

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended December 24, 2003

Commission File Number 1-10275

BRINKER INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

6820 LBJ FREEWAY, DALLAS, TEXAS 75240
(Address of principal executive offices)
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of common stock of registrant outstanding at December 24, 2003: 95,755,578

INDEX

Page

Part I - Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets -
December 24, 2003 (Unaudited) and June 25, 2003 3

Consolidated Statements of Income
(Unaudited) - Thirteen week and twenty-six week
periods ended December 24, 2003 and
December 25, 2002 5

Consolidated Statements of Cash Flows
(Unaudited) - Twenty-six week periods ended
December 24, 2003 and December 25, 2002 6

Notes to Consolidated
Financial Statements (Unaudited) 7 - 9

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations 10 - 15

Item 3. Quantitative and Qualitative Disclosures
About Market Risk 15

Item 4. Controls and Procedures 16

Part II - Other Information

Item 1. Legal Proceedings 19

Item 4. Submission of Matters to a Vote of Security Holders 19

Item 6. Exhibits and Reports on Form 8-K 20

Signatures 21

PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	December 24, 2003 (Unaudited)	June 25, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 43,195	\$ 33,492
Accounts receivable	46,138	34,619
Inventories	24,036	24,403
Prepaid expenses and other	<u>95,206</u>	<u>73,953</u>
Total current assets	<u>208,575</u>	<u>166,467</u>
Property and Equipment, at cost:		
Land	275,801	269,212
Buildings and leasehold improvements	1,310,450	1,245,546
Furniture and equipment	634,688	588,815
Construction-in-progress	<u>63,324</u>	<u>71,913</u>
	2,284,263	2,175,486
Less accumulated depreciation and amortization	<u>(746,730)</u>	<u>(675,914)</u>
Net property and equipment	<u>1,537,533</u>	<u>1,499,572</u>
Other Assets:		
Goodwill	185,068	185,068
Other	<u>93,235</u>	<u>92,183</u>
Total other assets	<u>278,303</u>	<u>277,251</u>
Total assets	<u>\$2,024,411</u>	<u>\$1,943,290</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current installments of long-term debt	\$ 17,656	\$ 17,629
Accounts payable	88,231	108,068
Accrued liabilities	218,422	176,583
Income taxes payable	<u>41,362</u>	<u>7,931</u>
Total current liabilities	<u>365,671</u>	<u>310,211</u>
Long-term debt, less current installments	354,415	353,785
Deferred income taxes	65,901	55,096
Other liabilities	86,267	83,948
Contingencies (Note 6)		
Shareholders' Equity:		
Common stock - 250,000,000 authorized shares; \$0.10 par value; 117,499,541 shares issued and 95,755,578 shares outstanding at December 24, 2003, and 117,499,541 shares issued and 97,854,952 shares outstanding at June 25, 2003	11,750	11,750
Additional paid-in capital	344,488	344,486
Accumulated other comprehensive income	587	609
Retained earnings	<u>1,212,043</u>	<u>1,123,337</u>
	1,568,868	1,480,182
Less:		
Treasury stock, at cost (21,743,963 shares at December 24, 2003 and 19,644,589 shares at June 25, 2003)	(414,537)	(337,946)
Unearned compensation	<u>(2,174)</u>	<u>(1,986)</u>
Total shareholders' equity	<u>1,152,157</u>	<u>1,140,250</u>
Total liabilities and shareholders' equity	<u>\$2,024,411</u>	<u>\$1,943,290</u>

See accompanying notes to consolidated financial statements.

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

	<u>Thirteen Week Periods Ended</u>		<u>Twenty-Six Week Periods Ended</u>	
	<u>December 24,</u> <u>2003</u>	<u>December 25,</u> <u>2002</u>	<u>December 24,</u> <u>2003</u>	<u>December 25,</u> <u>2002</u>
Revenues	\$ <u>886,490</u>	\$ <u>794,510</u>	\$ <u>1,757,388</u>	\$ <u>1,568,402</u>
Operating Costs and Expenses:				
Cost of sales	245,217	217,671	485,119	428,097
Restaurant expenses	492,064	447,343	978,422	870,949
Depreciation and amortization	43,366	38,701	85,775	75,858
General and administrative	<u>36,626</u>	<u>31,776</u>	<u>69,922</u>	<u>64,321</u>
Total operating costs and expenses	<u>817,273</u>	<u>735,491</u>	<u>1,619,238</u>	<u>1,439,225</u>
Operating income	69,217	59,019	138,150	129,177
Interest expense	2,933	2,450	6,251	6,421
Other, net	<u>1,127</u>	<u>760</u>	<u>870</u>	<u>(830)</u>
Income before provision for income taxes	65,157	55,809	131,029	123,586
Provision for income taxes	<u>21,046</u>	<u>18,584</u>	<u>42,323</u>	<u>41,357</u>
Net income	\$ <u>44,111</u>	\$ <u>37,225</u>	\$ <u>88,706</u>	\$ <u>82,229</u>
Basic net income per share	\$ <u>0.46</u>	\$ <u>0.38</u>	\$ <u>0.92</u>	\$ <u>0.85</u>
Diluted net income per share	\$ <u>0.45</u>	\$ <u>0.38</u>	\$ <u>0.90</u>	\$ <u>0.83</u>
Basic weighted average shares outstanding	<u>96,156</u>	<u>96,784</u>	<u>96,780</u>	<u>96,981</u>
Diluted weighted average shares outstanding	<u>97,731</u>	<u>98,848</u>	<u>98,535</u>	<u>99,041</u>

See accompanying notes to consolidated financial statements.

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

Twenty-Six Week Periods Ended

December 24, December 25,
2003 2002

-		
Cash Flows from Operating Activities:		
Net income	\$ 88,706	\$ 82,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	85,775	75,858
Net gain on sale of assets	(420)	-
Amortization of deferred costs	4,936	6,182
Deferred income taxes	2,349	555
Impairment of intangible asset	-	4,123
Changes in assets and liabilities:		
Receivables	(11,981)	(12,843)
Inventories	87	(608)
Prepaid expenses and other	4,249	1,738
Other assets	(1,992)	1,485
Current income taxes	33,431	57,429
Accounts payable	(19,837)	(34,284)
Accrued liabilities	40,941	28,328
Other liabilities	<u>11,243</u>	<u>3,469</u>
Net cash provided by operating activities	<u>237,487</u>	<u>213,661</u>
Cash Flows from Investing Activities:		
Payments for property and equipment	(153,423)	(155,867)
Proceeds from sale of assets	7,704	-
Investment in equity method investees	-	(1,750)
Repayment of note receivable from affiliate	-	11,000
Issuance of loan to affiliate	(2,200)	(1,400)
Net repayments of advances to affiliates	<u>410</u>	<u>730</u>
Net cash used in investing activities	<u>(147,509)</u>	<u>(147,287)</u>
Cash Flows from Financing Activities:		
Net payments on credit facilities	-	(27,800)
Purchases of treasury stock	(90,412)	(40,722)
Proceeds from issuances of treasury stock	11,548	13,469
Payments on long-term debt	<u>(1,411)</u>	<u>(1,289)</u>
Net cash used in financing activities	<u>(80,275)</u>	<u>(56,342)</u>
Net change in cash and cash equivalents	9,703	10,032
Cash and cash equivalents at beginning of period	<u>33,492</u>	<u>10,091</u>
Cash and cash equivalents at end of period	<u>\$ 43,195</u>	<u>\$ 20,123</u>

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC.
Notes to Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

The consolidated financial statements of Brinker International, Inc. and its wholly-owned subsidiaries (collectively, the "Company") as of December 24, 2003 and June 25, 2003 and for the thirteen week and twenty-six week periods ended December 24, 2003 and December 25, 2002, have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The Company owns, operates, or franchises various restaurant concepts under the names of Chili's Grill & Bar ("Chili's"), Romano's Macaroni Grill ("Macaroni Grill"), Maggiano's Little Italy ("Maggiano's"), On The Border Mexican Grill & Cantina ("On The Border"), Corner Bakery Cafe ("Corner Bakery"), and Big Bowl Asian Kitchen ("Big Bowl"). In addition, the Company owns an approximate 43% interest in the legal entities owning and developing Rockfish Seafood Grill ("Rockfish"). During the second quarter of fiscal 2004, the Company closed one Cozymel's Coastal Grill ("Cozymel's") restaurant and sold the remaining fifteen restaurants (see Note 3).

The information furnished herein reflects all adjustments (consisting only of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly state the interim operating results for the respective periods. However, these operating results are not necessarily indicative of the results expected for the full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States have been omitted pursuant to SEC rules and regulations. The notes to the consolidated financial statements (unaudited) should be read in conjunction with the notes to the consolidated financial statements contained in the June 25, 2003 Form 10-K. Management believes that the disclosures are sufficient for interim financial reporting purposes.

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform with fiscal 2004 classifications. These reclassifications have no effect on the Company's net income or financial position as previously reported.

2. STOCK OPTION PLANS

The Company accounts for its stock based compensation under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations ("APB 25"), and has adopted the disclosure-only provisions of Statement of Financial Accounting Standard ("SFAS") No. 123. Under APB 25, no stock-based compensation cost is reflected in net income for grants of stock options to employees because the Company grants stock options with an exercise price equal to the market value of the stock on the date of grant. Had the Company used the fair value based accounting method for stock compensation expense prescribed by SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro-forma amounts illustrated as follows (in thousands, except per share amounts):

	<u>Thirteen Week Periods Ended</u>		<u>Twenty-Six Week Periods Ended</u>	
	<u>December 24,</u> <u>2003</u>	<u>December 25,</u> <u>2002</u>	<u>December 24,</u> <u>2003</u>	<u>December 25,</u> <u>2002</u>
Net income - as reported	\$ 44,111	\$ 37,225	\$ 88,706	\$ 82,229
Add: Reported stock-based compensation expense, net of taxes	344	621	931	1,195
Deduct: Fair value based compensation expense, net of taxes	<u>(4,921)</u>	<u>(4,714)</u>	<u>(9,512)</u>	<u>(9,031)</u>
Net income - pro-forma	<u>\$ 39,534</u>	<u>\$ 33,132</u>	<u>\$ 80,125</u>	<u>\$ 74,393</u>
Earnings per share:				
Basic - as reported	<u>\$ 0.46</u>	<u>\$ 0.38</u>	<u>\$ 0.92</u>	<u>\$ 0.85</u>
Basic - pro-forma	<u>\$ 0.41</u>	<u>\$ 0.34</u>	<u>\$ 0.83</u>	<u>\$ 0.77</u>
Diluted - as reported	<u>\$ 0.45</u>	<u>\$ 0.38</u>	<u>\$ 0.90</u>	<u>\$ 0.83</u>
Diluted - pro-forma	<u>\$ 0.41</u>	<u>\$ 0.34</u>	<u>\$ 0.81</u>	<u>\$ 0.75</u>

3. DISPOSITION OF COZYMEL'S

During fiscal 2003, the Company entered into negotiations to sell all sixteen of its Cozymel's restaurants. The decision to discontinue growth and sell the brand required the Company to record asset impairment charges in fiscal 2003 totaling \$20.3 million. After taking this charge, the carrying values of the assets to be sold were approximately \$23.8 million as of June 25, 2003.

During the second quarter of fiscal 2004, the Company closed one Cozymel's restaurant and sold the remaining fifteen restaurants. The Company has received, or expects to receive, proceeds related to the closed and sold units of \$22.4 million, including notes receivable totaling \$20.2 million. During the third quarter of fiscal 2004, \$14.4 million of the notes is scheduled to be repaid in cash and the remaining \$5.8 million is to be converted to long-term financing. The terms of this financing are currently being negotiated. In connection with these negotiations, the Company will continue to assess the capital structure and creditworthiness of the purchaser and will consider their impact on the fair value of the \$5.8 million note in future periods. As a result of the closure and sale, the Company recorded losses totaling approximately \$2.0 million in the second quarter. The losses are included in restaurant expenses in the consolidated statement of income.

4. SHAREHOLDERS' EQUITY

Pursuant to the Company's current stock repurchase plan, the Company repurchased approximately 2.9 million shares of its common stock for \$90.4 million during the first two quarters of fiscal 2004. As of December 24, 2003, approximately 21.1 million shares of its common stock had been repurchased for \$482.5 million under the approved \$510.0 million stock repurchase plan. The Company's stock repurchase plan is used by the Company primarily to offset the dilutive effect of stock option exercises and for other corporate purposes. The repurchased common stock is reflected as a reduction of shareholders' equity.

5. SUPPLEMENTAL CASH FLOW INFORMATION

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

	December 24, <u>2003</u>	December 25, <u>2002</u>
Interest, net of amounts capitalized	\$ 1,974	\$ 1,454
Income tax payments (refunds), net	6,537	(16,627)

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

	December 24, <u>2003</u>	December 25, <u>2002</u>
Issuance of notes for sale of Cozymel's	\$ 20,194	\$ -
Retirement of fully depreciated assets	5,534	114,371
Net (decrease) increase in fair value of interest rate swaps	(9,856)	8,527
Restricted common stock issued, net of forfeitures	2,274	4,524

6. CONTINGENCIES

In April 2003, the Attorney General of California filed a complaint under California's Proposition 65 seeking penalties and injunctive relief against multiple restaurant groups, including the Company. Proposition 65 is a notice statute requiring a party to advise the public and its employees if the premises contains products that are known to cause cancer or reproductive toxicity. Methyl mercury compounds, which are listed under Proposition 65 to cause cancer and reproductive toxicity, can be found in certain select fish that have been or are served by the Company's restaurants. The complaint alleges the Company did not post appropriate notices in its restaurants related to these mercury compounds. The Company is currently in settlement discussions with the Attorney General. It is not possible at this time to reasonably estimate the possible loss or range of loss.

In January 1996, the Company entered into a Tip Reporting Alternative Commitment agreement (the "Contract") with the Internal Revenue Service (the "IRS"). The Contract required the Company, among other things, to implement tip reporting educational programs for its hourly restaurant employees and to establish tip reporting procedures. As part of a routine employment tax examination during fiscal 2004, the IRS alleged that the Company's procedures did not meet the requirements of the Contract. The Company believes it has complied and is complying with the Contract. The Company is currently in discussions with the IRS to resolve this issue. It is not possible at this time to reasonably estimate the possible loss or range of loss.

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

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth selected operating data as a percentage of total revenues for the periods indicated. All information is derived from the accompanying consolidated statements of income.

	13 Week Periods Ended		26 Week Periods Ended	
	Dec. 24, <u>2003</u>	Dec. 25, <u>2002</u>	Dec. 24, <u>2003</u>	Dec. 25, <u>2002</u>
Revenues	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Operating Costs and Expenses:				
Cost of sales	27.7 %	27.4 %	27.6 %	27.3 %
Restaurant expenses	55.5 %	56.3 %	55.7 %	55.5 %
Depreciation and amortization	4.9 %	4.9 %	4.9 %	4.8 %
General and administrative	<u>4.1 %</u>	<u>4.0 %</u>	<u>4.0 %</u>	<u>4.1 %</u>
Total operating costs and expenses	<u>92.2 %</u>	<u>92.6 %</u>	<u>92.2 %</u>	<u>91.7 %</u>
Operating income	7.8 %	7.4 %	7.8 %	8.3 %
Interest expense	0.3 %	0.3 %	0.4 %	0.4 %
Other, net	<u>0.1 %</u>	<u>0.1 %</u>	<u>0.0 %</u>	<u>0.0 %</u>
Income before provision for income taxes	7.4 %	7.0 %	7.4 %	7.9 %
Provision for income taxes	<u>2.4 %</u>	<u>2.3 %</u>	<u>2.4 %</u>	<u>2.6 %</u>
Net income	<u>5.0 %</u>	<u>4.7 %</u>	<u>5.0 %</u>	<u>5.3 %</u>

The following table details the number of restaurant openings during the second quarter and year-to-date, total restaurants open at the end of the second quarter, and projected openings in fiscal 2004.

	Second Quarter Openings		Year-to-Date Openings		Total Open at End Of Second Quarter		Projected Openings
	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Chili's:							
Company-owned	20	17	38	36	726	664	70-75
Franchised	<u>8</u>	<u>7</u>	<u>13</u>	<u>10</u>	<u>218</u>	<u>200</u>	<u>18-21</u>
Total	28	24	51	46	944	864	88-96
Macaroni Grill:							
Company-owned	7	9	11	12	204	188	18-20
Franchised	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>9</u>	<u>6</u>	<u>2-3</u>
Total	7	9	12	12	213	194	20-23
Maggiano's							
	-	3	3	3	28	23	3-4
On The Border:							
Company-owned	-	3	-	4	114	115	4-5
Franchised	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>18</u>	<u>19</u>	<u>-</u>
Total	-	3	-	5	132	134	4-5
Corner Bakery:							
Company-owned	1	3	2	5	87	78	5-8
Franchised	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>-</u>
Total	1	4	2	6	90	81	5-8
Big Bowl							
	1	2	2	4	20	16	2-3
Rockfish Partnership							
	<u>1</u>	<u>1</u>	<u>3</u>	<u>4</u>	<u>23</u>	<u>16</u>	<u>4-6</u>
Grand Total	<u>38</u>	<u>46</u>	<u>73</u>	<u>80</u>	<u>1,450</u>	<u>1,328</u>	<u>126-145</u>

OVERVIEW OF OPERATIONS

Revenues for the second quarter and year-to-date of fiscal 2004 increased by 11.6% and 12.1%, respectively. These increases were primarily driven by the addition of company-owned restaurants as capacity gains increased for the second quarter and year-to-date by 9.3% and 10.0%, respectively. Cost of sales increased during the second quarter and year-to-date as commodity price pressures continue, particularly for dairy, and as a result of unfavorable product mix shifts. Restaurant expenses were impacted during the quarter by a \$2.4 million gain as a result of the sale of four Chili's to a franchise partner and the sale of one real estate property. This gain was partially offset by a \$2.0 million loss recorded as a result of the completion of the sale of Cozymel's.

Revenues for the third quarter of fiscal 2004 are expected to increase by 9% to 10% driven primarily by capacity gains of 8% to 9%. Cost of sales are expected to be approximately 0.1% to 0.2% higher than last year due to the impact of higher beef and dairy costs. Restaurant expenses are expected to be 0.2% lower than last year as a result of increased sales leverage. General and administrative expenses should be slightly higher due primarily to increased headcount and wage rates.

REVENUES

Revenues for the second quarter of fiscal 2004 increased to \$886.5 million, 11.6% over the \$794.5 million generated for the same quarter of fiscal 2003. Revenues for the twenty-six week period ended December 24, 2003 rose 12.1% to \$1,757.4 million from the \$1,568.4 million generated for the same period of fiscal 2003. The increases were primarily attributable to a net increase of 80 company-owned restaurants since December 25, 2002 and an increase in comparable store sales for the second quarter and year-to-date of fiscal 2004 compared to the same periods of fiscal 2003. The Company increased its capacity gains (as measured by average-weighted sales weeks) for the second quarter and year-to-date of fiscal 2004 by 9.3% and 10.0%, respectively, compared to the respective prior year periods. Comparable store sales increased 2.3% and 2.1% for the second quarter and year-to-date, respectively, from the same periods of fiscal 2003. Menu prices in the aggregate increased 1.4% in fiscal 2004 as compared to fiscal 2003.

COSTS AND EXPENSES (as a Percent of Revenues)

Cost of sales increased 0.3% for the second quarter and year-to-date of fiscal 2004 as compared to the same periods of fiscal 2003. The second quarter increase was due primarily to a 0.9% increase in commodity prices for produce, beverages, dairy and cheese and a 0.3% unfavorable product mix shift for poultry, partially offset by a 0.5% decrease in commodity prices for poultry and a 0.4% increase in menu prices. The year-to-date increase was due primarily to a 0.6% increase in commodity prices for produce, dairy and cheese and a 0.9% unfavorable product mix shift for poultry, produce, dairy and cheese, partially offset by a 0.6% decrease in commodity prices for poultry and a 0.6% increase in menu prices.

Restaurant expenses decreased 0.8% for the second quarter of fiscal 2004 as compared to the same period of fiscal 2003. The decrease was primarily due to a gain recorded during the second quarter of fiscal 2004 totaling \$2.4 million as a result of the sale of four Chili's to a franchise partner and the sale of one real estate property and impairment charges recorded during the second quarter of fiscal 2003 totaling \$9.5 million. These decreases were partially offset by a \$2.0 million loss resulting from the sale of Cozymel's during the second quarter of fiscal 2004, an increase in payroll taxes resulting from increased tip reporting, increases in utility costs, and increases in health, workers compensation and general liability insurance. Restaurant expenses increased 0.2% for year-to-date fiscal 2004 as compared to the same period of fiscal 2003. The increase was primarily due to the \$2.0 million Cozymel's loss, an increase in payroll taxes resulting from increased tip reporting, increases in utility costs, and increases in health, workers compensation and general liability insurance. These increases were partially offset by the previously mentioned \$2.4 million gain on the sale of assets and the impairment charges recorded during the second quarter of fiscal 2003 totaling \$9.5 million.

Depreciation and amortization remained flat for the second quarter of fiscal 2004 as compared to the same period of fiscal 2003 and increased 0.1% year-to-date as compared to the same period of fiscal 2003. Increases in depreciation expense due to new unit construction and ongoing remodel costs were offset by increased sales leverage and a declining depreciable asset base for older units.

General and administrative expenses increased 0.1% for the second quarter of fiscal 2004 as compared to the same period of fiscal 2003. The increase was primarily due to an increase in incentive based compensation and increased payroll costs resulting from an increase in headcount and wage rates. General and administrative expenses decreased 0.1% year-to-date of fiscal 2004 as compared to the same period of fiscal 2003 as a result of increased sales leverage resulting from new unit openings and the Company's continued focus on controlling corporate expenditures.

Interest expense remained flat for the second quarter and year-to-date of fiscal 2004 as compared to the same periods of fiscal 2003. Decreases in interest expense on the senior notes and revolving lines-of-credit resulting from lower average outstanding balances were offset by a decrease in capitalized interest due to lower interest rates.

Other, net remained flat for the second quarter and year-to-date of fiscal 2004 as compared to the same periods of fiscal 2003. Decreases in losses related to the Company's share in equity method investees and net savings plan obligations were offset by gains from life insurance proceeds recorded in the first and second quarters of fiscal 2003 totaling \$3.5 million.

INCOME TAXES

The Company's effective income tax rate decreased to 32.3% from 33.3% for the second quarter of fiscal 2004 and to 32.3% from 33.5% year-to-date for fiscal 2004 as compared to the same periods of fiscal 2003. The decreases are primarily due to the increase in the FICA tax credit resulting from increased tip reporting.

LIQUIDITY AND CAPITAL RESOURCES

The working capital deficit increased from \$143.7 million at June 25, 2003 to \$157.1 million at December 24, 2003. Net cash provided by operating activities increased to \$237.5 million for the first six months of fiscal 2004 from \$213.7 million during the same period in fiscal 2003 due to the timing of operational receipts and payments. The Company believes that its various sources of capital, including availability under existing credit facilities and cash flow from operating activities, are adequate to finance operations as well as the repayment of current debt obligations.

The Company's contractual obligations and credit facilities as of December 24, 2003 are as follows:

	Payment Due by Period				
	(in thousands)				
	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Convertible debt (a)	\$ 265,460	\$ -	\$ -	\$ -	\$ 265,460
Senior notes	30,036	14,300	15,736	-	-
Capital leases	62,767	3,540	6,735	7,068	45,424
Mortgage loan obligations	40,110	2,341	4,788	4,358	28,623
Operating leases	881,574	101,482	193,461	171,134	415,497

	Amount of Credit Facility Expiration by Period				
	(in thousands)				
	Total Commitment	Less than 1 year (b)	2-3 Years	4-5 Years	Over 5 Years
Credit facilities	\$ 345,000	\$ 70,000	\$ 275,000	\$ -	\$ -

(a) The convertible debt was issued at a discount representing a yield to maturity of 2.75% per annum. The \$265.5 million balance is the accreted carrying value of the debt at December 24, 2003. The convertible debt will continue to accrete at 2.75% per annum and if held to maturity in October 2021 the obligation will total \$431.7 million.

(b) The portion of the credit facilities that expires in less than one year is an uncommitted obligation giving the lenders the option not to extend the Company funding. However, the lenders have not exercised this option in the past and the Company anticipates that these funds will be available in the future. Should any or all of these obligations not be extended, the Company has adequate capacity under the committed facility, which does not expire until fiscal 2006.

Capital expenditures consist of purchases of land for future restaurant sites, new restaurants under construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures were approximately \$153.4 million for the first six months of fiscal 2004 compared to \$155.9 million for the same period of fiscal 2003. The decrease is due primarily to fewer stores under construction and fewer stores opened in the current period as compared to the same period in fiscal 2003. The Company estimates that its capital expenditures during the third quarter of fiscal 2004 will approximate \$90.0 million. These capital expenditures will be funded entirely from operations and existing credit facilities.

During the second quarter of fiscal 2004, the Company closed one Cozymel's restaurant and sold the remaining fifteen restaurants. The Company has received, or expects to receive, proceeds related to the closed and sold units of \$22.4 million, including notes receivable totaling \$20.2 million. During the third quarter of fiscal 2004, \$14.4 million of the notes is scheduled to be repaid in cash and the remaining \$5.8 million is to be converted to long-term financing.

Pursuant to the Company's current stock repurchase plan, the Company repurchased approximately 2.9 million shares of its common stock for \$90.4 million during the first and second quarters of fiscal 2004. As of December 24, 2003, approximately 21.1 million shares of its common stock had been repurchased for \$482.5 million under the approved \$510.0 million stock repurchase plan. The Company's stock repurchase plan is used by the Company primarily to offset the dilutive effect of stock option exercises and for other corporate purposes. The repurchased common stock is reflected as a reduction of shareholders' equity. The Company finances the repurchase program through a combination of cash provided by operations and drawdowns on its available credit facilities.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the quantitative and qualitative market risks of the Company since the prior reporting period.

CRITICAL ACCOUNTING POLICIES

The following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results, and that require significant judgment.

Property and Equipment

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

Impairment of Long-Lived Assets

The Company reviews property and equipment for impairment when events or circumstances indicate that the carrying amount of a restaurant's assets may not be recoverable. The Company tests for impairment using historical cash flows and other relevant facts and circumstances as the primary basis for its estimates of future cash flows. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment. In addition, at least annually the Company assesses the recoverability of goodwill and other intangible assets related to its restaurant concepts. These impairment tests require the Company to estimate fair values of its restaurant concepts by making assumptions regarding future cash flows, expected growth rates, terminal values, and other factors. These assumptions could be materially different than those used by a third party. In the event that these assumptions change in the future, the Company may be required to record impairment charges for these assets.

Financial Instruments

The Company enters into interest rate swaps to maintain the value of certain fixed-rate debt and lease obligations. The fair value of these swaps is estimated using widely accepted valuation methods. The valuation of derivatives involves considerable judgment, including estimates of future interest rate curves. Changes in those estimates may materially affect the amounts recognized in the balance sheet for the Company's derivatives and interest costs in future periods.

Self-Insurance

The Company is self-insured for certain losses related to general liability and workers' compensation. The Company maintains stop loss coverage with third party insurers to limit its total exposure. The self-insurance liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates, and is reviewed by the Company on a quarterly basis to ensure that the liability is appropriate. If actual trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

Item 4. CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

The Company is subject to federal and state environmental regulations, and although these have not had a material negative effect on the Company's operations, there can be no assurance that there will not be a material negative effect in the future. More stringent and varied requirements of local and state governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations.

The Company is subject to the Fair Labor Standards Act, which governs such matters as minimum wages, overtime and other working conditions, along with the Americans With Disabilities Act, 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. Although the Company expects increases in payroll expenses as a result of federal, state and local mandated increases in the minimum wage, and although such increases are not expected to be material, there can be no assurance that there will not be material increases in the future. However, the Company's vendors may be affected by higher minimum wage standards, which may result in increases in the price of goods and services supplied to the Company.

Inflation may increase the Company's operating expenses.

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

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

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

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

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

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

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

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

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated by reference from Note 6 to the Company's consolidated financial statements set forth in Part I of this report.

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

The Company's Proxy Statement dated September 23, 2003 for the Annual Meeting of Shareholders held on November 13, 2003, as filed with the Securities and Exchange Commission on September 23, 2003, is incorporated herein by reference.

(a) The Annual Meeting of Shareholders of the Company was held on November 13, 2003.

(b) Each of the management's nominees, as described in the Proxy Statement referenced above, was elected a director to hold office until the next Annual Meeting of Shareholders or until his or her successor is elected and qualified.

	<u>Votes For</u>	<u>Votes Against or Withheld</u>
Ronald A. McDougall	81,394,335	4,902,937
Douglas H. Brooks	84,652,569	1,644,703
Dan W. Cook, III	83,335,986	2,961,286
Robert M. Gates	84,669,485	1,627,787
Marvin J. Girouard	57,602,039	28,695,233
Ronald Kirk	57,581,894	28,715,378
George R. Mrkonic	84,642,149	1,655,123
Erle Nye	84,497,537	1,799,735
James E. Oesterreicher	57,620,278	28,676,994
Cece Smith	57,879,292	28,417,980
Roger T. Staubach	82,450,713	3,846,559

(c) The following matter was also voted upon at the meeting and approved by the shareholders:

(i) proposal to ratify the appointment of KPMG LLP as Independent Auditors for Fiscal 2004

Votes For	54,345,496
Votes Against	31,760,632
Votes Abstained	191,143

(d) The following matter was also voted upon at the meeting and rejected by the shareholders:

(i) proposal regarding genetically engineered ingredients in food products

Votes For	5,708,349
Votes Against	65,895,679
Votes Abstained	7,460,091

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31(a) Certification by Douglas H. Brooks, President and Chief Executive Officer of the Registrant, pursuant to 17 CFR 240.13a - 14(a) or 17 CFR 240.15d - 14(a).

31(b) Certification by Charles M. Sonstebly, Executive Vice President and Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a - 14(a) or 17 CFR 240.15d - 14(a).

32(a) Certification by Douglas H. Brooks, President and Chief Executive Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

(b) Reports on Form 8-K

A current report on Form 8-K, dated October 21, 2003, was filed with the Securities and Exchange Commission on October 24, 2003. This Form 8-K furnished a copy of the Company's press release announcing its first quarter fiscal 2004 results.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRINKER INTERNATIONAL, INC.

Date: February 9, 2004

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

Date: February 9, 2004

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

CERTIFICATIONS

I, Douglas H. Brooks, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2004

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

CERTIFICATIONS

I, Charles M. Sonsteby, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2004

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

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Brinker International, Inc. (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended December 24, 2003 (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.

Date: February 9, 2004

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

EXHIBIT 32(b)

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Brinker International, Inc. (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended December 24, 2003 (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.

Date: February 9, 2004

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