

BRINKER INTERNATIONAL INC
 Form 10-Q
 May 05, 2014
 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 March 26, 2014
 Commission File Number 1-10275

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

| | |
|---|---|
| DELAWARE | 75-1914582 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|--|------------|
| 6820 LBJ FREEWAY, DALLAS, TEXAS | 75240 |
| (Address of principal executive offices) | (Zip Code) |
| (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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

| | | | |
|---|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| (Do not check if a smaller reporting company) | | | |

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

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

| | |
|--------------------------------|-------------------------------|
| Class | Outstanding at April 28, 2014 |
| Common Stock, \$0.10 par value | 64,951,528 shares |

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BRINKER INTERNATIONAL, INC.

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

| | March 26, 2014 | June 26, 2013 |
|---|-------------------|------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$64,609 | \$59,367 |
| Accounts receivable | 43,476 | 44,082 |
| Inventories | 24,346 | 24,628 |
| Prepaid expenses and other | 62,725 | 65,584 |
| Income taxes receivable | 0 | 4,930 |
| Total current assets | 195,156 | 198,591 |
| Property and Equipment, at Cost: | | |
| Land | 148,801 | 147,581 |
| Buildings and leasehold improvements | 1,470,583 | 1,435,426 |
| Furniture and equipment | 585,250 | 580,115 |
| Construction-in-progress | 24,039 | 20,588 |
| | 2,228,673 | 2,183,710 |
| Less accumulated depreciation and amortization | (1,191,264 |) (1,147,895 |
| Net property and equipment | 1,037,409 | 1,035,815 |
| Other Assets: | | |
| Goodwill | 133,163 | 142,103 |
| Deferred income taxes | 25,258 | 24,064 |
| Other | 59,092 | 52,030 |
| Total other assets | 217,513 | 218,197 |
| Total assets | \$1,450,078 | \$1,452,603 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current installments of long-term debt | \$27,810 | \$27,596 |
| Accounts payable | 93,309 | 93,326 |
| Accrued liabilities | 283,830 | 268,444 |
| Income taxes payable | 10,796 | 0 |
| Deferred income taxes | 549 | 845 |
| Total current liabilities | 416,294 | 390,211 |
| Long-term debt, less current installments | 817,259 | 780,121 |
| Other liabilities | 128,419 | 132,914 |
| Commitments and Contingencies (Note 9) | | |
| Shareholders' Equity: | | |
| Common stock—250,000,000 authorized shares; \$0.10 par value; 176,246,649 shares issued and 65,302,505 shares outstanding at March 26, 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 | 480,040 | 477,420 |
| Accumulated other comprehensive income (loss) | (1,862 |) 0 |
| Retained earnings | 2,293,639 | 2,217,623 |
| | 2,789,442 | 2,712,668 |

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| | | | |
|---|-------------|--------------|---|
| Less treasury stock, at cost (110,944,144 shares at March 26, 2014 and 108,802,550 shares at June 26, 2013) | (2,701,336 |) (2,563,311 |) |
| Total shareholders' equity | 88,106 | 149,357 | |
| Total liabilities and shareholders' equity | \$1,450,078 | \$1,452,603 | |
| See accompanying notes to consolidated financial statements. | | | |

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BRINKER INTERNATIONAL, INC.

Consolidated Statements of Comprehensive Income

(In thousands, except per share amounts)

(Unaudited)

| | Thirteen Week Periods Ended | | Thirty-Nine Week Periods Ended | |
|---|-----------------------------|-------------------|--------------------------------|-------------------|
| | March 26, 2014 | March 27, 2013 | March 26, 2014 | March 27, 2013 |
| Revenues: | | | | |
| Company sales | \$739,200 | \$724,693 | \$2,088,087 | \$2,057,490 |
| Franchise and other revenues | 19,208 | 18,066 | 58,640 | 58,540 |
| Total revenues | 758,408 | 742,759 | 2,146,727 | 2,116,030 |
| Operating costs and expenses: | | | | |
| Company restaurants (excluding depreciation and amortization) | | | | |
| Cost of sales | 195,439 | 198,316 | 561,276 | 567,602 |
| Restaurant labor | 233,890 | 231,822 | 672,525 | 667,865 |
| Restaurant expenses | 171,574 | 164,537 | 508,405 | 489,781 |
| Company restaurant expenses | 600,903 | 594,675 | 1,742,206 | 1,725,248 |
| Depreciation and amortization | 34,218 | 33,222 | 100,912 | 98,830 |
| General and administrative | 34,009 | 33,986 | 98,792 | 102,289 |
| Other gains and charges | 2,088 | 1,550 | 4,315 | 2,227 |
| Total operating costs and expenses | 671,218 | 663,433 | 1,946,225 | 1,928,594 |
| Operating income | 87,190 | 79,326 | 200,502 | 187,436 |
| Interest expense | 7,068 | 7,085 | 21,128 | 21,040 |
| Other, net | (693 |) (573 |) (1,736 |) (2,096 |
| Income before provision for income taxes | 80,815 | 72,814 | 181,110 | 168,492 |
| Provision for income taxes | 24,552 | 20,863 | 55,891 | 51,500 |
| Net income | \$56,263 | \$51,951 | \$125,219 | \$116,992 |
| Basic net income per share | \$0.85 | \$0.73 | \$1.88 | \$1.61 |
| Diluted net income per share | \$0.82 | \$0.71 | \$1.83 | \$1.56 |
| Basic weighted average shares outstanding | 66,479 | 71,067 | 66,661 | 72,511 |
| Diluted weighted average shares outstanding | 68,342 | 73,341 | 68,591 | 74,873 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | \$(1,108 |) \$0 | \$(1,862 |) \$0 |
| Other comprehensive loss | (1,108 |) 0 | (1,862 |) 0 |
| Comprehensive income | \$55,155 | \$51,951 | \$123,357 | \$116,992 |
| Dividends per share | \$0.24 | \$0.20 | \$0.72 | \$0.60 |

See accompanying notes to consolidated financial statements.

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

| | Thirty-Nine Week Periods Ended | |
|---|--------------------------------|----------------|
| | March 26, 2014 | March 27, 2013 |
| Cash Flows from Operating Activities: | | |
| Net income | \$125,219 | \$116,992 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 100,912 | 98,830 |
| Stock-based compensation | 12,990 | 12,909 |
| Deferred income taxes | (1,490) | (9,867) |
| Restructure charges and other impairments | 3,836 | 3,792 |
| Net loss on disposal of assets | 3,208 | 1,115 |
| (Gain) loss on equity investments | (353) | 752 |
| Other | 355 | 205 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 2,820 | 5,543 |
| Inventories | 212 | 760 |
| Prepaid expenses and other | 4,115 | 1,586 |
| Other assets | (1,694) | (2,367) |
| Accounts payable | 4,168 | (15,644) |
| Accrued liabilities | 11,699 | (4,617) |
| Current income taxes | 14,043 | 12,893 |
| Other liabilities | (2,940) | (246) |
| Net cash provided by operating activities | 277,100 | 222,636 |
| Cash Flows from Investing Activities: | | |
| Payments for property and equipment | (113,980) | (98,690) |
| Proceeds from sale of assets | 833 | 6,535 |
| Net cash used in investing activities | (113,147) | (92,155) |
| Cash Flows from Financing Activities: | | |
| Purchases of treasury stock | (191,811) | (191,799) |
| Borrowings on revolving credit facility | 98,000 | 110,000 |
| Payments on revolving credit facility | (40,000) | 0 |
| Payments of dividends | (47,556) | (42,161) |
| Excess tax benefits from stock-based compensation | 17,972 | 7,811 |
| Payments on long-term debt | (19,890) | (19,785) |
| Proceeds from issuances of treasury stock | 24,574 | 32,042 |
| Net cash used in financing activities | (158,711) | (103,892) |
| Net change in cash and cash equivalents | 5,242 | 26,589 |
| Cash and cash equivalents at beginning of period | 59,367 | 59,103 |
| Cash and cash equivalents at end of period | \$64,609 | \$85,692 |

See accompanying notes to consolidated financial statements.

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BRINKER INTERNATIONAL, INC.

Notes to Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

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

Our consolidated financial statements as of March 26, 2014 and June 26, 2013 and for the thirteen week and thirty-nine week periods ended March 26, 2014 and March 27, 2013 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). 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 March 26, 2014, we owned, operated or franchised 1,608 restaurants in the United States and 31 countries and two territories outside of the United States.

Beginning in the third quarter of fiscal 2014, other comprehensive income is presented on the newly titled consolidated statements of comprehensive income. The foreign currency translation adjustment included in comprehensive income represents the unrealized impact of translating the financial statements of the Canadian entity 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 income (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.

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.

The information furnished herein reflects all adjustments (consisting only of normal recurring accruals and adjustments) which are, in our opinion, 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 accounting principles generally accepted in the United States of America 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 26, 2013 Form 10-K. We believe the disclosures are sufficient for interim financial reporting purposes.

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 the first quarter of 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 other assets on the consolidated balance sheet, with a corresponding decrease to goodwill.

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. We do not expect any further material adjustments to the purchase price allocation. 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. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income 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 earnings 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 119,000 stock options and restricted share awards outstanding

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at March 26, 2014 and 470,000 stock options and restricted share awards outstanding at March 27, 2013 that were not included in the dilutive earnings per share calculation because the effect would have been anti-dilutive.

4. LONG-TERM DEBT

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

| | March 26, 2014 | June 26, 2013 |
|---------------------------|-------------------|------------------|
| 3.88% notes | \$299,729 | \$299,707 |
| 2.60% notes | 249,856 | 249,829 |
| Term loan | 193,750 | 212,500 |
| Revolving credit facility | 58,000 | 0 |
| Capital lease obligations | 43,734 | 45,681 |
| | 845,069 | 807,717 |
| Less current installments | (27,810) | (27,596) |
| | \$817,259 | \$780,121 |

During the first nine months of fiscal 2014, \$98 million was drawn from the the revolver primarily to fund share repurchases. We repaid \$40 million of the outstanding balance leaving \$192 million of credit available under the revolver as of March 26, 2014.

The term loan and revolving credit facility bear interest of LIBOR plus an applicable margin, which is a function of our credit rating and debt to cash flow ratio, but is subject to a maximum of LIBOR plus 2.50%. Based on our current credit rating, we are paying interest at a rate of LIBOR plus 1.63%. One month LIBOR at March 26, 2014 was approximately 0.15%. 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.

5. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid 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.

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

During fiscal 2014, long-lived assets with a carrying value of \$2.6 million, primarily related to four underperforming restaurants, were written down to their fair value of \$1.3 million resulting in an impairment charge of \$1.3 million, which was included in other gains and charges in the consolidated statement of comprehensive income for the period. During fiscal 2013, long-lived assets with a carrying value of \$0.8 million, primarily related to one underperforming restaurant, were written down to their fair value of \$0.1 million resulting in an impairment charge of \$0.7 million, which was included in other gains and charges in the consolidated statement of comprehensive income for the period. We determined fair value based on projected discounted future operating cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model.

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The following table presents fair values for those assets measured at fair value on a non-recurring basis at March 26, 2014 and March 27, 2013 (in thousands):

| | Fair Value Measurements Using | | | Total |
|--------------------------------|-------------------------------|---------|---------|---------|
| | Level 1 | Level 2 | Level 3 | |
| Long-lived assets held for use | | | | |
| At March 26, 2014 | \$0 | \$0 | \$1,342 | \$1,342 |
| At March 27, 2013 | \$0 | \$0 | \$140 | \$140 |

(b) Other Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts because of the short maturity of these items. The fair values of the 2.60% notes and 3.88% notes are based on quoted market prices and are considered Level 1 fair value measurements. At March 26, 2014, the 2.60% notes had a carrying value of \$249.9 million and a fair value of \$248.2 million and the 3.88% notes had a carrying value of \$299.7 million and a fair value of \$279.8 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).

6. OTHER GAINS AND CHARGES

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

| | Thirteen Week Periods Ended | | Thirty-Nine Week Periods Ended | |
|----------------------------------|-----------------------------|-------------------|--------------------------------|-------------------|
| | March 26, 2014 | March 27, 2013 | March 26, 2014 | March 27, 2013 |
| Restaurant impairment charges | \$0 | \$0 | \$1,285 | \$661 |
| Restaurant closure charges | 1,224 | 305 | 2,330 | 2,887 |
| Severance and other benefits | 717 | 1,269 | 1,110 | 1,269 |
| Gains on the sale of assets, net | 0 | (81 |) (579 |) (2,430 |
| Other | 147 | 57 | 169 | (160 |
| | \$2,088 | \$1,550 | \$4,315 | \$2,227 |

In the third quarter of fiscal 2014, we recorded \$1.2 million of restaurant closure charges consisting primarily of lease termination charges and other costs associated with closed restaurants. Additionally, we incurred \$0.7 million in severance and other benefits related to organization changes made during the third quarter. The severance charges include expense related to the accelerated vesting of stock-based compensation awards.

During the first nine months of fiscal 2014, we recorded restaurant impairment charges of \$1.3 million related to underperforming restaurants that either continue to operate or are scheduled to close. We also recorded \$2.3 million of restaurant closure charges consisting primarily of lease termination charges and incurred \$1.1 million in severance and other benefits related to organizational changes. Additionally, a \$0.6 million gain was recorded primarily related to land sales in the second quarter.

In the third quarter of fiscal 2013, we incurred \$1.3 million related to severance and other benefits related to organizational changes made during the third quarter of fiscal 2013. The severance charges include expense related to the accelerated vesting of stock-based compensation awards.

During the first nine months of fiscal 2013, we recorded restaurant impairment charges of \$0.7 million related to underperforming restaurants that either continue to operate or are scheduled to close. We also recorded \$2.9 million in restaurant closure charges, consisting primarily of \$1.7 million in lease termination charges and \$0.9 million primarily

related to the write-down of land associated with a closed facility. Additionally, we incurred \$1.3 million in severance and other benefits and recorded net gains of \$2.4 million primarily related to land sales.

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The impairment charges were measured as the excess of the carrying amount of property and equipment over the fair value. See Note 5 for fair value disclosures related to the restaurant impairment charges.

7. SHAREHOLDERS' EQUITY

In August 2013, our Board of Directors authorized a \$200.0 million increase to our existing share repurchase program. We repurchased approximately 4.1 million shares of our common stock for \$191.8 million during the first three quarters of fiscal 2014. As of March 26, 2014, approximately \$354.7 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, and borrowing, planned investment and financing needs. Repurchased common stock is reflected as a reduction of shareholders' equity.

During the first three quarters of fiscal 2014, we granted approximately 175,000 stock options with a weighted average exercise price of \$40.85 and a weighted average fair value of \$15.65, and approximately 448,000 restricted share awards with a weighted average fair value of \$39.61. Additionally, during the first three quarters of fiscal 2014, approximately 1.0 million stock options were exercised resulting in cash proceeds of approximately \$24.6 million. We received an excess tax benefit from stock-based compensation of approximately \$18.0 million during the first three quarters primarily as a result of the normally scheduled vesting and distribution of restricted stock grants and performance shares.

During the first three quarters of fiscal 2014, we paid dividends of \$47.6 million to common stock shareholders, compared to \$42.2 million in the prior year. Our Board of Directors approved a 20 percent increase in the quarterly dividend from \$0.20 to \$0.24 per share effective with the dividend declared in August 2013. Additionally, we declared a quarterly dividend of \$15.8 million in February 2014 which was paid on March 27, 2014. The dividend accrual was included in accrued liabilities on our consolidated balance sheet as of March 26, 2014.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for income taxes and interest in the first three quarters of fiscal 2014 and 2013 are as follows (in thousands):

| | March 26, 2014 | March 27, 2013 |
|--------------------------------------|-------------------|-------------------|
| Income taxes, net of refunds | \$22,825 | \$38,799 |
| Interest, net of amounts capitalized | 14,640 | 15,909 |

Non-cash investing activities for the first three quarters of fiscal 2014 and 2013 are as follows (in thousands):

| | March 26, 2014 | March 27, 2013 |
|--|-------------------|-------------------|
| Retirement of fully depreciated assets | \$49,601 | \$43,262 |

9. CONTINGENCIES

In connection with the sale of restaurants to franchisees and brand divestitures, we have, in certain cases, guaranteed lease payments. As of March 26, 2014 and June 26, 2013, we have outstanding lease guarantees or are secondarily liable for \$123.5 million and \$132.6 million, respectively. These amounts represent 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 2014 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 March 26, 2014.

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

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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. We intend to continue our vigorous defense of this lawsuit. Given the trial court's recent ruling, we believe it is reasonably possible that a loss has been incurred but the amount cannot be reasonably estimated at this time given there are significant issues to be resolved that will have a material impact on the potential loss or range of loss. Subsequent to the end of the quarter, the parties participated in a mediation where preliminary settlement discussions began, but a settlement was not achieved and significant issues still remain to be resolved that will have a material impact on the potential range of loss.

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. However, we understand that 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.

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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 (unless otherwise noted) for the periods indicated. All information is derived from the accompanying consolidated statements of comprehensive income:

| | Thirteen Week Periods Ended | | Thirty-Nine Week Periods Ended | | |
|---|-----------------------------|----------------|--------------------------------|----------------|----|
| | March 26, 2014 | March 27, 2013 | March 26, 2014 | March 27, 2013 | |
| Revenues: | | | | | |
| Company sales | 97.5 | % 97.6 | % 97.3 | % 97.2 | % |
| Franchise and other revenues | 2.5 | % 2.4 | % 2.7 | % 2.8 | % |
| Total revenues | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |
| Operating costs and expenses: | | | | | |
| Company restaurants (excluding depreciation and amortization) | | | | | |
| Cost of sales ⁽¹⁾ | 26.5 | % 27.4 | % 26.9 | % 27.6 | % |
| Restaurant labor ⁽¹⁾ | 31.6 | % 32.0 | % 32.2 | % 32.5 | % |
| Restaurant expenses ⁽¹⁾ | 23.2 | % 22.7 | % 24.3 | % 23.8 | % |
| Company restaurant expenses ⁽¹⁾ | 81.3 | % 82.1 | % 83.4 | % 83.9 | % |
| Depreciation and amortization | 4.5 | % 4.5 | % 4.7 | % 4.7 | % |
| General and administrative | 4.5 | % 4.6 | % 4.6 | % 4.8 | % |
| Other gains and charges | 0.3 | % 0.2 | % 0.2 | % 0.1 | % |
| Total operating costs and expenses | 88.5 | % 89.3 | % 90.7 | % 91.1 | % |
| Operating income | 11.5 | % 10.7 | % 9.3 | % 8.9 | % |
| Interest expense | 0.9 | % 1.0 | % 1.0 | % 1.0 | % |
| Other, net | (0.1) |)% (0.1) |)% (0.1) |)% (0.1) |)% |
| Income before provision for income taxes | 10.7 | % 9.8 | % 8.4 | % 8.0 | % |
| Provision for income taxes | 3.3 | % 2.8 | % 2.6 | % 2.5 | % |
| Net income | 7.4 | % 7.0 | % 5.8 | % 5.5 | % |

⁽¹⁾ As a percentage of company sales.

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The following table details the number of restaurant openings during the third quarter, total restaurants open at the end of the third quarter, and total projected openings in fiscal 2014:

| | Third Quarter Openings | | Year-to-Date Openings | | Total Open at End Of Third Quarter | | Projected Openings |
|----------------------------|---------------------------|----------------|--------------------------|----------------|---------------------------------------|----------------|-----------------------|
| | Fiscal 2014 | Fiscal 2013 | Fiscal 2014 | Fiscal 2013 | Fiscal 2014 | Fiscal 2013 | |
| Company-owned restaurants: | | | | | | | |
| Chili's domestic | 2 | 0 | 5 | 2 | 823 | 821 | 6-8 |
| Chili's international | 0 | 0 | 1 | 0 | 12 | 0 | 2-4 |
| Maggiano's | 0 | 0 | 1 | 0 | 45 | 44 | 1-2 |
| Total company-owned | 2 | 0 | 7 | 2 | 880 | 865 | 9-14 |
| Franchise restaurants: | | | | | | | |
| Chili's domestic | 0 | 0 | 1 | 2 | 441 | 447 | 3 |
| Chili's international | 10 | 6 | 21 | 25 | 287 | 276 | 31-33 |
| Total franchise | 10 | 6 | 22 | 27 | 728 | 723 | 34-36 |
| Total restaurants: | | | | | | | |
| Chili's domestic | 2 | 0 | 6 | 4 | 1,264 | 1,268 | 9-11 |
| Chili's international | 10 | 6 | 22 | 25 | 299 | 276 | 33-37 |
| Maggiano's | 0 | 0 | 1 | 0 | 45 | 44 | 1-2 |
| Grand total | 12 | 6 | 29 | 29 | 1,608 | 1,588 | 43-50 |

At March 26, 2014, we owned the land and buildings for 190 of the 880 company-owned restaurants. The net book values of the land and buildings associated with these restaurants totaled approximately \$142.9 million and \$118.2 million, respectively.

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GENERAL

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Brinker International, our operations, and our current operating environment. For an understanding of the significant factors that influenced our performance during the quarters ended March 26, 2014 and March 27, 2013, the MD&A should be read in conjunction with the consolidated financial statements and related notes included in this quarterly report.

OVERVIEW

We are committed to strategies and initiatives that are centered on long-term sales and profit growth, enhancing the customer 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 slightly this year; however, the casual dining industry has experienced soft sales and traffic. Consumers have shifted spending to housing and large ticket items in part due to historically low interest rates. Slow economic growth has challenged the industry for several years 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 are investing in new kitchen equipment, operations software and reimage initiatives as the core pieces of our strategy. We have completed the installation of new kitchen equipment in our company-owned Chili's restaurants and are now expanding the project to include additional equipment. We anticipate that the upgraded kitchen equipment will consistently 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 reimaged a significant number of our company-owned Chili's restaurants and are on track to complete a total of approximately 75 percent of company-owned restaurants by the end of fiscal 2014. 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 approximately eight to twelve Chili's restaurants this fiscal year.

We continually evaluate our menu at Chili's to improve quality, freshness and value by introducing new items and improving existing favorites. The upgraded kitchen equipment at Chili's has allowed for the development of several successful new menu items this year. In January 2014, we introduced our new Fresh Mex platform upgrading some of our current offerings and introducing a variety of new entrees. Other new menu items include the Santa Fe Quesadillas and the Bacon Avocado Chicken sandwich, which remains the best-selling sandwich on our menu. Additionally, the flatbreads continue to perform well. Our two for twenty dollars 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 renovated Grilled Chicken Fajitas. We will continually seek opportunities to reinforce value and create interest 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 improvements in costs of sales margins. Maggiano's offers a compelling menu and great value with On the House Classic Pasta and Marco's Meal. Menu innovations this year include the Stuffed Pasta entrees. Kitchen efficiency and inventory controls continue to enhance profitability and strengthen the business model. We opened our newest Maggiano's in Annapolis in October 2013.

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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 last fiscal year and are excited about the potential growth for the Chili's brand in Canada. During the third quarter of fiscal 2014, ten new international Chili's restaurants were opened. 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.

REVENUES

Total revenues for the third quarter of fiscal 2014 increased to \$758.4 million, a 2.1% increase from the \$742.8 million generated for the same quarter of fiscal 2013 driven by a 2.0% increase in company sales attributable to higher capacity and positive comparable restaurant sales (see table below). Total revenues for the thirty-nine week period ended March 26, 2014 were \$2,146.7 million, a 1.5% increase from the \$2,116.0 million generated for the same period in fiscal 2013 driven by a 1.5% increase in company sales attributable to higher capacity and a slight increase in comparable restaurant sales (see table below).

| | Thirteen Week Period Ended March 26, 2014 | | | | | | | | | |
|--------------------------------------|---|----------------|-----------|---------|----------|--|--|--|--|---|
| | Comparable Sales | Price Increase | Mix Shift | Traffic | Capacity | | | | | |
| Company-owned Chili's ⁽¹⁾ | 0.7 | % 1.2 | % 0.7 | % (1.2) | % 1.6 | | | | | % |
| Maggiano's Franchise ⁽²⁾ | 0.2 | % 1.5 | % (0.4) | % (0.9) | % 2.3 | | | | | % |
| U.S. | 0.1 | % | | | | | | | | |
| International | 0.6 | % | | | | | | | | |
| Domestic ⁽³⁾ | 0.5 | % | | | | | | | | |
| System-wide ⁽⁴⁾ | 0.5 | % | | | | | | | | |

| | Thirteen Week Period Ended March 27, 2013 | | | | | | | | | |
|--------------------------------------|---|----------------|-----------|---------|----------|--|--|--|--|---|
| | Comparable Sales | Price Increase | Mix Shift | Traffic | Capacity | | | | | |
| Company-owned Chili's ⁽¹⁾ | (0.9) |)% 1.5 | % 0.5 | % (2.9) | % 0.2 | | | | | % |
| Maggiano's Franchise ⁽²⁾ | 0.4 | % 1.6 | % (0.2) | % (1.0) | % 0.0 | | | | | % |
| U.S. | 1.3 | % | | | | | | | | |
| International | (0.3) |)% | | | | | | | | |
| Domestic ⁽³⁾ | 5.1 | % | | | | | | | | |
| System-wide ⁽⁴⁾ | (0.8) |)% | | | | | | | | |
| | (0.2) |)% | | | | | | | | |

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| | Thirty-Nine Week Period Ended March 26, 2014 | | | | | | | |
|-------------------------------------|--|----------------|-----------|---------|----------|--|--|---|
| | Comparable Sales | Price Increase | Mix Shift | Traffic | Capacity | | | |
| Company-owned | 0.1 | % 1.2 | % 0.9 | % (2.0) | % 1.1 | | | % |
| Chili's ⁽¹⁾ | 0.0 | % 1.2 | % 1.0 | % (2.2) | % 1.1 | | | % |
| Maggiano's Franchise ⁽²⁾ | 0.6 | % 1.2 | % (0.1) | % (0.5) | % 1.4 | | | % |
| U.S. | (0.2) |)% | | | | | | |
| International | (0.9) |)% | | | | | | |
| Domestic ⁽³⁾ | 1.6 | % | | | | | | |
| System-wide ⁽⁴⁾ | (0.3) |)% | | | | | | |
| | 0.0 | % | | | | | | |

| | Thirty-Nine Week Period Ended March 27, 2013 | | | | | | | |
|-------------------------------------|--|----------------|-----------|---------|----------|--|--|---|
| | Comparable Sales | Price Increase | Mix Shift | Traffic | Capacity | | | |
| Company-owned | 0.8 | % 1.6 | % 1.0 | % (1.8) | % 0.0 | | | % |
| Chili's ⁽¹⁾ | 0.8 | % 1.5 | % 1.0 | % (1.7) | % 0.0 | | | % |
| Maggiano's Franchise ⁽²⁾ | 0.6 | % 2.3 | % 0.3 | % (2.0) | % 0.0 | | | % |
| U.S. | 2.4 | % | | | | | | |
| International | 2.1 | % | | | | | | |
| Domestic ⁽³⁾ | 3.2 | % | | | | | | |
| System-wide ⁽⁴⁾ | 1.2 | % | | | | | | |
| | 1.4 | % | | | | | | |

(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 the third quarter and year-to-date periods of 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 franchise sales, where applicable. We believe including franchise comparable restaurant sales provides investors information regarding brand performance that is relevant to current operations and may impact future restaurant development.

(3) 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 2.1% to \$645.8 million in the third quarter of fiscal 2014 from \$632.6 million in the prior year primarily driven by increased restaurant capacity and comparable restaurant sales. For the year-to-date period, Chili's company sales increased 1.5% to \$1,804.1 million compared to \$1,777.2 million in fiscal 2013 due to increased restaurant capacity. Chili's company-owned restaurant capacity increased 1.6% and 1.1% for the third quarter and year-to-date period of fiscal 2014 (as measured by average-weighted sales weeks) compared to the respective prior year periods due to the acquisition of 11 restaurants in Canada in June 2013 and three net restaurant openings since the third quarter of fiscal 2013.

Maggiano's company sales increased 1.4% to \$93.4 million in the third quarter of fiscal 2014 from \$92.1 million in the same quarter of fiscal 2013. For the year-to-date period, Maggiano's company sales increased 1.3% to \$284.0 million compared to \$280.3 million in fiscal 2013. The increases were primarily driven by increases in restaurant capacity and menu pricing. Maggiano's capacity increased 2.3% for the third quarter and 1.4% for the year-to-date period of fiscal 2014 (as measured by average-weighted sales weeks) compared to the respective prior year periods due to one restaurant opening since the third quarter of fiscal 2013.

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Franchise and other revenues increased 6.1% to \$19.2 million in the third quarter of fiscal 2014 compared to \$18.1 million in the prior year primarily driven by other revenues. For the year-to-date period, franchise and other revenues increased slightly to \$58.6 million compared to \$58.5 million. Our franchisees generated approximately \$414 million and \$1,192 million in sales for the third quarter and year-to-date period of fiscal 2014.

COSTS AND EXPENSES

Cost of sales, as a percent of company sales, decreased to 26.5% and 26.9% for the third quarter and year-to-date period of fiscal 2014 from 27.4% and 27.6% for the respective quarter and year-to-date prior year periods. Cost of sales was favorably impacted in the current year by the introduction of new menu items, improved waste control, efficiency gains related to new kitchen equipment and increased menu pricing. Commodity pricing for the third quarter was flat with higher meat and seafood costs offset by favorable pricing on other items. For the year-to-date period, commodity pricing was favorable primarily driven by other items.

Restaurant labor, as a percent of company sales, decreased to 31.6% for the third quarter and 32.2% for the year-to-date period of fiscal 2014 from 32.0% and 32.5% for the respective prior year periods. The decreases are primarily due to favorable health insurance expenses coupled with leverage related to higher revenue, partially offset by higher restaurant manager salaries and bonuses.

Restaurant expenses, as a percent of company sales, increased to 23.2% for the third quarter and 24.3% for the year-to-date period of fiscal 2014 from 22.7% and 23.8% for the respective prior year periods. The increases are primarily due to higher advertising, utilities and facilities expenses and costs associated with strategic initiatives, including new restaurant development.

Depreciation and amortization expense increased \$1.0 million for the third quarter and \$2.1 million for the year-to-date period of fiscal 2014 compared to the same periods of the prior year primarily due to investments in existing restaurants as well as the acquisition of 11 restaurants in Canada, partially offset by an increase in fully depreciated assets.

General and administrative expenses remained flat for the third quarter of fiscal 2014 as compared to the same period in the prior year. For the year-to-date period, general and administrative expenses decreased \$3.5 million as compared to the same period in the prior year primarily due to lower performance-based and other compensation costs, partially offset by an increase in professional fees.

In the third quarter of fiscal 2014, we recorded \$1.2 million of restaurant closure charges consisting primarily of lease termination charges and other costs associated with closed restaurants. Additionally, we incurred \$0.7 million in severance and other benefits related to organization changes made during the third quarter. During the first nine months of fiscal 2014, we recorded restaurant impairment charges of \$1.3 million related to underperforming restaurants that either continue to operate or are scheduled to close. We also recorded \$2.3 million of restaurant closure charges consisting primarily of lease termination charges and incurred \$1.1 million in severance and other benefits. Additionally, a \$0.6 million gain was recorded primarily related to land sales in the second quarter.

In the third quarter of fiscal 2013, we incurred \$1.3 million related to severance and other benefits. During the first nine months of fiscal 2013, we recorded restaurant impairment charges of \$0.7 million related to underperforming restaurants that continue to operate. We also recorded \$2.9 million in restaurant closure charges, consisting primarily of \$1.7 million in lease termination charges and \$0.9 million primarily related to the write-down of land associated with a closed facility. Additionally, we recorded net gains of \$2.4 million primarily related to land sales.

Interest expense remained flat for the third quarter and year-to-date periods of fiscal 2014 compared to the same prior year periods resulting from lower interest rates offset by higher borrowing balances.

INCOME TAXES

On a GAAP basis, the effective income tax rate increased to 30.4 percent for the third quarter of fiscal 2014 compared to 28.7 percent in the prior year. Excluding other gains and charges, the effective income tax rate increased to 30.6 percent in the third quarter of fiscal 2014 compared to 28.9 percent in the prior year. The increase in the quarterly effective tax rates was primarily due to increased earnings and lower tax credits as the impact of tax benefits related to other gains and charges was equivalent each quarter. The effective income tax rate on a GAAP basis for the year-to-date period of fiscal 2014 increased to 30.9 percent compared to 30.6 percent in the prior year. Excluding other gains and charges, the effective income tax rate increased to 31.0 percent in the year-to-date period of fiscal

2014 compared to 30.7 percent in the prior year. The increase in the year-to-date effective tax rates was primarily due to increased earnings and lower tax credits, partially offset by a higher tax benefit related to other gains and charges in the current year.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash Flow from Operating Activities

During the first nine months of fiscal 2014, net cash flow provided by operating activities was \$277.1 million compared to \$222.6 million in the prior year. The increase was driven by higher earnings in the current year and the timing of operational payments.

The working capital deficit increased to \$221.1 million at March 26, 2014 from \$191.6 million at June 26, 2013 primarily due to the seasonal increase in the gift card liability and increased income taxes payable in the first nine months of fiscal 2014.

Cash Flow used in Investing Activities

| | Thirty-Nine Week Periods Ended | |
|---|--------------------------------|----------------|
| | March 26, 2014 | March 27, 2013 |
| Net cash used in investing activities (in thousands): | | |
| Payments for property and equipment | \$(113,980) | \$(98,690) |
| Proceeds from sale of assets | 833 | 6,535 |
| | \$(113,147) | \$(92,155) |

Net cash used in investing activities for the first nine months of fiscal 2014 increased to approximately \$113.1 million compared to \$92.2 million in the prior year. Capital expenditures increased to approximately \$114.0 million for the first nine months of fiscal 2014 compared to \$98.7 million for the prior year. New restaurant construction and purchases for the ongoing Chili's reimage program increased in fiscal 2014 compared to the prior year. 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 2014 will be approximately \$150 million to \$160 million and will be funded entirely by cash from operations.

Cash Flow used in Financing Activities

| | Thirty-Nine Week Periods Ended | |
|---|--------------------------------|----------------|
| | March 26, 2014 | March 27, 2013 |
| Net cash used in financing activities (in thousands): | | |
| Purchases of treasury stock | \$(191,811) | \$(191,799) |
| Borrowings on revolving credit facility | 98,000 | 110,000 |
| Payments on revolving credit facility | (40,000) | 0 |
| Payments of dividends | (47,556) | (42,161) |
| Excess tax benefits from stock-based compensation | 17,972 | 7,811 |
| Payments on long-term debt | (19,890) | (19,785) |
| Proceeds from issuances of treasury stock | 24,574 | 32,042 |
| | \$(158,711) | \$(103,892) |

Net cash used in financing activities for the first nine months of fiscal 2014 increased to \$158.7 million from \$103.9 million in the prior year primarily due to lower net borrowings on the credit facility and proceeds from issuances of treasury stock related to stock option exercises, partially offset by an increase in excess tax benefits from stock-based compensation.

We repurchased approximately 1.9 million shares of our common stock for \$98.7 million in the third quarter and a total of 4.1 million shares for \$191.8 million year-to-date. Subsequent to the end of the quarter, we repurchased approximately 386,000 shares for \$20 million.

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During the first nine months of fiscal 2014, \$98 million was drawn from the the revolver primarily to fund share repurchases. We repaid \$40 million of the outstanding balance leaving \$192 million of credit available under the revolver as of March 26, 2014. In April 2014, an additional \$22 million was borrowed from the revolver for general corporate purposes, including share repurchases.

The term loan and revolving credit facility bear interest of LIBOR plus an applicable margin, which is a function of our credit rating and debt to cash flow ratio, but is subject to a maximum of LIBOR plus 2.50%. Based on our current credit rating, we are paying interest at a rate of LIBOR plus 1.63%. One month LIBOR at March 26, 2014 was approximately 0.15%. As of March 26, 2014, we were in compliance with all financial debt covenants.

As of March 26, 2014, our credit rating by both Standard and Poor's ("S&P") and Fitch Ratings ("Fitch") 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 goal is to retain our investment grade rating from S&P and Fitch and ultimately regain our investment grade rating from Moody's.

We paid dividends of \$47.6 million to common stock shareholders in the first nine months of fiscal 2014 compared to \$42.2 million in dividends paid in same period of fiscal 2013. Our Board of Directors approved a 20 percent increase in the quarterly dividend from \$0.20 to \$0.24 per share effective with the dividend declared in August 2013.

Additionally, we declared a quarterly dividend of \$15.8 million in February 2014, paid on March 27, 2014. We will continue to target a 40 percent dividend payout ratio to provide additional return to shareholders through dividend payments.

In August 2013, our Board of Directors authorized a \$200.0 million increase to our existing share repurchase program. As of March 26, 2014, approximately \$354.7 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. Repurchased common stock is reflected as a reduction of shareholders' equity.

During the first nine months of fiscal 2014, approximately 1.0 million stock options were exercised resulting in cash proceeds of \$24.6 million. We received an excess tax benefit from stock-based compensation of \$18.0 million during the first three quarters primarily as a result of the normally scheduled vesting and distribution of restricted stock grants and performance shares.

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 and the repayment of current debt obligations for the foreseeable future. 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the Financial Accounting Standards Board ("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 updated guidance was effective for annual and interim impairment tests performed in fiscal years beginning after September 15, 2012, which required that we adopt these provisions in fiscal 2014. The updated guidance did not have a material impact on our consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. 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 report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective.

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There were no changes in our internal control over financial reporting during our third quarter ended March 26, 2014, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

We wish to caution you that our business and operations are subject to a number of risks and uncertainties. We have identified certain factors in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended June 26, 2013 and below in Part II, Item 1A “Risk Factors” in this report on Form 10-Q, that could cause actual results to differ materially from our historical results and from those projected in forward-looking statements contained in this report, in our other filings with the SEC, in our news releases, written or electronic communications, and verbal statements by our representatives. We further caution that it is not possible to see all such factors, and you should not consider the identified factors as a complete list of all risks and uncertainties.

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.

The risks related to our business include:

- The effect of competition on our operations and financial results.
- The impact of the global economic crisis on our business and financial results in fiscal 2014 and the material affect of a prolonged economic recovery on our future results.
- The impact of the current weak economic recovery 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.
- The risk inflation may increase our operating expenses.
- The effect of potential changes in governmental regulation on our ability to maintain our existing and future operations and to open new restaurants.
- Increases in energy costs and the impact on our profitability.
- Increased costs or reduced revenues from shortages or interruptions in the availability and delivery of food and other supplies.
- Our ability to consummate successful mergers, acquisitions, divestitures and other strategic transactions that are important to our future growth and profitability.
- The inability to meet our business strategy plan and the impact on our profitability in the future.
- The success of our franchisees to our future growth.
- The general decrease in sales volumes during winter months.
- Unfavorable publicity relating to one or more of our restaurants in a particular brand that may taint public perception of the brand.
- Litigation could have a material adverse impact on our business and our financial performance.
- Dependence on information technology and any material failure of that technology or our ability to execute a comprehensive business continuity plan.
- Outsourcing of certain business processes to third-party vendors that subject us to risk, including disruptions in business and increased costs.
- Continuing disruptions in the global financial markets on the availability and cost of credit and consumer spending patterns.
- Declines in the market price of our common stock or changes in other circumstances that may indicate an impairment of goodwill possibly adversely affecting our financial position and results of operations.
- Changes to estimates related to our property and equipment, or operating results that are lower than our current estimates at certain restaurant locations, possibly causing us to incur impairment charges on certain long-lived assets.

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• Failure to protect the integrity and security of personal information about our guests and team members may result in significant costs, possibly exposing us to litigation and damaging our sales and reputation.

¶ Identification of material weakness in internal control may adversely affect our stock price.

Other risk factors may adversely affect our financial performance, including, pricing, consumer spending and consumer confidence, changes in economic conditions and financial and credit markets, 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 and other acts of God.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated by reference from Note 9 to our consolidated financial statements set forth in Part I of this report.

Item 1A. RISK FACTORS

There has been no material change in the risk factors set forth in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended June 26, 2013.

The above risks and other risks described in this report and our other filings with the SEC could have a material impact on our business, financial condition or results of operations. It is not possible to predict or identify all risk factors. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our operations. Therefore, the risks identified are not intended to be a complete discussion of all potential risks or uncertainties.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Shares repurchased during the third quarter of fiscal 2014 are 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 |
|--|--|---------------------------------------|--|---|
| December 26, 2013 through January 29, 2014 | 192,536 | \$49.72 | 179,700 | \$443,699 |
| January 30, 2014 through February 26, 2014 | 801,966 | \$49.05 | 800,121 | \$404,433 |
| February 27, 2014 through March 26, 2014 | 935,000 | \$53.22 | 935,000 | \$354,651 |
| | 1,929,502 | \$51.14 | 1,914,821 | |

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 third quarter of fiscal 2014, 14,681 shares were tendered by team members at an average price of \$45.21.

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Item 6. EXHIBITS

- 31(a) Certification by Wyman T. Roberts, Chief Executive Officer and President and President of Chili's Grill and Bar of the Registrant, pursuant to 17 CFR 240.13a – 14(a) or 17 CFR 240.15d – 14(a).
- 31(b) Certification by Marie L. Perry, Senior Vice President and Treasurer, Controller 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 Wyman T. Roberts, Chief Executive Officer and President and President of Chili's Grill and 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.
- 32(b) Certification by Marie L. Perry, Senior Vice President and 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.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned thereunto duly authorized.

BRINKER INTERNATIONAL, INC.

Date: May 5, 2014

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

Date: May 5, 2014

By: /s/ Marie L. Perry
Marie L. Perry,
Senior Vice President and Treasurer,
Controller and Chief Financial Officer
(Principal Financial Officer)