiscal 2014, 2013 and 2012, respectively. Amortization expense for definite-lived intangible assets will approximate \$0.9 million for the next five fiscal years.

6. ACCRUED AND OTHER LIABILITIES

Accrued liabilities consist of the following (in thousands):

	2014	2013
Gift cards	\$ 104,378	\$ 91,893
Payroll	77,585	77,238
Litigation reserves	39,500	0
Sales tax	19,622	18,613
Insurance	20,652	17,743
Property tax	14,209	14,119
Dividends	15,625	13,511
Other	36,446	36,348
	<u>\$ 328,017</u>	<u>\$ 269,465</u>

Other liabilities consist of the following (in thousands):

	2014	2013
Straight-line rent	\$ 57,462	\$ 57,129
Insurance	36,352	38,602
Landlord contributions	23,404	24,029
Unrecognized tax benefits	5,247	5,055
Other	6,633	7,078
	<u>\$ 129,098</u>	<u>\$ 131,893</u>

7. INCOME TAXES

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

	2014	2013	2012
Current income tax expense:			
Federal	\$ 66,170	\$ 46,852	\$ 27,707
State	15,219	11,800	7,056
Foreign	3,550	2,879	5,098
Total current income tax expense	<u>84,939</u>	<u>61,531</u>	<u>39,861</u>
Deferred income tax (benefit) expense:			
Federal	(18,715)	7,344	16,520
State	(4,087)	(1,919)	1,196
Foreign	112	0	0
Total deferred income tax (benefit) expense	<u>(22,690)</u>	<u>5,425</u>	<u>17,716</u>
	<u>\$ 62,249</u>	<u>\$ 66,956</u>	<u>\$ 57,577</u>

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

	2014	2013	2012
Income tax expense at statutory rate	\$ 75,701	\$ 80,610	\$ 73,083
FICA tax credit	(18,116)	(16,450)	(16,609)
State income taxes, net of Federal benefit	7,636	6,368	4,750
Other	(2,972)	(3,572)	(3,647)
	<u>\$ 62,249</u>	<u>\$ 66,956</u>	<u>\$ 57,577</u>

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities as of June 25, 2014 and June 26, 2013 are as follows (in thousands):

	2014	2013
Deferred income tax assets:		
Leasing transactions	\$ 40,085	\$ 40,662
Stock-based compensation	13,698	13,250
Restructure charges and impairments	16,726	2,885
Insurance reserves	18,550	18,595
Employee benefit plans	404	544
Gift cards	15,497	13,171
Other, net	8,975	10,903
Total deferred income tax assets	<u>113,935</u>	<u>100,010</u>
Deferred income tax liabilities:		
Prepaid expenses	16,462	15,776
Goodwill and other amortization	26,551	25,333
Depreciation and capitalized interest on property and equipment	20,982	32,160
Other, net	3,680	3,522
Total deferred income tax liabilities	<u>67,675</u>	<u>76,791</u>
Net deferred income tax asset	<u>\$ 46,260</u>	<u>\$ 23,219</u>

A reconciliation of unrecognized tax benefits for the fiscal years ended June 25, 2014 and June 26, 2013 are as follows (in thousands):

	2014	2013
Balance at beginning of year	\$ 6,388	\$ 7,336
Additions based on tax positions related to the current year	1,582	754
Additions based on tax positions related to prior years	347	7
Settlements with tax authorities	(339)	(930)
Expiration of statute of limitations	(603)	(779)
Balance at end of year	<u>\$ 7,375</u>	<u>\$ 6,388</u>

The total amount of unrecognized tax benefits that would favorably affect the effective tax rate if resolved in our favor due to the effect of deferred tax benefits was \$4.9 million and \$4.3 million as of June 25, 2014 and June 26, 2013, respectively. During the next twelve months, we anticipate that it is reasonably possible that the amount of unrecognized tax benefits could be reduced by approximately \$0.5 million (\$0.3 million of which would affect the effective tax rate due to the effect of deferred tax benefits) either because our tax position will be sustained upon audit or as a result of the expiration of the statute of limitations for specific jurisdictions.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. During fiscal 2014, we recognized a benefit of approximately \$0.3 million in interest. During fiscal 2013 and 2012, we recognized an expense of approximately \$0.5 million and a benefit of \$0.3 million, respectively, in interest due to the reduction of accrued interest from statute expirations and settlements, net of accrued interest for remaining positions. As of June 25, 2014, we had \$2.5 million (\$1.7 million net of a \$0.8 million Federal deferred tax benefit) of interest and penalties accrued, compared to \$2.1 million (\$1.5 million net of a \$0.6 million Federal deferred tax benefit) at June 26, 2013.

8. DEBT

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

	2014	2013
3.88% notes	\$ 299,736	\$ 299,707
2.60% notes	249,864	249,829
Term loan	187,500	212,500
Revolving credit facility	80,000	0
Capital lease obligations (see Note 9)	43,086	45,681
	<u>860,186</u>	<u>807,717</u>
Less current installments	(27,884)	(27,596)
	<u>\$ 832,302</u>	<u>\$ 780,121</u>

Our credit facility, which matures in August 2016, includes a \$250 million revolver and a \$250 million term loan. During fiscal 2014, \$120.0 million was drawn from the revolver to fund share repurchases. We repaid \$40.0 million of the outstanding balance leaving \$170 million of credit available under the revolver as of June 25, 2014. During fiscal 2014, we paid the required term loan installments totaling \$25.0 million bringing the outstanding balance to \$187.5 million.

The term loan and revolving credit facility bear interest at 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 2.50%. Based on our current credit rating, we are paying interest at a rate of LIBOR plus 1.63%. One month LIBOR at June 25, 2014 was approximately 0.15%.

In May 2013, we issued \$550.0 million of notes consisting of two tranches - \$250.0 million of 2.60% notes due in May 2018 and \$300.0 million of 3.88% notes due in May 2023. We received proceeds totaling approximately \$549.5 million prior to debt issuance costs and utilized the proceeds to redeem the 5.75% notes due in June 2014, pay down the revolver and fund share repurchases. The new notes require semi-annual interest payments which began in the second quarter of fiscal 2014.

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

Excluding capital lease obligations (see Note 9) and interest, our long-term debt maturities for the five years following June 25, 2014 and thereafter are as follows (in thousands):

<u>Fiscal Year</u>	<u>Long-Term Debt</u>
2015	\$ 25,000
2016	25,000
2017	217,500
2018	249,864
2019	0
Thereafter	299,736
	<u>\$ 817,100</u>

9. LEASES

(a) Capital Leases

We lease certain buildings under capital leases. The asset value of \$39.0 million at June 25, 2014 and June 26, 2013, and the related accumulated amortization of \$20.1 million and \$18.2 million at June 25, 2014 and June 26, 2013, respectively, are included in property and equipment. Amortization of assets under capital leases is included in depreciation and amortization expense.

(b) Operating Leases

We lease restaurant facilities and office space under operating leases having terms expiring at various dates through fiscal 2093. The restaurant leases have renewal clauses of 1 to 30 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 expense, such as common area maintenance, taxes and amortization of landlord contributions.

Rent expense consists of the following (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Straight-lined minimum rent	\$ 90,574	\$ 88,773	\$ 88,194
Contingent rent	4,737	3,637	3,752
Other	9,817	9,296	9,344
Total rent expense	<u>\$ 105,128</u>	<u>\$ 101,706</u>	<u>\$ 101,290</u>

(c) Commitments

As of June 25, 2014, future minimum lease payments on capital and operating leases were as follows (in thousands):

<u>Fiscal Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2015	\$ 5,692	\$ 111,314
2016	5,806	100,922
2017	5,709	78,358
2018	5,521	59,714
2019	5,202	35,238
Thereafter	36,968	105,646
Total minimum lease payments(a)	64,898	\$ 491,192
Imputed interest (average rate of 7%)	(21,812)	
Present value of minimum lease payments	43,086	
Less current installments	(2,883)	
	\$ 40,203	

(a) Future minimum lease payments have not been reduced by minimum sublease rentals to be received in the future under non-cancelable subleases. Sublease rentals are approximately \$35.5 million and \$48.4 million for capital and operating subleases, respectively.

10. FAIR VALUE DISCLOSURES

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

In fiscal 2014, long-lived assets with a carrying value of \$5.8 million, primarily related to nine underperforming restaurants, were written down to their fair value of \$1.3 million resulting in an impairment charge of \$4.5 million. In fiscal 2013, long-lived assets with a carrying value of \$5.6 million, primarily related to three underperforming restaurants including the company-owned Chili's in Brazil, were written down to their fair value of \$0.3 million resulting in an impairment charge of \$5.3 million. We determined fair value based on projected discounted future operating cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model.

In fiscal 2014, we reviewed the transferable liquor licenses during our semi-annual impairment analysis and determined there was no impairment. In fiscal 2013, one transferable liquor license with a carrying value of \$0.3 million was written down to the fair value of \$0.1 million resulting in an impairment charge of \$0.2 million. We determined fair value based on prices in the open market for licenses in same or similar jurisdictions.

All impairment charges related to underperforming restaurants and liquor licenses were included in other gains and charges in the consolidated statement of comprehensive income for the periods presented.

During fiscal 2014, we completed the valuation of the reacquired franchise rights related to the Canada acquisition and recorded the asset at an estimated fair value of \$8.9 million in intangibles on the consolidated balance sheet. In fiscal 2014, we reviewed the reacquired franchise rights during our annual impairment analysis and determined there was no impairment.

The following table presents fair values for those assets measured at fair value on a non-recurring basis at June 25, 2014 and June 26, 2013 (in thousands):

	Fair Value Measurements Using			
	(Level 1)	(Level 2)	(Level 3)	Total
Long-lived assets held for use:				
At June 25, 2014	\$ 0	\$ 0	\$ 1,342	\$ 1,342
At June 26, 2013	\$ 0	\$ 0	\$ 333	\$ 333
Liquor licenses:				
At June 25, 2014	\$ 0	\$ 0	\$ 0	\$ 0
At June 26, 2013	\$ 0	\$ 100	\$ 0	\$ 100
Reacquired franchise rights:				
At June 25, 2014	\$ 0	\$ 0	\$ 8,860	\$ 8,860

(b) Other Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying amounts because of the short maturity of these items. The fair value of the 2.60% notes and 3.88% notes is based on quoted market prices and are considered Level 1 fair value measurements. At June 25, 2014, the 2.60% notes had a carrying value of \$249.9 million and a fair value of \$250.4 million and the 3.88% notes had a carrying value of \$299.7 million and a fair value of \$290.2 million. At June 26, 2013, the 2.60% notes had a carrying value of \$249.8 million and a fair value of \$244.2 million and the 3.88% notes had a carrying value of \$299.7 million and a fair value of \$279.5 million. The carrying amount of debt outstanding pursuant to the term loan and revolving credit facility approximates fair value as interest rates on these instruments approximate current market rates (Level 2).

11. STOCK-BASED COMPENSATION

Our shareholders approved stock-based compensation plans including the Stock Option and Incentive Plan and the Stock Option and Incentive Plan for Non-Employee Directors and Consultants (collectively, the "Plans"). In November 2013, our shareholders approved an amendment to the Stock Option and Incentive Plan increasing the number of shares authorized for issuance by 2.0 million shares. The total number of shares authorized for issuance to employees and non-employee directors and consultants under the Plans is currently 37.3 million. The Plans provide for grants of options to purchase our common stock, restricted stock, restricted stock units, performance shares and stock appreciation rights.

(a) Stock Options

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

Transactions during fiscal 2014 were as follows (in thousands, except option prices):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding at June 26, 2013	2,725	\$ 23.13		
Granted	223	42.89		
Exercised	(1,203)	24.35		
Forfeited or canceled	(44)	25.15		
Options outstanding at June 25, 2014	1,701	\$ 24.80	4.0	\$ 44,367
Options exercisable at June 25, 2014	1,113	\$ 20.58	2.8	\$ 33,728

At June 25, 2014, unrecognized compensation expense related to stock options totaled approximately \$2.6 million and will be recognized over a weighted average period of 1.9 years. The intrinsic value of options exercised totaled approximately \$25.7 million, \$22.4 million and \$12.6 million during fiscal 2014, 2013 and 2012, respectively. The tax benefit realized on options exercised totaled approximately \$8.9 million, \$8.1 million and \$4.8 million during fiscal 2014, 2013 and 2012, respectively.

(b) Restricted Share Awards

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

Transactions during fiscal 2014 were as follows (in thousands, except fair values):

	Number of Restricted Share Awards	Weighted Average Fair Value Per Award
Restricted share awards outstanding at June 26, 2013	1,923	\$ 21.15
Granted	455	39.81
Vested	(703)	12.93
Forfeited	(167)	32.65
Restricted share awards outstanding at June 25, 2014	1,508	\$ 29.39

At June 25, 2014, unrecognized compensation expense related to restricted share awards totaled approximately \$12.8 million and will be recognized over a weighted average period of 2.4 years. The fair value of shares that vested during fiscal 2014, 2013, and 2012 totaled approximately \$42.2 million, \$22.0 million and \$11.5 million, respectively.

12. SAVINGS PLAN

We sponsor a qualified defined contribution retirement plan covering all employees who have attained the age of twenty-one and have completed one 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 at a rate of 100% of the first 3% an employee contributes and 50% of the next 2% the employee contributes with immediate vesting. In fiscal 2014, 2013, and 2012, we contributed approximately \$7.4 million, \$7.2 million, and \$6.7 million, respectively.

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2014	2013	2012
Income taxes, net of refunds	\$ 48,379	\$ 60,291	\$ 47,514
Interest, net of amounts capitalized ^(a)	25,476	41,504	24,455

^(a) Fiscal 2013 interest includes \$15.3 million of interest paid upon retirement of the 5.75% notes in June 2013.

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

	2014	2013	2012
Retirement of fully depreciated assets	\$ 64,420	\$ 55,427	\$ 77,249
Accrued dividends	15,625	13,511	11,948

14. COMMITMENTS AND CONTINGENCIES

In connection with the sale of restaurants to franchisees and brand divestitures, we have, in certain cases, guaranteed lease payments. As of June 25, 2014 and June 26, 2013, we have outstanding lease guarantees or are secondarily liable for \$116.5 million and \$132.6 million, respectively. This amount represents the maximum potential liability of future payments under the guarantees. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from fiscal 2015 through fiscal 2024. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of June 25, 2014, as the likelihood of default by the buyers on the assignment agreements was deemed to be less than probable.

We provide letters of credit to various insurers to collateralize obligations for outstanding claims. As of June 25, 2014, we had \$26.1 million in undrawn standby letters of credit outstanding. All standby letters of credit are renewable annually.

The aggregate litigation reserves of approximately \$39.5 million established in the fourth quarter of fiscal 2014 are based on the terms set forth in the applicable agreements and our reasonable expectations regarding future events. 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.

In August 2004, certain current and former hourly restaurant team members filed a putative class action lawsuit against us in California Superior Court alleging violations of California labor laws with respect to meal periods and rest breaks. The lawsuit sought penalties and attorney's fees and was certified as a class action by the trial court in July 2006. In July 2008, the California Court of Appeal decertified the class action on all claims with prejudice. In October 2008, the California Supreme Court granted a writ to review the decision of the Court of Appeal and oral arguments were heard by the California Supreme Court on November 8, 2011. On April 12, 2012, the California Supreme Court issued an opinion affirming in part, reversing in part, and remanding in part for further proceedings. The California Supreme Court's opinion resolved many of the legal standards for meal periods and rest breaks in our California restaurants. On September 26, 2013, the trial court granted plaintiffs' motion to certify a meal period subclass and denied our motion to decertify the rest period subclass.

On April 8, 2014, the parties participated in mediation where preliminary settlement discussions began, but a settlement was not achieved and significant issues remained outstanding. On August 6, 2014, the parties reached a preliminary settlement agreement, which remains subject to court approval, to resolve all claims in exchange for a settlement payment not to exceed \$56.5 million. We established a reserve of approximately \$39.0 million related to this pending class action litigation, but the actual amount of any settlement payment could vary from our reserve and will be subject to many factors including approval by the court, claims process, and other matters typically associated with the potential settlement of complex class action litigation.

We are engaged in various other legal proceedings and have certain unresolved claims pending. Reserves have been established based on our best estimates of our potential liability in certain of these matters. Based upon consultation with legal counsel, Management is of the opinion that there are no matters pending or threatened which are expected to have a material adverse effect, individually or in the aggregate, on our consolidated financial condition or results of operations.

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2014 and 2013 (in thousands, except per share amounts):

	Fiscal Year 2014 Quarters Ended			
	Sept. 25	Dec. 25	March 26	June 25
Revenues	\$ 683,924	\$ 704,395	\$ 758,408	\$ 758,725
Income before provision for income taxes	\$ 42,582	\$ 57,713	\$ 80,815	\$ 35,178
Net income	\$ 29,212	\$ 39,744	\$ 56,263	\$ 28,820
Basic net income per share	\$ 0.44	\$ 0.59	\$ 0.85	\$ 0.44
Diluted net income per share	\$ 0.42	\$ 0.58	\$ 0.82	\$ 0.43
Basic weighted average shares outstanding	66,693	66,811	66,479	65,009
Diluted weighted average shares outstanding	68,802	68,628	68,342	66,824

	Fiscal Year 2013 Quarters Ended			
	Sept. 26	Dec. 26	March 27	June 26
Revenues	\$ 683,507	\$ 689,764	\$ 742,759	\$ 730,068
Income before provision for income taxes	\$ 40,452	\$ 55,226	\$ 72,814	\$ 61,823
Net income	\$ 27,864	\$ 37,177	\$ 51,951	\$ 46,367
Basic net income per share	\$ 0.38	\$ 0.51	\$ 0.73	\$ 0.67
Diluted net income per share	\$ 0.36	\$ 0.50	\$ 0.71	\$ 0.64
Basic weighted average shares outstanding	73,903	72,560	71,067	69,607
Diluted weighted average shares outstanding	76,558	74,720	73,341	71,999

Net income for fiscal 2014 included a \$39.5 million charge in the fourth quarter to establish reserves for the potential settlement of various litigation matters. Long-lived asset impairments of \$1.3 million and \$3.2 million were recorded in the second and fourth quarters, respectively. Additionally, net income included lease termination charges of \$0.2 million, \$0.2 million, \$0.9 million and \$0.6 million in the four quarters of fiscal 2014 related to restaurants closed in the current year and adjustments for prior year closures. Severance charges of \$0.2 million, \$0.2 million, \$0.7 million and \$1.0 million were incurred in the four quarters of fiscal 2014.

Net income for fiscal year 2013 included a \$15.8 million loss on extinguishment of debt in the fourth quarter. Long-lived asset impairments of \$0.7 million and \$4.6 million were recorded in the second and fourth quarters, respectively. Severance charges of \$1.3 million and \$1.0 million were incurred during the third and fourth quarters, respectively. Net income also included lease termination charges related to previously closed restaurants of \$0.4 million, \$1.1 million and \$0.6 million in the first, second and fourth quarters, respectively. These charges were partially offset by an \$8.3 million gain on the sale of our remaining interest in Macaroni Grill in the fourth quarter and net gains of \$2.3 million and \$0.4 million related to land sales in the second and fourth quarters, respectively.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Brinker International, Inc. and subsidiaries (the "Company") as of June 25, 2014 and June 26, 2013, and the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended June 25, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brinker International, Inc. and subsidiaries as of June 25, 2014 and June 26, 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended June 25, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 25, 2014, based on criteria established in *Internal Control-Integrated Framework-1992* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 25, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Dallas, TX
August 25, 2014

Report of Independent Registered Public Accounting Firm

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

We have audited Brinker International, Inc.'s (the "Company") internal control over financial reporting as of June 25, 2014, based on criteria established in *Internal Control-Integrated Framework-1992* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 25, 2014, based on criteria established in *Internal Control-Integrated Framework-1992* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 25, 2014 and June 26, 2013, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended June 25, 2014, and our report dated August 25, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Dallas, TX
August 25, 2014

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

We maintain a system of internal control over financial reporting designed to provide reasonable assurance of the reliability of the consolidated financial statements. Our internal audit function monitors and reports on the adequacy of the compliance with the internal control system and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is comprised solely of outside directors, provides oversight to the financial reporting process through periodic meetings with our independent registered public accounting firm, internal auditors, and management. Both our independent registered public accounting firm and internal auditors have free access to the Audit Committee. Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of and for the year ended June 25, 2014 provide reasonable assurance that the consolidated financial statements are reliable.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. We have assessed the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework-1992* 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 25, 2014.

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

The effectiveness of our internal control over financial reporting as of June 25, 2014 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

/s/ WYMAN T. ROBERTS

WYMAN T. ROBERTS
Chief Executive Officer, President and President of Chili's Grill & Bar

/s/ MARIE L. PERRY

MARIE L. PERRY
Senior Vice President, Treasurer, Contoller and Chief Financial Officer

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

BRINKER RESTAURANT CORPORATION, a Delaware corporation
 BRINKER INTERNATIONAL PAYROLL COMPANY, L.P., a Delaware limited partnership
 BRINKER ALABAMA, INC., a Delaware corporation
 BRINKER ARKANSAS, INC., a Delaware corporation
 BRINKER 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 FLORIDA, INC., a Delaware corporation
 BRINKER FREEHOLD, INC., a New Jersey corporation
 BRINKER GEORGIA, INC., a Delaware corporation
 BRINKER LOUISIANA, INC., a Delaware corporation
 BRINKER MEXICO SERVICES S DE R.L. DE C.V., a Mexico company
 BRINKER MHC B.V., a Netherlands private company
 BRINKER MICHIGAN, INC., a Delaware corporation
 BRINKER MISSISSIPPI, INC., a Delaware corporation
 BRINKER MISSOURI, INC., a Delaware corporation
 BRINKER NEVADA, INC., a Nevada corporation
 BRINKER NEW JERSEY, INC., a Delaware corporation
 BRINKER NORTH CAROLINA, INC., a Delaware corporation
 BRINKER OF BALTIMORE COUNTY, INC., a Maryland corporation
 BRINKER OF CARROLL COUNTY, INC., a Maryland corporation
 BRINKER OF CECIL COUNTY, INC., a Maryland corporation
 BRINKER OKLAHOMA, INC., a Delaware corporation
 BRINKER PENN TRUST, a Pennsylvania business trust
 BRINKER PURCHASING, INC., a Delaware corporation
 BRINKER SERVICES CORPORATION, a Florida corporation
 BRINKER TEXAS, INC., a Delaware corporation
 BRINKER VIRGINIA, INC., a Delaware corporation
 CGB COMERCIO DE ALIMENTOS E BEBIDAS LTDA., a Brazil limited liability company
 CHILI'S BEVERAGE COMPANY, INC., a Texas corporation
 CHILI'S, INC., a Delaware corporation
 CHILI'S, INC., a Tennessee corporation
 CHILI'S INTERNATIONAL BASES, B.V., a Netherlands private company
 CHILI'S OF BEL AIR, INC., a Maryland corporation
 CHILI'S OF KANSAS, INC., a Kansas corporation
 CHILI'S OF MARYLAND, INC., a Maryland corporation
 CHILI'S OF WEST VIRGINIA, INC., a West Virginia corporation
 MAGGIANO'S, INC., an Illinois corporation
 MAGGIANO'S BEVERAGE COMPANY, a Texas corporation
 MAGGIANO'S HOLDING CORPORATION, a Delaware corporation
 MAGGIANO'S OF ANNAPOLIS, INC., a Maryland corporation
 MAGGIANO'S OF HOWARD COUNTY, INC., a Maryland corporation
 MAGGIANO'S OF TYSON'S, INC., a Virginia corporation
 MAGGIANO'S TEXAS, INC., a Delaware corporation
 BIPC GLOBAL PAYROLL COMPANY, LLC, a Delaware limited liability company
 BIPC MANAGEMENT, LLC, a Delaware limited liability company
 BIPC ME JLT, a Dubai Free-Zone company
 BIPC INVESTMENTS, LLC, a Delaware limited liability company
 BRINKER FAMILY FUND, INC., a Delaware non-profit corporation

Consent of Independent Registered Public Accounting Firm

The Board of Directors

Brinker International, Inc.:

We consent to the incorporation by reference in the Registration Statement Nos. 33-56491, 333-02201, 333-93755, 333-42224, 333-105720, 333-125289, and 333-157050 on Form S-8; Registration Nos. 333-74902 and 333-188252 on Form S-3; and Registration Statement No. 333-116879 on Form S-4 of Brinker International, Inc. of our reports dated August 25, 2014, with respect to the consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 25, 2014 and June 26, 2013, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended June 25, 2014, and the effectiveness of internal control over financial reporting as of June 25, 2014, which reports appear in the 2014 Annual Report to Shareholders on Form 10-K of Brinker International, Inc.

/s/ KPMG LLP

Dallas, Texas

August 25, 2014

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 acceptable accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 25, 2014

/S/ WYMAN T. ROBERTS

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

CERTIFICATION

I, Marie L. Perry, certify that:

1. I have reviewed this Annual Report on Form 10-K of Brinker International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 25, 2014

/S/ MARIE L. PERRY

Marie L. Perry
*Senior Vice President, Treasurer, Controller and Chief
Financial Officer
(Principal Financial Officer)*

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Brinker International, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended June 25, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 25, 2014

By:
 /S/ WYMAN T. ROBERTS
Name: Wyman T. Roberts
Title: *Wyman T. Roberts,*
Chief Executive Officer & President 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 25, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 25, 2014

By:
 /S/ MARIE L. PERRY
Name: Marie L. Perry
Title: *Marie L. Perry*
Senior Vice President, Treasurer, Controller and Chief
Financial Officer
(Principal Financial Officer)