

FORM 10Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

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

For the Quarter Ended March 30, 1994

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)

(214) 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

Number of shares of common stock of registrant outstanding at March 30, 1994:  
69,562,881.

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BRINKER INTERNATIONAL, INC.

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BRINKER INTERNATIONAL, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)  
(Unaudited)

	MARCH 30, 1994	JUNE 30, 1993
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,860	\$ 5,472
Accounts Receivable	10,799	5,832
Assets Held for Sale and Leaseback	47	1,155
Inventories	7,446	6,531
Prepaid Expenses	13,784	11,908
Total Current Assets	34,936	30,898
Property and Equipment, at Cost:		
Land	\$ 99,655	\$ 86,832
Buildings and Leasehold Improvements	259,048	211,779
Furniture and Equipment	158,412	136,216
Construction-in-Progress	25,789	28,426
	542,904	463,253
Less Accumulated Depreciation and Amortization	139,846	112,889
Net Property and Equipment	403,058	350,364
Other Assets:		
Deferred Costs	\$ 11,592	\$ 11,105
Investment in Joint Ventures, at Equity	4,007	5,670
Long-term Marketable Securities	40,277	28,693
Long-term Notes Receivable	2,678	938
Other	16,050	7,591

Total Other Assets	74,604	53,997
Total Assets	\$ 512,598	\$ 435,259

See Accompanying Notes to Condensed Consolidated Financial Statements  
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BRINKER INTERNATIONAL, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and par value amounts)  
(Unaudited)

MARCH 30, 1994                      JUNE 30, 1993

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Short-term Debt	\$ 5,000	\$ ---
Current Installments of Long-term Debt	268	268
Accounts Payable	35,203	30,187
Accrued Liabilities	54,554	43,532
Deferred Income Taxes	1,934	919
Total Current Liabilities	96,959	74,906

Long-term Debt, Less Current Installments	3,587	3,788
Deferred Income Taxes	11,343	8,934
Other Liabilities	15,112	12,900
Commitments and Contingencies		

Shareholders' Equity:

Preferred Stock-1,000,000 Authorized Shares; \$1.00 Par Value; No Shares Issued	---	---
Common Stock-100,000,000 Authorized Shares; \$.10 Par Value; 69,562,881 and 68,634,596 Shares Issued and Outstanding at March 30, 1994 and June 30, 1993, Respectively	6,956	6,863
Additional Paid-In Capital	167,537	162,682
Retained Earnings	211,104	165,186
Total Shareholders' Equity	385,597	334,731

Total Liabilities and Shareholders' Equity	\$ 512,598	\$ 435,259
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See Accompanying Notes to Condensed Consolidated Financial Statements  
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BRINKER INTERNATIONAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (In thousands, except per share amounts)  
 (Unaudited)

	13 Weeks Ended 03/30/94	3 Months Ended 03/31/93	39 Weeks Ended 03/30/94	9 Months Ended 03/31/93
Revenues	\$ 211,406	\$ 164,713	\$ 601,374	\$ 467,838
Costs and Expenses:				
Cost of Sales	57,314	45,599	164,497	129,092
Restaurant Expenses	106,174	82,443	303,121	236,877
Depreciation and Amortization	12,592	9,370	35,578	26,454
General and Administrative	10,612	8,306	31,140	24,992
Other, Net	(982)	(1,057)	(4,252)	(2,511)
Total Costs and Expenses	185,710	144,661	530,084	414,904
Income Before Provision for Income Taxes	25,696	20,052	71,290	52,934
Provision for Income Taxes	9,186	7,228	25,372	18,645
Net Income	\$ 16,510	\$ 12,824	\$ 45,918	\$ 34,289
Primary and Fully Diluted Net Income Per Share	\$ 0.23	\$ 0.18	\$ 0.63	\$ 0.48
Primary Weighted Average Shares Outstanding	73,377	71,721	73,100	71,028
Fully Diluted Weighted Average Shares Outstanding	73,377	71,721	73,228	71,347

See Accompanying Notes to Condensed Consolidated Financial Statements  
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BRINKER INTERNATIONAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)  
 (Unaudited)

	39 Weeks Ended March 30, 1994	Nine Months Ended March 31, 1993
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 45,918	\$ 34,289
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization of		
Property and Equipment	29,297	22,584
Amortization of Deferred Costs	6,281	3,870
Gain on Sale of Land	(1,000)	---
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(4,967)	(1,688)
Increase in Inventories	(915)	(950)
Increase in Prepaid Expenses	(1,876)	(1,956)
Increase in Other Assets	(10,026)	(6,745)
Increase in Accounts Payable	5,016	6,584
Increase in Accrued Liabilities	11,022	9,532
Increase in Deferred Income Taxes	3,424	799
Increase in Other Liabilities	2,212	759
<b>Net Cash Provided by Operating Activities</b>	<b>84,386</b>	<b>67,078</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for Property and Equipment	(83,947)	(84,954)
Proceeds from Sale of Land	4,180	---
Payment for Purchase of Franchisee Restaurants	(8,165)	---
Decrease in Assets Held for Sale and Leaseback	1,108	200
Decrease (Increase) in Investment in Joint Ventures	1,663	(530)
Purchase of Long-term Marketable Securities	(44,843)	(47,215)
Sales of Long-term Marketable Securities	33,259	41,925
<b>Net Cash Used in Investing Activities</b>	<b>(96,745)</b>	<b>(90,574)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings of Short-term Debt	5,000	8,480
Payments of Long-term Debt	(201)	(165)
Proceeds from Stock Options Exercised	4,948	12,028
<b>Net Cash Provided by Financing Activities</b>	<b>9,747</b>	<b>20,343</b>

NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,612)	(3,153)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,472	10,079
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,860	\$ 6,926

Cash Paid During the Nine Month Period:

Interest, Net of Amounts Capitalized	\$ ---	\$ 7
Income Taxes	21,848	11,380

Non-Cash Transaction During the Nine Month Period:

Tax Benefit from Stock Options Exercised	\$ ---	\$ 17,375
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See Accompanying Notes to Condensed Consolidated Financial Statements  
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BRINKER INTERNATIONAL, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Basis of Presentation

Effective July 1, 1993, Brinker International, Inc. ("the Company") adopted a 52 week fiscal year ending on the last Wednesday in June. Most retailing and restaurant companies operate on an accounting calendar that is measured in weeks rather than months. Thus, a normal fiscal year only contains 364 days. Every fifth or sixth year, lost days are recaptured by having a 53 week fiscal year. This change enhances the Company's ability to measure comparative operating results. The impact of this change was not significant.

The Company's consolidated financial statements as of March 30, 1994 and June 30, 1993, and for the thirteen week period ended March 30, 1994 and the three month period ended March 31, 1993, and for the thirty-nine week period ended March 30, 1994 and for the nine month period ended March 31, 1993 have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. The Company owns and operates four primary restaurant concepts under the names Chili's Grill & Bar ("Chili's"), Grady's American Grill ("Grady's"), Romano's Macaroni Grill ("Macaroni Grill"), and Spageddies Italian Italian Food ("Spageddies").

The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly state the operating results for the respective periods. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The notes to the condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the June 30, 1993 Form 10-K. Company management believes that the disclosures are sufficient for interim financial reporting purposes.

2. Net Income Per Share

Primary and Fully Diluted Net Income Per Share is based on the weighted average number of shares outstanding during each period increased by common equivalent shares (stock options) determined using the treasury stock method.

3. Adoption of Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), Accounting for Income Taxes

Effective July 1, 1993, the Company adopted SFAS No. 109 and the impact on the Company's consolidated financial statements was not material.

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#### 4. Deferred Costs

Effective July 1, 1993, the Company prospectively revised its policy for capitalizing and amortizing pre-opening costs associated with the opening of new restaurant sites. The amortization period was reduced from 24 months to 12 months. Capitalized pre-opening costs include the direct and incremental costs typically associated with the opening of a new restaurant which primarily consist of costs incurred to develop new restaurant management teams, travel and lodging for both the training and opening unit management teams, and the food, beverage, and supplies costs incurred to perform role play testing of all equipment, concept systems, and recipes. The impact of the change in accounting policy did not have a material impact on the Company's consolidated financial statements.

#### 5. Business Combinations

Effective October 7, 1993, the Company acquired the assets of a franchisee, which operated four Chili's restaurants in Pennsylvania and Ohio, for approximately \$8,165,000 in cash. The acquisition was accounted for as a purchase. Goodwill of approximately \$6,941,000, representing the excess of cost over the fair value of the assets acquired, was recorded in connection with the acquisition and is included in Other Assets. Goodwill is being amortized on a straight-line basis over 30 years.

Effective January 24, 1994, the Company and On The Border Cafes, Inc. ("OTB") entered into a definitive Agreement and Plan of Merger ("Merger Agreement"), pursuant to which the Company will acquire a 100% ownership interest in OTB. Under the terms of the Merger Agreement, a total of 3,735,419 fully diluted shares of OTB common stock will be exchanged for 1,125,000 (approximately 0.3 for 1) shares of Company common stock upon the completion of the merger. The merger ratio is subject to certain adjustments depending upon the trading price of the Company's common stock at the time of the merger's consummation, anticipated in May 1994. OTB's operations include fourteen company-operated and seven franchised casual dining Tex-Mex theme restaurants. The parties intend to account for the acquisition as a pooling of interests.

#### 6. Shareholders' Equity

On November 4, 1993, the Company approved an amendment to its Certificate of Incorporation which increased the number of authorized shares of Common Stock from 50,000,000 to 100,000,000.

On March 9, 1994, the Company declared a stock split, effected in the form of a 50% stock dividend, to shareholders of record on March 21, 1994, payable March 30, 1994. As a result, 23.2 million shares of common stock were issued and cash was paid in lieu of fractional shares. All references to number of shares and per share amounts of common stock have been restated to reflect the stock split.

#### 7. Subsequent Event

Effective May 5, 1994, the Company entered into a definitive Merger Agreement with Northwest Restaurants Joint Venture ("NRJV") whereby the Company will acquire the remaining 50% interest in NRJV from its joint venture partner in exchange for approximately 250,000 shares of the Company's common stock. The merger is expected to be consummated in May 1994. NRJV owns and operates nine Chili's restaurants in California and Nevada. The parties intend to account for the acquisition as a pooling of interests.

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Management's Discussion and Analysis of Financial Condition and Results of  
Operations For The Thirteen Weeks Ended March 30, 1994  
Compared to the Three Months Ended March 31, 1993 and for the  
Thirty-nine Weeks Ended March 30, 1994 Compared to the  
Nine Months Ended March 31, 1993

The following table sets forth expenses as a percentage of total revenues for  
revenue and expense items included in the Consolidated Statements of Income.

	13 Weeks Ended 03/30/94	3 Months Ended 03/31/93	39 Weeks Ended 03/30/94	9 Months Ended 03/31/93
Revenues	100.0%	100.0%	100.0%	100.0%
Costs and Expenses:				
Cost of Sales	27.1%	27.7%	27.4%	27.6%
Restaurant Expenses	50.2%	50.1%	50.4%	50.6%
Depreciation and Amortization	6.0%	5.7%	5.9%	5.7%
General and Administrative	5.0%	5.0%	5.2%	5.3%
Other, Net	(0.5%)	(0.7%)	(0.8%)	(0.5%)
Total Costs and Expenses	87.8%	87.8%	88.1%	88.7%
Income Before Provision for Income Taxes	12.2%	12.2%	11.9%	11.3%
Provision for Income Taxes	4.4%	4.4%	4.3%	4.0%
Net Income	7.8%	7.8%	7.6%	7.3%

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The following table shows restaurant openings during the third quarter and  
year-to-date, and total restaurants open at the end of the third quarter.

	3rd Quarter Fiscal 1994	Openings Fiscal 1993	Year-to-Date Fiscal 1994	Openings Fiscal 1993	Restaurants Open At End of 3rd Quarter Fiscal 1994	Fiscal 1993
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Chili's:

Company- operated	8	11	34	24	267	231
Franchised/ Joint Venture	5	3	11	12	88	79



Total	13	14	45	36	355	310
Macaroni Grill:						
Company-operated	3	4	9	6	31	19
Franchised	1	--	1	--	1	--
Total	4	4	10	6	32	19
Grady's	2	2	7	4	31	21
Spageddies	--	--	1	1	4	1
R&D Concept						
Company-operated	--	--	--	1	1	1
Joint Venture	1	--	1	--	1	--
Total	1	--	1	1	2	1
Grand Total	20	20	64	48	424	352

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The Company periodically reevaluates restaurant sites to ensure that site selection attributes have not deteriorated below the Company's minimum standards. In the event site deterioration were to occur, the Company makes a concerted effort to improve the restaurant's performance via providing physical, operating, and marketing enhancements unique to each restaurant's situation. If internal efforts to restore the restaurant's performance to acceptable minimum standards are unsuccessful, the Company considers relocation to a proximate, more desirable site, or evaluates closing the restaurant if Company criteria such as return on investment and area demographic data do not support a relocation. In the second quarter of fiscal 1994, the Company closed two Los Angeles area restaurants which were performing below Company standards primarily due to declining trading-area demographics. These and future closings will be key to the Company's successful reallocation of resources to the stronger performing restaurants.

#### REVENUES

Revenues for the third quarter of fiscal 1994 increased to \$211.4 million, 28.3% over the \$164.7 million generated during the same quarter of fiscal 1993. Revenues for the nine month period ended March 30, 1994 rose 28.5% to \$601.4 million from \$467.8 million generated during the same period of fiscal 1993. The increase is primarily attributable to the 63 Company-operated restaurants opened or acquired since March 31, 1993. Consolidated comparable store sales for the third quarter and year-to-date of fiscal 1994 rose 2.2% and 2.8%, respectively, which also contributed to the increase. On a concept basis, Chili's, Macaroni Grill, and Grady's experienced comparable store sales increases (decreases) of 2.1%, 6.3%, and (0.4)%, respectively, for the third quarter of fiscal 1994, and 2.9%, 4.0%, and 1.1%, respectively, on a year-to-date basis. The introduction of the "Guiltless Grill" and new dessert menu items in the second quarter of fiscal 1994 contributed to the increase in comparable store sales at the Chili's concept. Increased advertising in key markets contributed to the favorable comparable store sales trend experienced in the third quarter for Macaroni Grill. Comparable store sales for the Grady's concept, however, were negatively impacted in the third quarter by the harsh weather conditions experienced in the Southeast, where Grady's has a strong presence.

## COSTS AND EXPENSES (as a percent of Revenues)

Cost of Sales decreased for the third quarter and year-to-date of fiscal 1994 compared to the respective fiscal 1993 periods. Favorable commodity prices for poultry, other food (e.g., soups, desserts, pasta), and dairy experienced in the third quarter of fiscal 1994 were partially offset by unfavorable commodity prices for produce. On a year-to-date basis, favorable commodity prices for produce, other food, and dairy were offset slightly by unfavorable prices for non-alcoholic beverages. The Company has benefitted from favorable commodity prices as a result of its increased purchasing leverage and more extensive review of commodity contracts for cost-cutting opportunities. Product mix changes, menu item changes, and implementation of new waste control programs have also attributed to the favorable trend. These factors, however, were partially offset by the relative growth of Macaroni Grill and Grady's as these concepts have higher Cost of Sales ratios than Chili's.

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Restaurant Expenses remained relatively stable on a comparative third quarter basis and decreased on a comparative year-to-date basis. Decreases resulting from continued efficiencies achieved in supervising and managing the restaurants, a decline in rent expense due to the increase in percentage of restaurants owned versus leased, a reduction in bad debt expense due to the implementation of an on-line credit card authorization system, and lower liquor taxes due to the dilutive effect of new restaurant openings in states with lower tax rates were partially offset by increased property tax rates and credit card fees. In the third quarter of fiscal 1994, the impact of these favorable trends was diminished by the inclement winter weather conditions experienced in many key markets which softened sales in those areas without proportionate declines in fixed labor and utility costs.

Depreciation and Amortization increased for both the third quarter and year-to-date of fiscal 1994 compared with the respective periods of fiscal 1993. The increase is the result of investments in new computer hardware and software which has contributed to operating efficiencies experienced at both the restaurants and corporate office, increased Depreciation and Amortization related to furniture and equipment and pre-opening costs due to the increased number of stores opened in the current fiscal year compared to last fiscal year, the ongoing restaurant remodeling program, and the continued replacement of restaurant furniture and equipment. In addition, an increase in the percentage of owned restaurants has contributed to the increase in Depreciation and Amortization while generating an offsetting favorable trend in rent expense.

General and Administrative remained stable for both the third quarter and year-to-date of fiscal 1994 compared to fiscal 1993. The dollar increase is the result of additional staff and support as the Company accelerates expansion of its restaurant concepts, including international franchising. The Company's focus on controlling corporate expenditures and efficiencies realized from increased investments in computer hardware and software enables the Company to maintain these costs relative to increases in Revenues.

Other, Net, decreased in the third quarter of fiscal 1994 compared to fiscal 1993. The decrease is the result of the poor performance of the stock market at the end of the third quarter, which caused a decrease in realized gains on sales of marketable securities compared to the prior year. Other, Net, however, increased on a year-to-date comparative basis. The increase is primarily the result of a gain of approximately \$1,000,000 generated from the sale of land in the second quarter as well as increases in realized gains on sales of marketable securities experienced in the first and second quarters of fiscal 1994. Interest and dividend income remained flat on both a comparative third quarter and year-to-date basis.

## INCOME BEFORE PROVISION FOR INCOME TAXES

As a result of the relationships between Revenues and Costs and Expenses, Income Before Provision for Income Taxes increased 28.1% and 34.7%,

respectively, over the third quarter and year-to-date results of fiscal 1993.

#### INCOME TAXES

The Company's effective income tax rate was 35.7% and 35.6% for the third quarter and year-to-date of fiscal 1994, respectively, compared to 36% and 35.2% the same periods of fiscal 1993, respectively. The Company's year-to-date effective income tax rate increased as a result of additional state income tax liabilities resulting from continued expansion, particularly relating to growth in California and Florida.

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The Omnibus Budget Reconciliation Act, enacted in August 1993, mandates certain changes in Federal income tax laws, which among other items, includes an increase in the statutory Federal corporate income tax rate from 34% to 35% and reinstatement of the Targeted Jobs Tax Credit. The impact of these changes, retroactive to January 1993, did not have a material impact on the Company's fiscal 1993 effective income tax rate. This act also mandates a tax credit for FICA taxes paid on tips, effective January 1994. These changes are not expected to have a material impact on the Company's fiscal 1994 effective income tax rate as the amounts are offsetting.

#### NET INCOME AND NET INCOME PER SHARE

Net Income and Net Income Per Share rose 28.7% and 27.8%, respectively, compared to the third quarter of fiscal 1993. Year-to-date Net Income and Net Income Per Share increased 33.9% and 31.3%, respectively, compared to the same period of fiscal 1993. The increases exceed the increases in Revenues as the Company continues to control Costs and Expenses while maintaining the expansion of its concepts. Primary Weighted Average Shares Outstanding increased 2.3% and 2.9% for the comparative third quarter and year-to-date amounts, respectively. The increase is primarily the result of common stock options exercised.

#### IMPACT OF INFLATION

The Company has not experienced a significant overall impact from inflation. As operating expenses increase, the Company, to the extent permitted by competition, recovers increased costs by raising menu prices.

#### LIQUIDITY AND CAPITAL RESOURCES

The working capital deficit increased from \$44 million at June 30, 1993 to \$62 million at March 30, 1994, primarily due to the Company's capital expenditures, as discussed below. Net cash provided by operating activities increased to \$84.4 million for the first three quarters of the year from \$67.1 million during the same period in fiscal 1993 due to the greater number of restaurants in operation over the prior fiscal year and strong operating results from existing units.

Long-term debt outstanding at March 30, 1994 consisted of obligations under capital leases. At March 30, 1994, the Company had drawn \$5 million from its lines of credit to fund short-term operational needs, leaving \$35 million available funds from lines of credit.

Capital expenditures were \$83.9 million for the thirty-nine weeks ended March 30, 1994 as compared to \$85 million during the same period in fiscal 1993. Capital expenditures related to purchases of land for future restaurant sites, the acquisition of four restaurants from a franchisee, new restaurants under construction, purchases of new and replacement restaurant furniture and equipment, and the ongoing remodeling program. The Company estimates that its capital expenditures during the fourth quarter will approximate \$32 million. These capital expenditures will be funded internally from restaurant operations, build-to-suit lease agreements with landlords, liquidating investments, and dividend and interest income from investments.

The Clinton administration continues to analyze and propose new legislation which could adversely impact the entire business community. Mandated health care and minimum wage measures, if passed, could increase the Company's operating costs. The Company would attempt to offset increased costs through additional improvements in operating efficiencies and menu price increases.

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

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#### PART II. OTHER INFORMATION

No items applicable to the third quarter of fiscal 1994.

#### 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: May 13, 1994

By: /Ronald A. McDougall  
Ronald A. McDougall, President and Chief  
Operating Officer  
(Duly Authorized Signatory)

Date: May 13, 1994

By: /Debra L. Smithart  
Debra L. Smithart, Executive Vice President  
and Chief Financial Officer  
(Principal Financial and Accounting Officer)