2008

BRINKER INTERNATIONAL, INC.® ANNUAL REPORT

HOSPITALITY


chili's


ON THE BORDER
MEXICAN GRILL & CANTINA


MAGGIANO'S


ROMANO'S
Macaroni
GRILL

brands


BRINKER
INTERNATIONAL

TO ALL OUR STAKEHOLDERS – TEAM MEMBERS, GUESTS, SUPPLIER PARTNERS, FRANCHISE PARTNERS, AND SHAREHOLDERS.

Every day, throughout the world, Brinker International® welcomes more than 1.2 million people to our restaurants. Our guests know we'll extend a warm welcome, offer a comfortable place to dine, make them feel special, and, of course, deliver great value with delicious food and signature drinks.

Despite the current economic downturn, guests continue to savor the opportunity to dine out at Brinker® restaurants. Whether they are grabbing a quick lunch while managing a packed schedule or lingering over a celebratory meal with friends or family, our guests have come to appreciate the hospitality offered by Brinker brands. By connecting with our guests and being attentive, we provide the thoughtful and customized service our guests expect and deserve. We are ***Serving the world a great taste of life through the Power of Welcome***.℠

AN INTENSIFIED FOCUS

In early 2008, we conducted an honest and straightforward review that confirmed our strategic plans were still valid and compelling. But in the course of our analysis, we came to realize our tactical approach had to be streamlined to essential actions that make a lasting and dramatic impact on our core operations. Our discussions narrowed the attention of our organization to Five Areas of Focus.

Our **five strategic priorities** are designed to grow our base business by engaging our guests, differentiating our brands from competitors throughout the industry, reducing the costs associated with managing our restaurants, and establishing a vibrant presence in key markets around the world. The fact that our Five Areas of Focus primarily address growth within the four walls of our restaurants is by design. You will also notice that each of the five areas builds upon, complements, and enables the other four to create a fully integrated and powerful advantage for Brinker and its brands.

1) Hospitality

Our top priority remains creating a culture of hospitality that establishes emotional connections with our guests and engages our Team Members. We believe that providing a consistently warm, welcoming, and engaging dining experience will continue to differentiate Brinker brands from all others in the industry. Hospitality also builds guest loyalty, as evidenced by the feedback we gather in our guest satisfaction surveys. And as we deliver an outstanding guest experience, we also engage and retain the loyal Team Members who enable us to deliver on our hospitality promise. At Brinker, we call hospitality the "Power of Welcome". It's our commitment to:

- Get Real – by making a human connection with every guest, every Team Member, at every opportunity, every day.

» Make it Right – with the freedom to serve. We'll do whatever it takes to make sure our guests feel special and leave happier than when they came in.

» Give Back – we'll share our spirit of generosity by lending a hand to our Team Members, friends, and neighbors in need.

Guests receive the highest level of service and hospitality because we have the tools available to ensure we hire Team Members for both their service skills and their hospitality quotient.

Chili's newly remodeled Margarita Bar

2) Restaurant Atmosphere

Ensuring that our restaurant atmosphere represents the unique personalities of our brands and offers a warm and welcoming setting for guests is another key focus for Brinker International. Our current re-imaging program at Chili's® provides a more contemporary take on our well-known brand in a fun and festive manner while also driving incremental traffic. Based on guest feedback and the goal of providing the most comfortable, efficient, and hospitable experience for guests at each of our brands, we will continue to look at ways to offer an atmosphere that our guests will truly enjoy.

3) Food and Beverage Excellence

Excellence at the core of our business is an ongoing area of focus for Brinker brands as we deliver daily on high standards of execution and quality in food and beverage. We also strive to offer an enticing array of menu items that align with the culinary perspective of each brand, while continually introducing new dishes that acknowledge current trends and intrigue our loyal guests.

Chili's Grill & Bar®, our flagship brand, continues to differentiate itself by capitalizing on the vibrant personality of the brand's iconic chili pepper. Guests can take a break from the mundane and everyday sameness by "Peppering In" some fun with meals that are anything but ordinary. They continue to enjoy such favorites as Chicken Crispers®, Baby Back Ribs, Fajitas, and Big Mouth Burgers®. A new addition this year, Big Mouth® Bites, mini burgers served with Jalapeño

Big Mouth® Bites
Chili's Grill & Bar

Sizzling Shrimp Scampi
Romano's Macaroni Grill

Ranch dressing for dipping, quickly became the number-one selling burger on the Chili's menu.

On The Border Mexican Grill & Cantina® proudly serves some of the world's favorite Mexican food, and continually looks for opportunities to spice up the menu with new offerings that include guest favorites, exciting new features, healthier choices, and value offerings. New versions of tacos and fajitas have been added to the menu, along with new specialty drinks. On The Border® was named the platinum winner of the 2008 Consumers' Choice in Chains award in the Mexican segment by *Restaurants & Institutions* magazine, an award voted on by consumers.

Maggiano's Little Italy® serves up consistent culinary excellence with innovative, made-from-scratch recipes created by talented chefs. Combining the freshest ingredients available into creative new dishes, the brand highlights seasonal specials as well as the popular family-style dining. Well-appointed yet comfortable banquet spaces are perfect for all types of special celebrations and continue to be an important part of the business. In May, our Maggiano's® team was honored by *Nations Restaurant News* with a 2008 Menu Masters Award for Best Single Product Rollout – Braised Beef Cannelloni.

Baked Ziti & Sausage
Maggiano's Little Italy

Brisket Tacos
On The Border Mexican Grill & Cantina

At Romano's Macaroni Grill®, the brand builds on the success of its chef-inspired menu by masterfully blending the tastes of Italy with modern inspiration. Wine-inspired creations were introduced this year along with a popular promotion, "Create Your Own Primo Pasta". This promotion allowed guests to "play chef" by choosing among six premium ingredients to customize their pasta creations.

Our culinary and marketing teams at all four brands have developed menu options that allow guests to enjoy a high-quality restaurant meal at a great value. Whether a guest dines at a Brinker restaurant in Dallas or Dubai, they will experience our unwavering commitment to quality.

4) International Expansion

The rising costs of construction, labor, and commodities demand a more disciplined approach to domestic growth. Accordingly, we've adjusted our strategy by moderating our domestic corporate openings for the near future and focusing more heavily on the performance of our existing restaurants. Additionally, we are cultivating strong franchise partnerships both domestically and internationally. Our partners are experienced business owners

INTERNATIONAL EXPANSION

1. Al Manar Mall, Dubai, UAE
2. Ramstein Air Base, Germany
3. Morato, Philippines
4. City Stars, Egypt
5. Al Garhoud, Dubai, UAE
6. Cairo, Egypt
7. Kadena Air Base, Japan

who bring decades of expertise and a passionate commitment to the people who work and dine in their restaurants.

Although competition in the United States has escalated significantly over the past three decades, the international demand for a variety of restaurant choices continues to flourish. The global marketplace offers a wealth of opportunity for Brinker and its brands. Our international guests respond enthusiastically to the unique tastes and profiles we offer. Competition in the casual dining segment is not well developed in many parts of the world, so the potential for leadership remains strong. In addition, the many cost advantages in terms of food, facilities, and labor make international markets especially attractive to Brinker International as well as our global franchise partners. We intend to continue building on our success in the global marketplace with a number of competitive advantages. While many competitors have only one brand to offer potential franchise partners, Brinker can point to the power of a rich portfolio. The price points we offer make our casual dining brands accessible to a broad segment of the population. Leading our expansion efforts is the most experienced international team in casual dining, bringing 220 years of international experience to the table.

At the end of fiscal year 2008, our international exposure consisted of 178 Brinker restaurants in 24 countries. Those totals, added to our domestic presence, translate to 1,888 restaurants worldwide.

5) Pace and Convenience

Perhaps our most exciting area of focus is transforming the casual dining experience in terms of pace and convenience for the guest. From what our guests tell us in satisfaction surveys, pace and convenience is all about guest choice – putting them in control of the dining experience. Whether the guest is in a hurry or wants to relax over a leisurely meal, Brinker brands deliver an experience like none other in the industry. Our focus on hospitality combined with process improvements and significant investments in new restaurant technologies will enable us to grow our business by delivering a tailored dining experience for each guest.

Comprehensive hospitality training emphasizes the importance of looking for clues that help Team Members understand and act on our guests' needs. In addition, we are streamlining and revamping processes in the front and back of the house so food delivery can be appropriately timed and servers can be more accessible and attentive to guests in the dining room.

Our focus on pace and convenience is not limited to the dine-in experience. We are also building on our strength and innovation in ToGo by implementing significant improvements that help us deliver hot, fresh orders that are on time and accurate. These improvements include new technologies as well as new packaging and new processes designed to offer a superior ToGo experience.

GIVING BACK

Even as we expand the reach of Brinker International around the globe, our hearts remain rooted in the many communities we serve. Our mission, **Serving the world a great taste of life through the Power of Welcome**, is about more than serving great food. It's also about sharing the fruits of our success and improving the quality of the lives of others through charitable support, community outreach, and volunteerism.

Chili's guests and Team Members come together each September to raise funds for St. Jude Children's Research Hospital® through the "Create-A-Pepper to Fight Childhood Cancer" campaign. This past year alone, an amazing $8.2 million was raised by Chili's for St. Jude. Maggiano's Little Italy supports the

Make-A-Wish Foundation® through their annual "Eat-A-Dish for Make-A-Wish" and "Become A Star" promotions. Romano's Macaroni Grill continues their national partnership with the Meals on Wheels Association of America with programs and promotions in their restaurants. Team Members also dedicate their time delivering meals, feeding volunteers, and making personal connections in the community. During the past year, On The Border re-established a national partnership with Susan G. Komen for the Cure®. Throughout the month of October, they launched a nationwide event in their restautrants – "Fiesta for the Cure" – giving guests an opportunity to support this important cause. The departments in the Restaurant Support Center in Dallas reach out to various charitable organizations in the community by volunteering their time as well as donating goods and necessities to those in need. The Brinker Family Fund, established in 1997, holds a special place in the hearts of Brinker Team Members throughout the country. Team Members donate to the Fund through their paychecks and the money is used to help Team Members who have fallen on hard times. Last year more than $1.5 million dollars helped 550 BrinkerHeads and their families in a time of crisis. A highlight of this past year for Brinker International was the opening last November of the Chili's Care Center on the St. Jude campus in Memphis, Tennessee. This Center was made possible through the donations over the past few years from Chili's annual "Create-A-Pepper to Fight Childhood Cancer" campaign.

HERE FOR THE LONG HAUL

Over more than 33 years of playing restaurant, Brinker Team Members have seen their share of prosperity and challenge. Through it all, the BrinkerHead spirit of working hard and playing hard enables us to see the many benefits we offer to guests every day. No matter what's happening with the economy, the weather, or with political factions all over the world, Brinker Team Members have the privilege of working in an environment where they can make real connections. As our guests seek a respite from the many demands in their lives, we will be ready with open doors, a welcoming smile, and always a special place at our tables.

Sincerely,

Doug Brooks

Douglas H. Brooks
Chairman of the Board,
Chief Executive Officer, and President

BOARD OF DIRECTORS

Douglas H. Brooks
Chairman of the Board,
Chief Executive Officer, and President
Brinker International, Inc.

Harriet Edelman
Former Senior Vice President & CIO
Avon Products, Inc.

Marvin J. Girouard
Retired Chairman of the Board
Pier 1 Imports, Inc.

Ron Kirk
Partner
Vinson & Elkins LLP

John W. Mims
Chief Marketing and Sales Officer
Millennium & Copthorne Hotels Worldwide

George R. Mrkonic
Retired President and Vice Chairman
Borders Group, Inc.

Erle Nye
Chairman Emeritus
TXU Corp.

James E. Oesterreicher
Retired Chairman of the Board
J.C. Penney Company, Inc.

Rosendo G. Parra
Retired Senior Vice President
Dell Inc.

Cece Smith
Retired Managing General Partner
Phillips-Smith-Machens Venture Partners

Chairman Emeritus
Norman E. Brinker

PRINCIPAL OFFICERS

Douglas H. Brooks
Chairman of the Board,
Chief Executive Officer, and President

Valerie L. Davisson
Executive Vice President
and Chief PeopleWorks Officer

Todd E. Diener
Executive Vice President
and Chili's Grill & Bar President

Charles M. Sonsteby
Executive Vice President
and Chief Financial Officer

Roger F. Thomson
Executive Vice President,
Chief Administrative Officer,
General Counsel, and Secretary

Michael B. Webberman
Executive Vice President of Brand Solutions

Guy J. Constant
Senior Vice President of Finance

David R. Doyle
Senior Vice President and Controller

Michael L. Furlow
Senior Vice President of Information Solutions

David M. Orenstein
Senior Vice President and On The Border
Mexican Grill & Cantina President

Wyman T. Roberts
Senior Vice President and
Maggiano's Little Italy President

Gregory L. Walther
Senior Vice President and
Global Business Development President

Kathleen A. Cholette
Vice President of Tax

Stan A. Fletcher
Vice President of Executive Development

Laurie A. Gaines
Vice President of Business Solutions

Jennifer A. Hartley
Vice President of PeopleWorks Global Learning
and Shared Services

Jeffrey A. Hoban
Vice President and Assistant General Counsel

John R. Hosea
Vice President of People Services

William R. Kennington Jr.
Vice President of Enterprise Integrated Solutions

Richard A. McCaffrey
Vice President of Design and Architecture

Bryan D. McCrory
Vice President, Assistant General Counsel,
and Assistant Secretary

E. Denise Moore
Vice President of Property Management

Marie L. Perry
Vice President of Treasury
and Investor Relations

Donald L. Reyburn
Vice President of Franchise Business
Development

William D. Rhodes
Vice President of Accounting Services

Susan J. Sandidge
Vice President and Assistant General Counsel

Susan L. Sieker
Vice President of Business Assurance
Risk Services

Jeffry S. Smith
Vice President of Restaurant Development

Terry W. Stephenson
Vice President of Purchasing

Joseph G. Taylor
Vice President of Communications
and Corporate Affairs

PRINCIPAL OFFICERS IN RESTAURANT BRANDS AND GLOBAL BUSINESS DEVELOPMENT

Chili's Grill & Bar

Todd E. Diener
President

Krista M. Gibson
Senior Vice President of Brand Strategy

George N. Hailey
Senior Vice President of Franchise

Larry J. Lindsey
Senior Vice President of Operations Services

Kelli A. Valade
Senior Vice President of Chili's PeopleWorks and PeopleWorks Shared Services, Brinker

William B. Davenport
Vice President of Finance

Kevin J. Carroll
Regional Vice President of Operations

Thomas A. Lee
Regional Vice President of Operations

Dana M. Tilley
Vice President of Food and Beverage Innovation

Romano's Macaroni Grill

John L. Reale
Interim President

William C. Alexander
Vice President of Development and Finance

Nancy L. Hampton
Vice President of Brand Strategy

M. Keith Rodenberg
Regional Vice President of Operations

On The Border Mexican Grill & Cantina

David M. Orenstein
President

Patrick A. Droesch
Vice President of Operations

Thomas A. Solomon
Vice President of PeopleWorks

Linda S. VanGosen
Vice President of Brand Strategy

Maggiano's Little Italy

Wyman T. Roberts
President

W. Scott Harrison
Vice President of Finance

Barbara J. Stephens
Vice President of PeopleWorks

Global Business Development

Gregory L. Walther
President

John L. Reale
Senior Vice President and Chief Operating Officer

Jean N. Jacquemetton
Vice President

Claudia C. Schaefer
Vice President of Marketing

Lynn S. Schweinfurth
Vice President of Finance

Donald P. Reagan
Regional Vice President

SHAREHOLDER INFORMATION

Executive Offices
Brinker International, Inc.
6820 LBJ Freeway
Dallas, TX 75240
(972) 980-9917

Annual Meeting
Thursday, October 30, 2008 at 10:00 a.m.
Cinemark 17 Theater
11819 Webb Chapel Road
Dallas, TX 75234

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

NYSE Symbol: EAT

Stock Transfer Agent and Registrar
BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, NJ 07310-1900
Customer Service (800) 213-5156
TDD for Hearing Impaired (800) 231-5469
Foreign Shareowners (201) 680-6578
You can now access your Brinker Shareholder Account online via Investors Service Direct®. Visit us on the web at www.bnymellon.com/shareowner.isd and follow the easy access instructions.

10-K Availability
The company will furnish to any shareholder, without charge, a copy of the company's annual report filed with the Securities and Exchange Commission on Form 10-K for the 2008 fiscal year from our website at: www.brinker.com or upon written request from the shareholder.

Please send your written request to:
Secretary/Investor Relations
Brinker International, Inc.
6820 LBJ Freeway
Dallas, TX 75240

CEO/CFO Certifications
On November 19, 2007, the company submitted its annual Section 303A CEO Certification to the New York Stock Exchange. The company also filed the CEO and CFO certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 with the Securities and Exchange Commission as exhibits to its Annual Report on Form 10-K for the year ended June 25, 2008.

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

FORM 10-K

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

For the fiscal year ended June 25, 2008 **Commission File No. 1-10275**

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

Delaware (State or other jurisdiction of incorporation or organization)	**75-1914582** (I.R.S. employer identification no.)
6820 LBJ Freeway, Dallas, Texas (Address of principal executive offices)	**75240** (Zip Code)

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

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

Title of Each Class
Common Stock, $0.10 par value

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

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

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

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. $1,942,031,775.

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 August 14, 2008
Common Stock, $0.10 par value	101,387,001 shares

DOCUMENTS INCORPORATED BY REFERENCE

We have incorporated portions of our Annual Report to Shareholders for the fiscal year ended June 25, 2008 into Part II hereof, to the extent indicated herein. We have also incorporated by reference portions of our Proxy Statement for our annual meeting of shareholders on October 30, 2008, to be dated on or about September 11, 2008, into Part III hereof, to the extent indicated herein.

PART I

Item 1. BUSINESS.

General

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

We own, develop, operate and franchise the Chili's Grill & Bar ("Chili's"), On The Border Mexican Grill & Cantina ("On The Border"), Maggiano's Little Italy ("Maggiano's") and Romano's Macaroni Grill ("Macaroni Grill") restaurant brands. The Company was organized under the laws of the State of Delaware in September 1983 to succeed to the business operated by Chili's, Inc., a Texas corporation, which was organized in August 1977. We completed the acquisitions of Macaroni Grill in November 1989, On The Border in May 1994, and Maggiano's in August 1995.

Restaurant Brands

Chili's Grill & Bar

Chili's is a recognized leader in the full-service, casual dining category and features a varied menu. Hospitality has been the foundation of who we are and how we serve our guests for more than 33 years. Every day at Chili's locations around the world, our guests are greeted with "Welcome to Chili's".

Chili's menu features signature offerings such as Big Mouth Burgers and Bites, Baby Back Ribs, Sizzling Fajitas and our Triple Dipper Appetizer, to name just a few. Our varied menu ensures we have something for everyone during dinner and lunch, any day of the week. We pride ourselves on offering substantial portions of flavorful, high quality food at affordable prices. In most of our Chili's restaurants, you will find a Margarita Bar serving a variety of specialty margaritas, including our signature Presidente Margarita and a full selection of alcohol. Chili's also offers time-starved guests the convenience of great quality food, via the ToGo menu and separate ToGo entrances in the majority of our restaurants.

To provide guests an atmosphere of kicked-back energy, Chili's southwestern décor includes booth seating, tile-top tables, wood and brick walls covered with interesting memorabilia. In 2007, we began a re-imaging initiative to ensure that our older restaurants remain current.

During the year ending June 25, 2008, entrée selections ranged in menu price from $5.99 to $17.29. The average revenue per meal, including alcoholic beverages, was approximately $12.93 per person. During this same year, food and non-alcoholic beverage sales constituted approximately 86.8% of Chili's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 13.2%. Our average annual sales volume per Chili's restaurant during this same year was $3.2 million.

On The Border Mexican Grill & Cantina

On The Border is a full-service, casual dining Mexican restaurant brand. On The Border's menu offers a wide variety of Mexican favorites and is best known for its fajitas and margaritas. Our On The Border restaurants also offer a variety of innovative menu items from Guacamole Live!, Loaded Carne Asada Tacos, Spicy Buffalo Chicken Tacos, and Enchiladas Suizas. On The Border offers full bar service, in-restaurant dining and patio dining in all locations. On The Border also offers the convenience of a To-Go menu and To-Go entrance to speed take-out service in most locations. In addition to To-Go, On The Border offers catering service from simple drop-off delivery to full-service event planning.

During the year ending June 25, 2008, entrée selections ranged in menu price from $7.49 to $13.99. The average revenue per meal, including alcoholic beverages, was approximately $14.09 per person. During this same year, food and non-alcoholic beverage sales constituted approximately 81.6% of the On The Border's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 18.4%. Our average annual sales volume per On The Border restaurant during this same year was $2.8 million.

Maggiano's Little Italy

Maggiano's is a full-service, national, casual dining Italian restaurant brand. Each Maggiano's restaurant is a classic Italian-American restaurant in the style of New York's Little Italy in the 1940s. Our Maggiano's restaurants feature individual and family-style menus, and most of our restaurants also have extensive banquet facilities that can host events up to 300 people. We have a full lunch and dinner menu offering chef-prepared, classic Italian-American fare in the form of appetizers, and bountiful portions of pasta, chicken, seafood, veal and prime steaks. Our Maggiano's restaurants also offer a full range of alcoholic beverages, including a selection of quality premium wines.

During the year ending June 25, 2008, entrée selections ranged in menu price from $8.25 to $38.95. The average revenue per meal, including alcoholic beverages, was approximately $26.17 per person. During this same year, food and non-alcoholic beverage sales constituted approximately 81.1% of Maggiano's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 18.9%. Sales from our banquet facilities made up 21.0% of our total restaurant revenues for the year. Our average annual sales volume per Maggiano's restaurant during this same year was $8.9 million.

Romano's Macaroni Grill

Macaroni Grill is a full-service, national, casual dining Italian restaurant brand. Our guests enjoy chef-created dishes inspired by our culinary heritage at Macaroni Grill. Our menus include signature pastas, pizzas, grilled steak, seafood, salads and delicious desserts—all prepared by our talented chefs in open kitchens. Our Macaroni Grill restaurants feature brick ovens, festive string lights, fresh gladiolus, and a broad selection of house and premium wines. Additionally, our guests enjoy the convenience of Macaroni Grill's Curbside-To-Go service. We deliver delicious, chef-prepared meals right to their cars for our guests to enjoy at home. Macaroni Grill also offers catering service from drop-off delivery to full service event planning in many locations.

During the year ending June 25, 2008, entrée selections ranged in menu price from $8.99 to $19.49, with chef features priced separately. The average revenue per meal, including alcoholic beverages, was approximately $15.83 per person. During this same year, food and non-alcoholic beverage sales constituted approximately 88.3% of Macaroni Grill's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 11.7%. Our average annual sales volume per Macaroni Grill restaurant during this same year was $3.2 million.

Business Strategy

Our long-term vision is to be the dominant, global casual-dining restaurant portfolio company. To achieve our vision, we are focused on building a business model that will enable us to achieve sustainable growth in a variety of economic environments in order to create long-term value for our shareholders. We believe the key to reaching this goal resides within our existing restaurants by leveraging the strong positioning and operating strength of our world-class brands to grow profitable ongoing comparable restaurant sales. The basis of this business model will be grounded in our five areas of focus:

- Hospitality;
- Food and beverage excellence;
- Restaurant atmosphere;
- Pace and convenience; and
- International expansion.

Our organization is focused on these five priorities that are designed to grow our base business by engaging and delighting our guests, differentiating our brands from competitors throughout the industry, reducing the costs associated with managing our restaurants and establishing a strong presence in key markets around the world.

Restaurant Development

In fulfilling our long-term vision, and being mindful of our five areas of focus, our restaurant brands will continue to expand primarily through our franchisees. Our company-owned development will be restricted to a limited number of restaurants that meet or exceed our internal hurdle rates to ensure appropriate returns. This restricted company growth will shift the greater portion of new restaurant development to our expanding franchise community, domestically and internationally.

New restaurant development will be concentrated on certain identified markets to achieve the necessary levels to improve the competitive position, marketing potential, profitability and return on invested capital of our restaurant brands. Domestic expansion efforts continue to focus not only on major metropolitan areas in the United States but also on smaller market areas and non-traditional locations (such as airports, college campuses, toll plazas, and food courts) that can adequately support our restaurant brands. International expansion efforts continue to focus on introducing our brands into new countries and on expanding our brands within existing countries.

As part of our strategy to expand through our franchisees, our overall percentage of franchise ownership (domestically and internationally) increased in Fiscal 2008. The following table illustrates the percentages of franchise ownership as of June 25, 2008 for the company and by restaurant brand:

	Percentage of Franchise Operated Restaurants (domestic and international)
Brinker	33%
Chili's	38%
On The Border	20%
Maggiano's	0%
Macaroni Grill	14%

Domestic Franchise Development and Operations

Our focus on domestic expansion is primarily through growth in our number of franchised restaurants. We are accomplishing this part of our growth through existing, new or renewed development obligations with new or existing franchisees. In addition, we have also sold and may sell company-owned restaurants to our franchisees (new or existing). At June 25, 2008, 28 total domestic development arrangements existed. A typical domestic franchise development agreement provides for payment of development and initial franchise fees in addition to subsequent royalty and advertising fees based on the gross sales of each restaurant. We expect future domestic franchise development agreements to remain limited to enterprises having significant experience as restaurant operators and proven financial ability to support and develop multi-unit operations. In some instances we have and may enter into development agreements for multiple brands with the same franchisee.

During the year ended June 25, 2008, not including any restaurants we sold to our franchisees, our domestic franchisees opened 33 Chili's restaurants, four On The Border restaurants, and six Macaroni Grill restaurants. In addition, we sold 76 company-owned Chili's restaurants to an existing franchisee.

During fiscal 2008, we also entered into new or renewed development agreements with three franchisees for the development of 65 Chili's restaurants, five On The Border restaurants, and seven Macaroni Grill restaurants. The areas of development for these franchise locations include all or portions of the States of Alaska, Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin, as well as various airports and toll plazas in portions of the United States. We also completed the acquisition of two Chili's restaurants in the Pacific Northwest from our franchisee.

International Operations

Our strategy also includes the development of our brands internationally. We continue our international growth through development agreements with new and existing franchisees introducing our brands into new countries, as well as expanding them in existing countries. At June 25, 2008, we had 44 total development arrangements. During the fiscal year 2008, our international franchisees opened 25 Chili's restaurants and three On The Border restaurants. In the same year, we entered into new or renewed development agreements with 10 franchisees for the development of 94 Chili's restaurants and 12 Maggiano's restaurants. The areas of development for these locations include all or portions of the countries of Canada, Egypt, El Salvador, India, Mexico, Morocco, Peru, Saudi Arabia, Singapore, and the United Arab Emirates. We also continued our presence in the United Kingdom through a company-owned affiliate, with the opening of one Chili's restaurant.

Notably, we entered into an agreement with one of our franchisees in Mexico, CMR, S.A.B. de C.V., to jointly invest in a new company to develop Chili's and Maggiano's in portions of Mexico. The new company anticipates developing approximately 50 restaurants over the next four years. In fiscal 2008, eight new Chili's restaurants were opened by this company.

As we develop our brands internationally, we will selectively pursue expansion through various means, including franchising, joint ventures and company-owned development. Similar to our domestic franchise agreements, a typical international franchise development agreement provides for payment of development fees and franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. We expect future development agreements to remain limited to enterprises having significant experience as restaurant operators and proven financial ability to support and develop multi-unit, as well as, in some instances multi-brand, operations.

Company Development

While our near-term focus will be less on new company-operated restaurants than we have historically done, our restaurant site selection process remains basically the same. We devote significant effort to the investigation of new locations utilizing a variety of sophisticated analytical techniques. We evaluate a variety of factors, including: trade area demographics, such as target population density and household income levels; physical site characteristics, such as visibility, accessibility and traffic volume; relative proximity to activity centers, such as shopping centers, hotel and entertainment complexes and office buildings; supply and demand trends, such as proposed infrastructure improvements, new developments, and existing and potential competition. Members of each brand's executive team inspect, review and approve each restaurant site prior to its acquisition for that brand.

We periodically reevaluate restaurant sites to ensure that site selection attributes have not deteriorated below our minimum standards. In the event site deterioration occurs, each brand makes a concerted effort to improve the restaurant's performance by providing physical, operating and marketing enhancements unique to each restaurant's situation. If efforts to restore the restaurant's performance to acceptable minimum standards are unsuccessful, the brand considers relocation to a proximate, more desirable site, or evaluates closing the restaurant if the brand's measurement criteria, such as return on investment and area demographic trends, do not support relocation. Since inception, relating to our restaurant brands, we have closed 170 restaurants, including 44 in fiscal 2008. We perform a comprehensive analysis that examines restaurants not performing at a required rate of return. A portion of these closed restaurants were performing below our standards or were near or at the expiration of their lease term. Our strategic plan is targeted to support our long-term growth objectives, with a focus on continued development of those restaurant brands that have the greatest return potential for the Company and our shareholders.

The following table illustrates the system-wide restaurants opened in fiscal 2008 and the planned openings in fiscal 2009:

	Fiscal 2008 Openings(1)	Fiscal 2009 Projected Openings
Chili's:		
Company-operated	59	9-11
Franchise(2)	33	30-40
On The Border:		
Company-operated	7	1
Franchise(2)	4	9-12
Maggiano's	1	2
Macaroni Grill:		
Company-operated	3	—
Franchise(2)	6	4-6
International:		
Company-operated(3)	1	2
Franchise(3)	31	31-36
Total	145	88-110

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

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

(3) The numbers on this line are for all brands.

We anticipate that some of the fiscal 2009 projected restaurant openings may be constructed pursuant to agreements where a landlord contributes some of the building construction costs. In other cases, we may either lease or own the land (paying for any owned land from our own funds) and either lease or own the building, furniture, fixtures and equipment (paying for any owned items from our own funds).

Our capital investment in new restaurants may differ in the future due to building design specifications, site location, and site characteristics. The following table illustrates the approximate average capital investment for restaurants opened in fiscal 2008:

	Chili's	On the Border	Maggiano's	Macaroni Grill
Land(1)	$1,003,000	$1,099,000	$2,312,000	$1,308,000
Building	1,737,000	1,105,000	5,474,000	1,787,000
Furniture & Equipment	497,000	495,000	1,386,000	507,000
Other(2)	43,000	29,000	32,000	17,000
Total	$3,280,000	$2,728,000	$9,204,000	$3,619,000

(1) This amount represents the average cost for land acquisition, capital lease values net of landlord contributions (or an equivalent amount for operating lease costs also net of landlord contributions) based on estimated lease payments and other costs that will be incurred through the term of the lease.

(2) This amount includes liquor licensing costs which can vary significantly depending on the jurisdiction where the restaurants are located.

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

Restaurant Management

Our philosophy to maintain and operate each brand as a distinct and separate entity ensures that the culture, recruitment and training programs and unique operating environments of each brand are preserved. These factors are critical to the viability of each brand. During fiscal 2008, we also incorporated our focus on hospitality into each brand's culture and training programs for both new and existing team members.

Each brand is directed by a president and one or more vice presidents overseeing specifically identified areas. At the same time we utilize common and shared infrastructure where it provides efficiencies and cost-savings to the brands, including, among other services, accounting, information technology, purchasing, restaurant development and legal.

Restaurant management structure varies by brand. The individual restaurants themselves are led by a management team including a general manager and, on average, between two to six additional managers. The level of restaurant supervision depends upon the operating complexity and sales volume of each brand and each location. On average, depending on the brand needs, an area director/supervisor is responsible for the supervision of three to eight restaurants. For those brands with a significant number of units within a geographical region, additional levels of management may be provided.

We believe that there is a high correlation between the quality of restaurant management and the long-term success of a brand. In that regard, we encourage increased experience at all management positions through various short and long-term incentive programs, which may include equity ownership. These programs, coupled with a general management philosophy emphasizing quality of life, have enabled us to attract and retain team members.

We ensure consistent quality standards in all brands through the issuance of operations manuals covering all elements of operations and food and beverage manuals, which provide guidance for preparation of brand-formulated recipes. Routine visitation to the restaurants by all levels of supervision enforces strict adherence to our overall brand standards and operating procedures.

Each brand is responsible for maintaining each brand's operational training program. The training program typically includes a three to four month training period for restaurant management trainees, a continuing management training process for managers and supervisors, and training teams consisting of groups of team members experienced in all facets of restaurant operations that train team members to open new restaurants. The training teams typically begin on-site training at a new restaurant seven to ten days prior to opening and remain on location one to two weeks following the opening to ensure the smooth transition to operating personnel.

Purchasing

Our ability to maintain consistent quality throughout each of our restaurant brands depends upon acquiring products from reliable sources. Our pre-approved suppliers and our restaurants are required to adhere to strict product specifications established through our quality assurance and culinary programs. These requirements ensure that high quality products are served in each of our restaurants. We strategically negotiate directly with major suppliers to obtain competitive prices. We also use purchase commitment contracts to stabilize the potentially volatile pricing associated with certain commodity items. All essential products are available from pre-qualified distributors to be delivered to any of our restaurant brands. Additionally, as a purchaser of a variety of protein products, we do require our vendors to adhere to humane processing standards for their respective industries. Because of the relatively rapid turnover of perishable food products, inventories in the restaurants, consisting primarily of food, beverages and supplies, have a modest aggregate dollar value in relation to revenues.

Advertising and Marketing

Our brands generally focus on the eighteen to fifty-four year-old age group, which constitutes approximately half of the United States population. Though members of this target segment grew up on fast food, we believe that for many meal occasions, these consumers value the benefits of the casual dining category, particularly the higher food quality and enhanced dining experience. To reach this target group, we use a mix of television, radio, print or online advertising, with each of our restaurant brands utilizing one or more of these mediums to meet the brand's communication strategy and budget.

Our franchise agreements require advertising contributions to us by the franchisees. We use these contributions exclusively for the purpose of obtaining consumer insights, developing and producing brand-specific creative materials and purchasing national or regional media to meet the brand's strategy. Some franchisees also spend additional amounts on local advertising. Any such local advertising must first be approved by us.

Team Members

At June 25, 2008, we employed approximately 100,400 persons, of whom approximately 1,000 were restaurant support center personnel, 5,900 were restaurant area directors, managers or trainees and 93,500 were employed in non-management restaurant positions. Our executive officers have an average of approximately 23 years of experience in the restaurant industry.

We consider our team member relations to be positive and continue to focus on improving our team member turnover rate. We use various tools and programs to help us hire our new team members. We utilize tools that aid in determining if our prospective team members (hourly and management) have the proper skills for working at our restaurants. Most team members, other than restaurant management and restaurant support center personnel, are paid on an hourly basis. We believe that we provide working conditions and wages that compare favorably with those of our competition. Our team members are not covered by any collective bargaining agreements.

Trademarks

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

Available Information

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

Item 1A. RISK FACTORS.

We wish to caution you that our business and operations are subject to a number of risks and uncertainties. The factors listed below are important factors 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.

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.

Risks Related to Our Business

Competition may adversely affect our operations and financial results.

The restaurant business is highly competitive as to price, service, restaurant location, nutritional and dietary trends and food quality, and is often affected by changes in consumer tastes, economic conditions, population and traffic patterns. We compete within each market with locally-owned restaurants as well as national and regional restaurant chains, some of which operate more restaurants and have greater financial resources and longer operating histories than ours. There is active competition for management personnel and hourly team members, and for attractive commercial real estate sites suitable for restaurants. Further, we also face growing competition as a result of the trend toward convergence in grocery, deli and restaurant services, including the offering by the grocery industry of convenient meals in the form of improved entrees and side dishes. We compete primarily on the quality, variety, and value perception of menu items, as well as the quality and efficiency of service.

Our sales volumes generally decrease in winter months.

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

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

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

We are subject to the Fair Labor Standards Act (which governs such matters as minimum wages, overtime and other working conditions), along with the Americans with Disabilities Act, the Immigration Reform and Control Act of 1986, various family leave mandates and a variety of other laws enacted, or rules and regulations promulgated by federal, state and local governmental authorities that govern these and other employment matters. We expect increases in payroll expenses as a result of federal and state mandated increases in the minimum wage and although such increases are not expected to be material, we cannot assure you that there will not be material increases in the future. Enactment and enforcement of various federal, state and local laws, rules and regulations on immigration and labor organizations may adversely impact the availability and costs of labor for our restaurants in a particular area or across the United States. Other labor shortages or increased team member turnover could also increase labor costs. In addition, our vendors may be affected by higher minimum wage standards or availability of labor, which may increase the price of goods and services they supply to us.

We are also subject to federal and state environmental regulations, and although these have not had a material negative effect on our operations, we cannot ensure that there will not be a material negative effect in the future. More stringent and varied requirements of local and state governmental bodies with respect to zoning, land use and environmental factors could delay, prevent, or make cost prohibitive the development of new restaurants in particular locations.

Inflation may increase our operating expenses.

We have experienced impact from inflation. Inflation has caused increased food, labor and benefits costs and has increased our operating expenses. We may continue to experience increased food costs due to the diversion of food crop production to non-traditional uses, as well as increased food costs due to increased fuel costs for our vendors. As operating expenses increase, we, to the extent permitted by competition, recover increased costs by increasing menu prices, or by reviewing, then implementing, alternative products or processes, or by implementing other cost reduction procedures. We cannot ensure, however, that we will be able to continue to recover increases in operating expenses due to inflation in this manner.

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

Our success depends in part on our ability to absorb increases in utility costs, in particular electricity and natural gas. Various regions of the United States in which we operate multiple restaurants have experienced significant increases in utility prices. These increases have affected costs and if they continue to occur, it would have further adverse effects on our profitability to the extent not otherwise recoverable through price increases or alternative products, processes or cost reduction procedures.

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

Possible shortages or interruptions in the supply of food items and other supplies to our restaurants caused by inclement weather, natural disasters such as floods, drought and hurricanes, the inability of our vendors to obtain credit in a tightened credit market, food safety warnings or advisories or the prospect of such pronouncements (such as recent reports on tomatoes and jalapenos), or other conditions beyond our control could adversely affect the availability, quality and cost of items we buy and the operations of our restaurants. Our inability to effectively manage supply chain risk could increase our costs and limit the availability of products critical to our restaurant operations.

Successful mergers, acquisitions, divestitures and other strategic transactions are important to our future growth and profitability.

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

- the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates;
- our ability to achieve projected economic and operating synergies;
- unanticipated changes in business and economic conditions affecting an acquired business; and
- our ability to complete divestitures on acceptable terms and at or near the prices estimated as attainable by us.

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

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

- identify available, suitable and economically viable locations for new restaurants,
- identify adequate sources of capital to fund and finance strategic initiatives, including remodeling of existing restaurants and new restaurant development,
- obtain all required governmental permits (including zoning approvals and liquor licenses) on a timely basis,
- hire all necessary contractors and subcontractors and obtain construction materials at suitable prices,
- meet construction schedules, and
- hire and train qualified managers and team members for the restaurants.

The costs related to restaurant and brand development include purchases and leases of land, buildings and equipment and facility and equipment maintenance, repair and replacement. The labor and materials costs involved vary geographically and are subject to general price increases. As a result, future capital expenditure costs of restaurant development may increase, reducing profitability. We cannot assure you that we will be able to expand our capacity in accordance with our growth objectives or that the new restaurants and brands opened or acquired will be profitable.

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

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

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

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

Other risk factors may adversely affect our financial performance.

Other risk factors that could cause our actual results to differ materially from those indicated in the forward-looking statements by affecting, among many things, pricing, consumer spending and consumer confidence, include, without limitation, changes in economic conditions and financial and credit markets (including rising interest rates and costs for consumers and reduced disposable income), credit availability, increased costs of food commodities, increased fuel costs and availability for our team members, customers and suppliers, health epidemics or pandemics or the prospects of these events (such as reports on avian flu), consumer perceptions of food safety, changes in consumer tastes and behaviors, governmental monetary policies, changes in demographic trends, availability of employees, terrorist acts, energy shortages and rolling blackouts, and weather (including, major hurricanes and regional winter storms) and other acts of God.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

Restaurant Locations

At June 25, 2008, our system of company-owned and franchised restaurants included 1,888 restaurants located in 50 states, and Washington, D.C. We also have restaurants in the countries of Bahrain, Canada, Ecuador, Egypt, Germany, Guatemala, Honduras, Indonesia, Japan, Kuwait, Lebanon, Malaysia, Mexico, Oman, Peru, Philippines, Puerto Rico, Qatar, Saudi Arabia, South Korea, Taiwan, United Arab Emirates, United Kingdom, and Venezuela. We have provided you a breakdown of our portfolio of restaurants in the two tables below:

Table 1: Company-owned vs. franchise (by brand) as of June 25, 2008:

Chili's	
Company-owned	894
Franchise	558
On the Border:	
Company-owned	135
Franchise	33
Maggiano's	42
Macaroni Grill:	
Company-owned	194
Franchise	32
Total	1,888

Table 2: Domestic vs. foreign locations (by brand) as of June 25, 2008 (company-owned and franchised):

	Domestic (No. of States)	Foreign (No. of countries)
Chili's	1,291 (50)	161 (24)
On The Border	165 (33)	3 (3)
Maggiano's	42 (21 & D.C.)	None
Macaroni Grill	212 (40)	14 (10)

Restaurant Property Information

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

	Chili's	On The Border	Maggiano's	Macaroni Grill
Square Feet	3,930-5,450	4,000-5,690	12,000-17,000	6,300-7,000
Dining Seats	150-220	150-230	500-700	205-230
Dining Tables	35-50	37-55	100-150	50-70

The leases typically provide for a fixed rental plus percentage rentals based on sales volume. At June 25, 2008, we owned the land and building for 282 of our 1,265 company-operated restaurant locations. For these 282 restaurant locations, the net book value for the land was $241.2 million and for the buildings was $237.0 million. For the remaining 983 restaurant locations leased by us, the net book value of the buildings and leasehold improvements was $977.6 million. The 983 leased restaurant locations can be categorized as follows: 774 are ground leases (where we lease land only, but own the building) and 203 are retail leases (where we lease the land/retail space and building). We believe that our properties are suitable, adequate, well-maintained and sufficient for the operations contemplated. Some of our leased restaurants are leased for an initial lease term of 5 to 30 years, with renewal terms of 1 to 35 years.

Other Properties

We lease warehouse space totaling approximately 39,150 square feet in Carrollton, Texas, which we use for storage of equipment and supplies. We own an office building containing approximately 108,000 square feet which we use for part of our corporate headquarters and menu development activities. We lease an additional office complex containing approximately 198,000 square feet for the remainder of our corporate headquarters which is currently utilized by the Company or reserved for future expansion of the Company headquarters. Because of our operations throughout the United States, we also lease office space in Arizona, California, Colorado, Florida, Georgia, New Jersey, and Texas for use as regional operation offices. The size of these office leases range from approximately 100 square feet to approximately 4,000 square feet.

Item 3. LEGAL PROCEEDINGS.

Certain current and former hourly restaurant employees filed a lawsuit against us in California Superior Court alleging violations of California labor laws with respect to meal and rest breaks. The lawsuit seeks penalties and attorneys' fees and was certified as a class action in July 2006. On July 22, 2008, the California Court of Appeals decertified the class action on all claims with prejudice. We cannot anticipate what actions plaintiff will take in response to this ruling, but we intend to vigorously defend our position. It is impossible at this time to reasonably estimate the possible loss or range of loss, if any.

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

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

None.

PART II

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

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "EAT". Bid prices quoted represent interdealer prices without adjustment for retail markup, markdown and/or commissions, and may not necessarily represent actual transactions. The following table sets forth the quarterly high and low closing sales prices of the common stock, as reported by the NYSE.

Fiscal year ended June 25, 2008:

	High	Low
First Quarter	$30.14	$26.21
Second Quarter	$28.30	$19.00
Third Quarter	$20.06	$15.32
Fourth Quarter	$23.86	$17.67

Fiscal year ended June 27, 2007:

	High	Low
First Quarter	$28.05	$21.15
Second Quarter	$32.01	$26.29
Third Quarter	$35.50	$29.59
Fourth Quarter	$34.16	$28.82

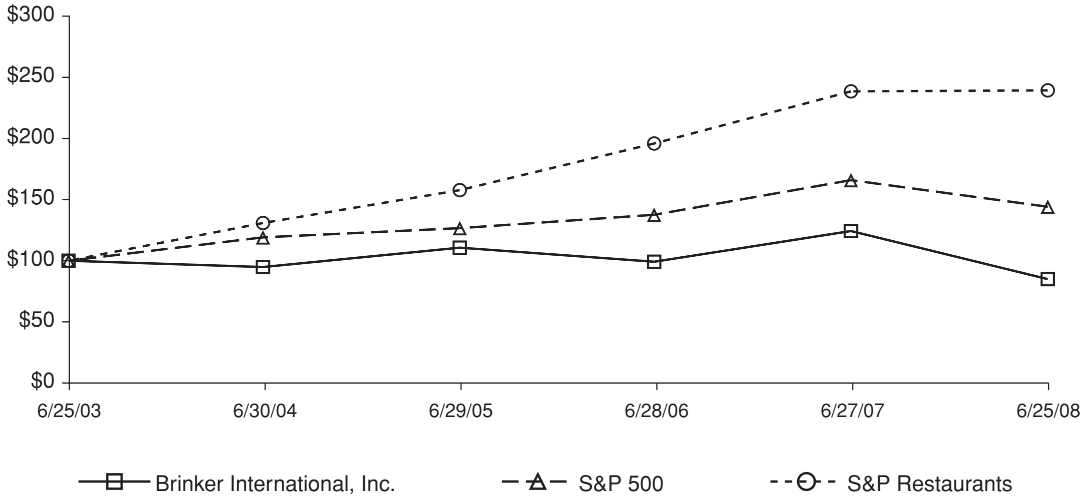
As of August 14, 2008, there were 917 holders of record of our common stock.

During the fiscal year ended June 25, 2008, we continued to declare quarterly cash dividends for our shareholders. We have set forth the dividends paid for the fiscal year in the following table:

Dividend Per Share of Common Stock	Declaration Date	Record Date	Payment Date
$0.09	August 23, 2007	September 14, 2007	September 26, 2007
$0.11	November 1, 2007	December 5, 2007	December 17, 2007
$0.11	January 31, 2008	March 13, 2008	March 26, 2008
$0.11	June 4, 2008	June 16, 2008	June 25, 2008

The following graph compares the cumulative five-year total return provided shareholders on Brinker International, Inc.'s common stock relative to the cumulative total returns of the S&P 500 Index and the S&P Restaurants Index.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Brinker International, Inc., The S&P 500 Index
And The S&P Restaurants Index



The graph assumes a $100 initial investment and the reinvestment of dividends in our stock and each of the indexes on June 25, 2003 and its relative performance is tracked through June 25, 2008. The values shown are neither indicative nor determinative of future performance.

	2003	2004	2005	2006	2007	2008
Brinker International	$100.00	$ 94.83	$110.67	$ 99.17	$124.29	$ 84.96
S&P 500	$100.00	$119.11	$126.64	$137.57	$165.90	$144.13
S&P Restaurants(1)	$100.00	$130.84	$157.72	$195.86	$238.49	$239.31

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

In May 2004, we issued $300.0 million in the aggregate principal amount at maturity of 5.75% Notes due 2014 (the "Unregistered Notes"). The Unregistered Notes were not registered under the Securities Act of 1933, as amended. Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. served as the joint book-running managers for the offering. The Unregistered Notes were offered and sold only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act of 1933, as amended), and, outside the United States, to non-U.S. persons in reliance on Regulation S under the Securities Act. The Unregistered Notes are redeemable at our option at any time, in whole or in part. The proceeds of the offering were used for general corporate purposes, including the repurchase of our common stock pursuant to our share repurchase program.

In September 2004, we completed an exchange offer in the aggregate principal amount of $300.0 million pursuant to which all of the holders of the Unregistered Notes exchanged the Unregistered Notes for new 5.75% notes due 2014 (the "Registered Notes"). The Registered Notes are on substantially the same terms as the Unregistered Notes except that the Registered Notes have been registered under the Securities Act and are freely tradable. We did not receive any new proceeds from the issuance of the Registered Notes.

Except as described in the immediately preceding paragraphs, during the three-year period ended on August 15, 2008, we issued no securities which were not registered under the Securities Act of 1933, as amended.

We continue to maintain our share repurchase program; however, activity in the fourth quarter of fiscal 2008 was minimal. During the fourth quarter, we repurchased shares as follows (in thousands, except share and per share amounts):

	Total Number of Shares Purchased(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value that May Yet be Purchased Under the Program
March 27, 2008 through April 30, 2008	—	—	—	$59,797
May 1, 2008 through May 28, 2008	—	—	—	$59,797
May 29, 2008 through June 25, 2008	333	$19.24	—	$59,797
Total	333	$19.24	—	

(a) These amounts include shares owned and tendered by employees 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 employees to satisfy tax withholding obligations were purchased at the closing price of the Company's shares on the date of vesting.

Item 6. SELECTED FINANCIAL DATA.

The information set forth in that section entitled "Selected Financial Data" in our 2008 Annual Report to Shareholders is presented on page F-1 of Exhibit 13 to this document. We incorporate that information in this document by reference.

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

The information set forth in that section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2008 Annual Report to Shareholders is presented on pages F-2 through F-12 of Exhibit 13 to this document. We incorporate that information in this document by reference.

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

The information set forth in that section entitled "Quantitative and Qualitative Disclosures About Market Risk" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" is in our 2008 Annual Report to Shareholders presented on page F-12 of Exhibit 13 to this document. We incorporate that information in this document by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

We refer you to the Index to Financial Statements attached hereto on page 20 for a listing of all financial statements in our 2008 Annual Report to Shareholders. This report is attached as part of Exhibit 13 to this document. We incorporate those financial statements in this document by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

"Management's Report on Internal Control over Financial Reporting" and the attestation report of the independent registered public accounting firm of KPMG, LLP on internal control over financial reporting are in our 2008 Annual Report to Shareholders and are presented on pages F-34 through F-36 of Exhibit 13 to this document. We incorporate these reports in this document by reference.

Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our fourth quarter ended June 25, 2008, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

If you would like information about:

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

you should read the sections entitled "Election of Directors—Information About Nominees", "Committees of the Board of Directors", "Executive Officers", and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement to be dated on or about September 11, 2008, for the annual meeting of shareholders on October 30, 2008. We incorporate that information in this document by reference.

The Board of Directors has adopted a code of ethics that applies to all of the members of Board of Directors and all of our employees, including, the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the code is posted on our internet website at the internet address: http://www.brinker.com/corp_gov/ ethical_business_ policy.asp. You may obtain free of charge copies of the code from our website at the above internet address.

Item 11. EXECUTIVE COMPENSATION.

If you would like information about our executive compensation, you should read the section entitled "Executive Compensation—Compensation Discussion and Analysis" in our Proxy Statement to be dated on or about September 11, 2008, for the annual meeting of shareholders on October 30, 2008. We incorporate that information in this document by reference.

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

If you would like information about our security ownership of certain beneficial owners and management and related stockholder matters, you should read the sections entitled "Director Compensation for Fiscal 2008", "Compensation Discussion and Analysis", and "Stock Ownership of Certain Persons" in our Proxy Statement to be dated on or about September 11, 2008, for the annual meeting of shareholders on October 30, 2008. We incorporate that information in this document by reference.

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

If you would like information about certain relationships and related transactions, you should read the section entitled "Compensation Committee Interlocks and Insider Participation" in our Proxy Statement to be dated on or about September 11, 2008, for the annual meeting of shareholders on October 30, 2008. We incorporate that information in this document by reference.

If you would like information about the independence of our non-management directors and the composition of the Audit Committee, Compensation Committee and Governance and Nominating Committee, you should read the sections entitled "Director Independence" and "Committees of the Board of Directors" in our Proxy Statement to be dated on or about September 11, 2008, for the annual meeting of shareholders on October 30, 2008. We incorporate that information in this document by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

If you would like information about principal accountant fees and services, you should read the section entitled "Ratification of Independent Auditors" in our Proxy Statement to be dated on or about September 11, 2008, for the annual meeting of shareholders on October 30, 2008. We incorporate that information in this document by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) Financial Statements.

We make reference to the Index to Financial Statements attached to this document on page 20 for a listing of all financial statements attached as Exhibit 13 to this document.

(a)(2) Financial Statement Schedules.

None.

(a)(3) Exhibits.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BRINKER INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ CHARLES M. SONSTEBY

Charles M. Sonsteby,
Executive Vice President and
Chief Financial Officer

Dated: August 25, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, we have signed in our indicated capacities on August 25, 2008.

Name	Title
/s/ DOUGLAS H. BROOKS Douglas H. Brooks	Chairman of the Board, President, and Chief Executive Officer (Principal Executive Officer)
/s/ CHARLES M. SONSTEBY Charles M. Sonsteby	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ HARRIET EDELMAN Harriet Edelman	Director
/s/ MARVIN J. GIROUARD Marvin J. Girouard	Director
/s/ RONALD KIRK Ronald Kirk	Director
/s/ JOHN W. MIMS John W. Mims	Director
/s/ GEORGE R. MRKONIC George R. Mrkonic	Director
/s/ ERLE NYE Erle Nye	Director
/s/ JAMES E. OESTERREICHER James E. Oesterreicher	Director
/s/ ROSENDO G. PARRA Rosendo G. Parra	Director
/s/ CECE SMITH Cece Smith	Director

INDEX TO FINANCIAL STATEMENTS

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

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

INDEX TO EXHIBITS

Exhibit	
3(a)	Certificate of Incorporation of the Registrant, as amended.(1)
3(b)	Bylaws of the Registrant.(2)
4(a)	Form of 5.75% Note due 2014.(3)
4(b)	Indenture between the Registrant and Citibank, N.A., as Trustee.(4)
4(c)	Registration Rights Agreement by and among the Registrant, Citigroup Global Marketing, Inc., and J.P. Morgan Securities, Inc., as representatives of the initial named purchasers of the Notes.(4)
10(a)	Registrant's 1991 Stock Option Plan for Non-Employee Directors and Consultants.(5)
10(b)	Registrant's 1992 Incentive Stock Option Plan.(5)
10(c)	Registrant's Stock Option and Incentive Plan.(6)
10(d)	Registrant's 1999 Stock Option and Incentive Plan for Non-Employee Directors and Consultants.(7)
10(e)	Transition Agreement dated June 5, 2003, by and among Registrant, Brinker International Payroll Company, L.P. and Mr. Ronald A. McDougall.(8)
10(f)	Consulting Agreement dated August 26, 2004, by and between Registrant and Mr. Ronald A. McDougall.(9)
10(g)	$300,000,000 Credit Agreement dated October 6, 2004, by and among Registrant, Brinker Restaurant Corporation, Bank of America, N.A., J.P. Morgan Chase Bank, Citibank, N.A., and Citigroup Global Markets, Inc.(10)
10(h)	Registrant's Performance Share Plan Description.(11)
10(i)	$350,000,000 Fixed Rate Promissory Note, dated August 15, 2006, by Registrant to J.P. Morgan Chase Bank, National Association.(12)
10(j)	$50,000,000 Uncommitted Line of Credit Agreement, dated August 17, 2006, by and between Registrant and Bank of America, N.A., and related Master Promissory Note.(12)
10(k)	Master Confirmation Agreement and Supplemental Confirmation, both dated April 24, 2007, by and between Registrant and Goldman, Sachs & Co.(13)
10(l)	$400,000,000 Term Loan Agreement, dated as of October 24, 2007, by and among Registrant, Brinker Restaurant Corporation, Citibank, N.A., Citigroup Markets, Inc., J.P. Morgan Securities, Inc., Bank of America, N.A., JPMorgan Chase Bank N.A., Wachovia Bank, National Association, and the Bank of Tokyo-Mitsubishi UFJ, Ltd.(14)
13	2008 Annual Report to Shareholders.(15)
21	Subsidiaries of the Registrant.(2)
23	Consent of Independent Registered Public Accounting Firm.(2)
31(a)	Certification by Douglas H. Brooks, Chairman of the Board, President and Chief Executive Officer of the Registrant, pursuant to 17 CFR 240.13a—14(a) or 17 CFR 240.15d—14(a).(2)
31(b)	Certification by Charles M. Sonsteby, Executive Vice President and Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a—14(a) or 17 CFR 240.15d—14(a).(2)

Exhibit	
32(a)	Certification by Douglas H. Brooks, Chairman of the Board, President and Chief Executive Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(2)
32(b)	Certification by Charles M. Sonsteby, Executive Vice President and Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(2)
99(a)	Proxy Statement of Registrant.(16)

(1) Filed as an exhibit to annual report on Form 10-K for year ended June 28, 1995, and incorporated herein by reference.

(2) Filed herewith.

(3) Included in exhibit 4(d) to annual report on Form 10-K for year ended June 30, 2004, and incorporated herein by reference.

(4) Filed as an exhibit to registration statement on Form S-4 filed June 25, 2004, SEC File No. 333-116879, and incorporated herein by reference.

(5) Filed as an exhibit to annual report on Form 10-K for the year ended June 25, 1997, and incorporated herein by reference.

(6) Filed as Appendix A to Proxy Statement of Registrant, to be filed on or about September 11, 2008.

(7) Filed as an exhibit to quarterly report on Form 10-Q for the quarter ended December 28, 2005, and incorporated herein by reference.

(8) Filed as an exhibit to annual report on Form 10-K for the year ended June 25, 2003, and incorporated herein by reference.

(9) Filed as an exhibit to annual report on Form 10-K for the year ended June 30, 2004, and incorporated herein by reference.

(10) Filed as an exhibit to current report on Form 8K dated October 6, 2004, and incorporated herein by reference.

(11) Filed as an exhibit to quarterly report on Form 10-Q for the quarter ended March 29, 2006, and incorporated herein by reference.

(12) Filed as an exhibit to quarterly report on Form 10Q for the quarter ended September 27, 2006, and incorporated herein by reference.

(13) Filed as an exhibit to current report on Form 8K dated April 23, 2007, and incorporated herein by reference.

(14) Filed as an exhibit to quarterly report on Form 10Q for the quarter ended December 26, 2007, and incorporated herein by reference.

(15) Portions filed herewith, to the extent indicated herein.

(16) To be filed on or about September 11, 2008.

EXHIBIT 13

BRINKER INTERNATIONAL, INC.

SELECTED FINANCIAL DATA

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

	Fiscal Years				
	2008	2007	2006	2005	2004(a)
Income Statement Data:					
Revenues	$4,235,223	$4,376,904	$4,151,291	$3,749,539	$3,541,005
Operating Costs and Expenses:					
Cost of sales	1,200,763	1,222,198	1,160,931	1,059,822	980,717
Restaurant expenses	2,397,908	2,435,866	2,283,737	2,085,529	1,926,843
Depreciation and amortization	165,229	189,162	190,206	179,908	167,802
General and administrative	170,703	194,349	207,080	153,116	150,558
Other gains and charges	203,950	(8,999)	(17,262)	52,779	66,783
Total operating costs and expenses	4,138,553	4,032,576	3,824,692	3,531,154	3,292,703
Operating income	96,670	344,328	326,599	218,385	248,302
Interest expense	45,862	30,929	22,857	25,260	11,495
Other, net	(4,046)	(5,071)	(1,656)	1,526	1,742
Income before provision for income taxes	54,854	318,470	305,398	191,599	235,065
Provision for income taxes	3,132	88,421	91,448	33,143	82,882
Income from continuing operations	51,722	230,049	213,950	158,456	152,183
(Loss) income from discontinued operations, net of taxes	—	—	(1,555)	1,763	(1,265)
Net income	$ 51,722	$ 230,049	$ 212,395	$ 160,219	$ 150,918
Basic net income per share:					
Income from continuing operations	$ 0.50	$ 1.90	$ 1.66	$ 1.19	$ 1.06
(Loss) income from discontinued operations	$ —	$ —	$ (0.01)	$ 0.02	$ (0.01)
Net income per share	$ 0.50	$ 1.90	$ 1.65	$ 1.21	$ 1.05
Diluted net income per share:					
Income from continuing operations	$ 0.49	$ 1.85	$ 1.63	$ 1.14	$ 0.99
(Loss) income from discontinued operations	$ —	$ —	$ (0.01)	$ 0.01	$ (0.01)
Net income per share	$ 0.49	$ 1.85	$ 1.62	$ 1.15	$ 0.98
Basic weighted average shares outstanding	103,101	121,062	128,766	132,795	144,108
Diluted weighted average shares outstanding	104,897	124,116	130,934	141,344	158,609
Balance Sheet Data:					
Working capital (deficit)(b)	$ (71,448)	$ 111,706	$ 246,649	$ 375,283	$ 573,083
Total assets	2,193,122	2,318,021	2,221,779	2,156,124	2,254,424
Long-term obligations(b)	1,071,864	969,468	629,600	607,208	838,502
Shareholders' equity	595,089	805,089	1,075,832	1,100,282	1,010,422
Cash dividends per share	$ 0.42	$ 0.34	$ 0.20	$ —	$ —
Number of Restaurants Open (End of Period):					
Company-operated	1,265	1,312	1,290	1,268	1,194
Franchised/Joint venture	623	489	332	320	282
Total	1,888	1,801	1,622	1,588	1,476

(a) Fiscal year 2004 consisted of 53 weeks while all other periods presented consisted of 52 weeks.

(b) Prior year amounts have been updated to reflect the fiscal 2008 classification of assets held for sale in the consolidated balance sheets (Note 2).

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

GENERAL

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help 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 past three fiscal years, the MD&A should be read in conjunction with the consolidated financial statements and related notes included in this annual report. Our MD&A consists of the following sections:

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

OVERVIEW

We are principally engaged in the ownership, operation, development, and franchising of the Chili's Grill & Bar ("Chili's"), On The Border Mexican Grill & Cantina ("On The Border"), Maggiano's Little Italy ("Maggiano's") and Romano's Macaroni Grill ("Macaroni Grill") restaurant brands. At June 25, 2008, we owned, operated, or franchised 1,888 restaurants. In the first quarter of fiscal 2008 we announced our intention to sell Macaroni Grill and presented the results of the brand's operations as discontinued operations in our quarterly financial statements during fiscal 2008. In August 2008, we entered into an agreement with Mac Acquisition LLC, an affiliate of Golden Gate Capital, for the sale of a majority interest in Macaroni Grill. Per terms of the agreement, we will receive proceeds of $131.5 million in cash, of which $6.0 million will be contributed to the new entity for a 19.9% continuing ownership interest in the brand. We will also provide corporate support services for the new entity for one year with an option for one additional year. As a result of this agreement, Macaroni Grill has now been included in our results from continuing operations for fiscal 2008 and prior years. The transaction is expected to close in the second quarter of fiscal 2009 subject to customary closing conditions. Once the sale of the brand is complete, we will account for our interest in the ongoing operations through an equity method investment. In September 2005, we entered into an agreement to sell Corner Bakery Cafe ("Corner Bakery"). The sale of the brand was completed in February 2006. As a result, Corner Bakery is presented as discontinued operations in the accompanying consolidated financial statements.

Fiscal 2008 was a challenging year for Brinker and the casual dining industry. While we experienced encouraging trends in comparable restaurant sales in the latter half of the year, our operations continue to be negatively impacted by higher labor, fuel and commodity costs which have taken a toll on consumer confidence and the overall health of the economy.

This difficult operating environment highlighted the need to build a dynamic business model that can achieve sustainable growth in a variety of economic environments in order to create long-term value for our shareholders. The basis of this model will be grounded in our five areas of focus—hospitality; pace and convenience; food and beverage excellence; restaurant atmosphere; and international expansion. Our organization is focused on these five priorities that are designed to grow our base business by engaging and delighting our guests, differentiating our brands from competitors throughout the industry, reducing costs associated with managing our restaurants and establishing a strong presence in key markets around the world.

During fiscal 2008, these strategies resulted in the following highlights:

- Introduced successful menu items across our brands as a result of our focus on food and beverage excellence, including Honey Chipotle Chicken Crispers and updates on the classic Big Mouth Burger at Chili's, Border Smart selections at On the Border, and award-winning Little Italy favorites at Maggiano's;
- Innovated ToGo at Chili's through developments in technology and processes with positive results and plans to expand into fiscal year 2009;
- Re-imaged 73 Chili's restaurants, resulting in mid-single digit increases in sales, with plans to continue our re-image program in fiscal year 2009 at a lower level of investment per restaurant;
- Experienced significant growth in favorable guest feedback across the brands as a result of the company's focus on both hospitality and food and beverage excellence;
- Sold 76 Chili's restaurants to our franchisee, ERJ Dining IV, LLC, with a commitment to develop an additional 49 new Chili's restaurants;
- Increased royalty revenues from franchisees by approximately 60% percent;
- Internationally, opened one company-owned restaurant and 31 franchised restaurants, including eight under the company's joint investment with CMR, S.A.B. de C.V. to develop approximately 50 Chili's and Maggiano's restaurants in Mexico, and entered into 10 additional development agreements with franchisees with commitments to build 56 restaurants;
- Domestically, opened 70 company-owned restaurants (26 net of closures) and 43 franchised restaurants and entered into three development agreements with franchisees, with commitments to build 77 restaurants;
- Increased quarterly dividend by 22 percent to $0.11 per share and paid out $42.9 million in dividends; and
- Repurchased 9.1 million shares of our common stock for $240.3 million.

During fiscal 2008 we also made some decisions that negatively impacted our financial results in order to lay the foundation for achieving profitable long-term growth in fiscal 2009 and beyond. As mentioned above, we committed to a plan to sell the Macaroni Grill brand due to its declining performance. As a result, we incurred impairment charges of $152.7 million to write down the assets of Macaroni Grill to fair value less costs to sell during fiscal 2008. In addition, we evaluated our portfolio of assets and supporting infrastructure as well as refined our projected domestic company-owned restaurant development schedule for fiscal 2009 and 2010. These decisions resulted in $82.1 million of special charges during the year primarily related to restaurant closures, the adjustment of our development strategy and corporate restructuring.

With our areas of focus clearly defined and our team members aligned and united behind common goals, we are committed to driving growth inside the four walls of our existing restaurants. We will restrict future development to a limited number of new restaurants that meet or exceed our internal hurdle rates to ensure appropriate returns and shift a greater proportion of new restaurant development to our expanding franchise network in the United States and internationally. We expect to open approximately 15 company-owned restaurants in fiscal 2009 and even fewer restaurants in fiscal 2010. As a result, our overall revenues will now be driven in a more balanced manner of comparable restaurant sales and increasing franchise royalties. Our fiscal 2009 capital expenditure budget also includes up to $25 million for re-images at Chili's restaurants and up to $30 million in kitchen technology that we believe will dramatically change the casual dining experience for our guests. Finally, we will continue our focus on creating a culture of hospitality through additional team member training as well as utilization of our Guest Experience Measurement program. We expect to realize operating margin improvement from this focus on our existing restaurants and less effort towards opening new restaurants, the removal of underperforming restaurants from our system and a more focused organization.

As evidenced during fiscal 2008, the casual dining industry is a highly competitive business which is sensitive to changes in economic conditions, trends in lifestyles and fluctuating costs. We are encouraged by the successes we realized from our initiatives in place during 2008 to address these challenges and remain confident in the financial health of our company, the long-term prospects of the industry as well as in our ability to perform effectively in an extremely competitive marketplace and a variety of economic environments.

RESULTS OF OPERATIONS FOR FISCAL YEARS 2008, 2007, AND 2006

The following table sets forth income and expense items as a percentage of total revenues for the periods indicated:

	Percentage of Total Revenues Fiscal Years		
	2008	2007	2006
Revenues	100.0%	100.0%	100.0%
Operating Costs and Expenses:			
Cost of sales	28.4%	27.9%	28.0%
Restaurant expenses	56.6%	55.7%	55.0%
Depreciation and amortization	3.9%	4.3%	4.6%
General and administrative	4.0%	4.4%	5.0%
Other gains and charges	4.8%	(0.2)%	(0.5)%
Total operating costs and expenses	97.7%	92.1%	92.1%
Operating income	2.3%	7.9%	7.9%
Interest expense	1.1%	0.7%	0.5%
Other, net	(0.1)%	(0.1)%	0.0%
Income before provision for income taxes	1.3%	7.3%	7.4%
Provision for income taxes	0.1%	2.0%	2.2%
Income from continuing operations	1.2%	5.3%	5.2%
Loss from discontinued operations, net of taxes	0.0%	0.0%	(0.1)%
Net income	1.2%	5.3%	5.1%

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

REVENUES

Revenues for fiscal 2008 decreased to $4,235.2 million, a 3.2% decrease from the $4,376.9 million generated for fiscal 2007. The decrease in revenue was primarily attributable to declines in capacity at company-owned restaurants as well as a decrease in comparable restaurant sales as follows:

	Fiscal Year Ended June 25, 2008			
	Capacity	Comparable Sales	Price Increase	Mix Shift
Brinker International	(4.3)%	(0.5)%	2.9%	0.5%
Chili's	(5.9)%	0.8%	3.1%	0.8%
On The Border	5.5%	(3.3)%	2.5%	(0.2)%
Maggiano's	6.4%	0.4%	2.8%	(1.9)%
Macaroni Grill	(4.8)%	(4.4)%	2.2%	1.1%

Our capacity decreased 4.3% in fiscal 2008 (as measured by average-weighted sales weeks). The reduction in capacity is primarily due to the sale of 95 Chili's restaurants to Pepper Dining, Inc. on June 27, 2007 as well as the sale of 76 Chili's restaurants to ERJ Dining IV, LLC during fiscal 2008. The reduction in capacity is also due to other restaurant closures at Macaroni Grill, Chili's and On The Border, partially offset by the development of new company-owned restaurants. Including the impact of restaurant sales to franchisees, we experienced a net decrease of 47 company-owned restaurants since June 27, 2007.

Comparable restaurant sales decreased 0.5% in fiscal 2008 compared to fiscal 2007. The decrease in comparable restaurant sales resulted from a decline in customer traffic at all brands and unfavorable product mix shifts at On The Border and Maggiano's. These decreases were partially offset by an increase in menu prices at all brands and favorable mix shifts at Chili's and Macaroni Grill.

Revenues for fiscal 2007 increased to $4,376.9 million, 5.4% over the $4,151.3 million generated for fiscal 2006. The increase in revenues was primarily attributable to capacity growth, partially offset by a decrease in comparable restaurant sales.

	Fiscal Year Ended June 27, 2007			
	Capacity	Comparable Sales	Price Increase	Mix Shift
Brinker International	8.2%	(2.7)%	1.6%	0.1%
Chili's	10.9%	(2.4)%	1.7%	(0.3)%
On The Border	5.8%	(4.1)%	1.1%	2.0%
Maggiano's	8.4%	(1.7)%	1.5%	(0.7)%
Macaroni Grill	(0.8)%	(3.2)%	1.6%	0.6%

We increased our capacity 8.2% in fiscal 2007 primarily due to a net increase of 117 company-owned restaurants since June 28, 2006 (excluding the impact of the sale of 95 Chili's restaurants to Pepper Dining, Inc. on June 27, 2007). Comparable restaurant sales decreased 2.7% in fiscal 2007 compared to fiscal 2006. The decrease in comparable restaurant sales resulted from a decline in customer traffic at all brands and unfavorable product mix shifts at Chili's and Maggiano's. These decreases were partially offset by an increase in menu prices at all brands and favorable mix shifts at On The Border and Macaroni Grill.

COSTS AND EXPENSES

Cost of sales, as a percent of revenues, increased 0.5% in fiscal 2008 primarily due to increased inventory costs partially offset by an increase in menu prices at all brands and an increase in franchise revenues. The cost increase was primarily driven by unfavorable pricing for beef, ribs, chicken, and dairy products. The increase was also due to unfavorable product mix shifts related to new menu items. Cost of sales, as a percent of revenues, decreased 0.1% in fiscal 2007 primarily due to an increase in menu prices at all brands partially offset by increased inventory costs. The cost increase was primarily driven by unfavorable product mix shifts related to the popularity of new appetizer menu items at Chili's and premium margaritas at On The Border. Additionally, we experienced unfavorable pricing for salmon and produce. The overall cost increase was partially offset by favorable pricing for ribs and steaks.

Restaurant expenses, as a percent of revenues, increased 0.9% in fiscal 2008 primarily due to minimum wage increases and higher insurance costs. The increase was partially offset by a decrease in restaurant opening expenses. Restaurant expenses, as a percent of revenues, increased 0.7% in fiscal 2007. The increase was due to minimum wage increases, increases in repair and maintenance and restaurant opening expenses. The increase was partially offset by a decrease in labor costs due to lower incentive compensation expenses in fiscal 2007.

Depreciation and amortization decreased $23.9 million in fiscal 2008. The decrease in depreciation expense was primarily due to the sale of restaurants to franchisees as well as the classification of Macaroni Grill assets as held for sale in September 2007, at which time the assets were no longer depreciated. These decreases were partially offset by new restaurant construction and ongoing remodel costs. Depreciation and amortization decreased $1.0 million during fiscal 2007. The decrease in depreciation expense was primarily related to an increase in fully depreciated assets and the classification of assets as held for sale in January 2007, at which time the assets were no longer depreciated. These decreases were partially offset by new restaurant construction and ongoing remodel costs.

General and administrative expenses decreased $23.6 million in fiscal 2008. The decrease was primarily due to lower annual performance and stock-based compensation expense as well as reduced salary and team member related expenses subsequent to a corporate restructuring that eliminated certain administrative positions during the third quarter of 2008. General and administrative expenses decreased $12.7 million in fiscal 2007. The decrease was primarily due to lower than expected annual performance based compensation expense, reduced meeting expenses, and a decrease in headcount, partially offset by increased 401k matching and employee participation and increased costs for health insurance.

Other gains and charges in fiscal 2008 includes a $152.7 million charge to write down the Macaroni Grill long-lived assets held for sale to estimated fair value less costs to sell. In addition, we made the decision to close or decline lease renewals for 61 restaurants based on a comprehensive analysis that examined restaurants not performing at required levels of return. As a result, we incurred a $58.5 million charge primarily related to the impairment of long-lived assets at these restaurants as well as lease obligation charges for the restaurants that closed in fiscal 2008. During fiscal 2008, we also made the decision to reduce future domestic company-owned restaurant development as well as discontinue certain projects that do not align with our strategic goals. As a result, we incurred a $13.2 million charge related to asset write-offs and a $6.7 million net charge for severance and other benefits. These charges were partially offset by a $29.7 million gain related to the sale of 76 company-owned Chili's restaurants to ERJ Dining IV, LLC. Other gains and charges in fiscal 2007 includes $19.1 million in gains related to the sale of company-owned restaurants to franchisees, including 95 Chili's restaurants to Pepper Dining, Inc. in the fourth quarter for a $17.1 million gain. Also included is a $3.2 million gain related to the termination of interest rate swaps on an operating lease commitment. These gains were partially offset by a $12.9 million charge related to the impairment of long-lived assets at 13 restaurants as well as lease obligation charges for seven of the restaurants that closed during fiscal 2007.

Interest expense increased $14.9 million in fiscal 2008 primarily due to outstanding borrowings on our $400 million three-year term loan agreement used to fund share repurchases in fiscal 2007 and for general corporate purposes. We entered into the agreement in October 2007 and terminated the one-year unsecured committed credit facility of $400 million. The increase was partially offset by a decrease in interest rates on our debt carrying variable interest rates. Interest expense increased by $8.1 million in fiscal 2007 primarily due to outstanding borrowings on the $400 million credit facility in the fourth quarter. Additionally, increased average borrowings and interest rates on our existing lines of credit contributed to the increase.

Other, net decreased $1.0 million in fiscal 2008 due to the realized gains from the liquidation of our investments in mutual funds in fiscal 2007, partially offset by higher interest income on cash balances in our captive insurance company. Other, net increased $3.4 million in fiscal 2007 due to the realized gains from the liquidation of our investments in mutual funds and higher interest income.

INCOME TAXES

The effective income tax rate related to continuing operations was 5.7%, 27.8% and 29.9% for fiscal 2008, 2007 and 2006, respectively. The decrease in the tax rate in fiscal 2008 was primarily due to a decrease in profits before taxes related to other gains and charges partially offset by prior year favorable settlement of certain tax audits and prior year benefits from state income tax planning. The decrease in the tax rate in fiscal 2007 was primarily due to stock-based compensation expense related to the impact of incentive stock options which are not deductible until they are exercised, an income tax benefit totaling $6.8 million associated with the favorable settlement of certain tax audits and benefits from state income tax planning.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of liquidity is cash flows generated from our restaurant operations. We expect our ability to generate strong cash flows from operations to continue into the future. Net cash provided by operating activities of continuing operations decreased to $361.5 million for fiscal 2008 from $485.0 million in fiscal 2007 primarily due to lower income (adjusted for non-cash items) driven by incremental margin pressures and the sale of 171 company-owned restaurants to franchisees as well as the timing of operational payments and receipts.

Capital expenditures consist of purchases of land for future restaurant sites, new restaurants under construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures were $270.4 million for fiscal 2008 compared to $430.5 million for fiscal 2007. The reduction in capital expenditures is primarily due to a decrease in company-owned restaurants developed this year. We estimate that our capital expenditures during fiscal 2009 will be approximately $175 to $185 million, including new restaurant development of approximately $40 million, $20 to $25 million of Chili's re-images, $25 to $30 million of investments in kitchen technology, and the remainder for capital expenditure maintenance programs. Our capital expenditures will be funded entirely by cash from operations and existing credit facilities.

We sold 76 company-owned Chili's restaurants to a franchisee during fiscal 2008 for cash proceeds of approximately $122 million. We plan to continue the sale of select company-owned restaurants to franchisees in fiscal 2009.

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

The Board of Directors has authorized a total of $2,060.0 million in share repurchases, which 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. In June 2007, we entered into a written trading plan in compliance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which provided for the purchase of up to $140.0 million of shares of our common stock. Following the completion of this plan, we entered into another 10b5-1 plan for the purchase of up to $100.0 million of shares of our common stock in November 2007. The latest trading plan was completed on November 23, 2007. Pursuant to our stock repurchase plans, we repurchased approximately 9.1 million shares of our common stock for approximately $240.3 million during fiscal 2008, which was funded using proceeds from the sales of restaurants to franchisees. We have approximately $59.8 million in remaining authorization as of June 25, 2008. In the future, we may consider additional share repurchases based on several factors, including our cash flow, share price, operational liquidity, and planned investment and financing needs. The repurchased common stock is reflected as a reduction of shareholders' equity.

In fiscal 2008, we declared and paid four quarterly dividends to common stock shareholders. In the first quarter, we declared a dividend in the amount of $0.09 per share. In the second, third and fourth quarters, we declared and paid dividends in the amount of $0.11 per share. Total dividends paid during fiscal 2008 were $42.9 million.

In August 2007, we extended our $50.0 million uncommitted credit facility through August 2008. In September 2007, we also increased the $50.0 million uncommitted credit facility to $100.0 million and extended the expiration date to September 2008.

In October 2007, we entered into a three-year term loan agreement for $400 million and terminated the one-year unsecured committed credit facility of $400 million. The term loan proceeds were used to pay off all outstanding amounts under the one-year unsecured committed credit facility. The term loan bears interest at LIBOR plus an applicable margin, which is a function of our credit rating at such time, but is subject to a maximum of LIBOR plus 1.5%. Based on our current credit rating, we are paying interest at a rate of LIBOR plus 0.65%.

Excluding the impact of assets held for sale, the working capital deficit decreased to $187.9 million at June 25, 2008 from $270.7 million at June 27, 2007 primarily due to increases in deferred tax assets resulting from the impairment of Macaroni Grill long-lived assets held for sale to estimated fair value less costs to sell as well as a decrease in income taxes payable due to declining earnings.

We believe that our various sources of capital, including cash flow from operating activities of continuing operations, availability under existing credit facilities, and the ability to acquire additional financing, are adequate to finance operations as well as the repayment of current debt obligations. We also expect to receive net cash proceeds of $125.5 million from the sale of Macaroni Grill in the second quarter of fiscal 2009. At that time, we will make a determination as to the appropriate use of the funds. 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 facilities and from our internal cash generating capabilities to adequately manage our ongoing business.

Payments due under our contractual obligations for outstanding indebtedness, purchase obligations as defined by the Securities and Exchange Commission ("SEC"), and the expiration of credit facilities as of June 25, 2008 are as follows:

	Payments Due by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt(a)	$960,570	$175,250	$434,500	$ 34,500	$316,320
Capital leases	70,211	4,948	10,174	10,586	44,503
Operating leases	870,645	121,864	220,386	182,809	345,586
Purchase obligations(b)	21,340	6,940	14,400	—	—

	Amount of Credit Facility Expiration by Period (in thousands)				
	Total Commitment	Less than 1 year(c)	1-3 Years	3-5 Years	More than 5 Years
Credit facilities	$550,000	$250,000	$300,000	$ —	$ —

(a) Long-term debt consists of amounts owed on the three-year term loan, 5.75% notes, credit facilities and accrued interest on fixed-rate obligations totaling $103.5 million.

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

(c) $150.0 million relates to an uncommitted obligation giving the lender an option not to extend funding. $100.0 million relates to a revolving credit facility that expires in September 2008.

In addition to the amounts shown in the table above, $27.1 million of unrecognized tax benefits have been recorded as liabilities in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The timing and amounts of future cash payments related to the FIN 48 liabilities are uncertain.

IMPACT OF INFLATION

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

CRITICAL ACCOUNTING ESTIMATES

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

Stock Based Compensation

Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Share-Based Payment," ("SFAS 123R"), requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options. We determine the fair value of our stock option awards using the Black-Scholes option valuation model. The Black-Scholes model requires judgmental assumptions including expected life and stock price volatility. We base our expected life assumptions on historical experience regarding option life. Stock price volatility is calculated based on historical prices and the expected life of the options. We determine the fair value of our performance shares using a Monte Carlo simulation model. The Monte Carlo method is a statistical modeling technique that requires highly judgmental assumptions regarding Brinker's future operating performance compared to our plan designated peer group in the future. The simulation is based on a probability model and market-based inputs that are used to predict future stock returns. We use the historical operating performance and correlation of stock performance to the S&P 500 composite index of Brinker and our peer group as inputs to the simulation model. These historical returns could differ significantly in the future and as a result, the fair value assigned to the performance shares could vary significantly to the final payout. We believe the Monte Carlo simulation model provides the best evidence of fair value at the grant date and is an appropriate technique for valuing share-based awards under SFAS 123R. SFAS 123R also requires that we recognize compensation expense for only the portion of share-based awards that are expected to vest. Therefore, we apply estimated forfeiture rates that are derived from our historical forfeitures of similar awards.

Income Taxes

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

In the ordinary course of business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. Effective June 28, 2007, we adopted the provisions of FIN 48. The adoption of this standard was consistent with FSP FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48", that was issued in May 2007 and that provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing unrecognized tax benefits.

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

Property and Equipment

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

Impairment of Long-Lived Assets and Goodwill

We review property and equipment for impairment when events or circumstances indicate that the carrying amount of a restaurant's assets may not be recoverable. We test for impairment using historical cash flows and other relevant facts and circumstances as the primary basis for our estimates of future cash flows. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment. In addition, at least annually we assess the recoverability of goodwill related to our restaurant brands. This impairment test requires us to estimate fair values of our restaurant brands by making assumptions regarding future profits and cash flows, expected growth rates, terminal values, and other factors. In the event that these assumptions change in the future, we may be required to record impairment charges related to goodwill.

Self-Insurance

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

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations," ("SFAS 141R"). Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. SFAS 141R is effective for annual reporting periods beginning on or after December 15, 2008 and will be effective for us beginning in the first quarter of fiscal 2010 for business combinations occurring on or after the effective date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51," ("SFAS 160"). SFAS 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. The Statement applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS 160 is effective for periods beginning on or after December 15, 2008 and is effective for us beginning in the third quarter of fiscal 2009. We do not expect that SFAS 160 will have a material impact on our financial statements.

In December 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," ("SFAS 157"). SFAS 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements, but does not change existing guidance as to whether or not an instrument is carried at fair value. For financial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2007, which will require us to adopt these provisions in first quarter fiscal 2009. We do not expect the adoption to have an impact on our consolidated financial statements. For nonfinancial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2008, which will require us to adopt these provisions in fiscal 2010. We are currently evaluating the impact, if any, that an adoption of the deferred provisions of this statement will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS 159"). SFAS 159 provides companies with an option to report selected assets and liabilities at fair value. This statement contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election and is effective for us beginning in fiscal 2009. We do not plan to elect to measure any additional assets or liabilities at fair value that are not already measured at fair value under existing standards. Therefore, the adoption of this standard will not have an impact on our consolidated financial statements.

The Emerging Issues Task Force ("EITF") reached a consensus on EITF 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11") in June 2007. The EITF consensus indicates that the tax benefit received on dividends associated with share-based awards that are charged to retained earnings should be recorded in additional paid-in capital and included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. Currently, we do not record a tax benefit on dividends associated with share-based awards. The consensus is effective for the tax benefits of dividends declared in fiscal years beginning after December 15, 2007. EITF 06-11 will be effective for us beginning in fiscal 2009 and its adoption will not have a material impact on our financial position, results of operations or cash flows.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on debt and certain leasing facilities and from changes in commodity prices. A discussion of our accounting policies for derivative instruments is included in the summary of significant accounting policies in the notes to our consolidated financial statements.

We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. The variable rate financial instruments, consisting of the outstanding borrowings on our term loan and credit facilities, totaled $558.0 million at June 25, 2008. The impact on our annual results of operations of a one-point interest rate change on the outstanding balance of these variable rate financial instruments as of June 25, 2008 would be approximately $5.6 million. We may from time to time utilize interest rate swaps to manage overall borrowing costs and reduce exposure to adverse fluctuations in interest rates.

We purchase certain commodities such as beef, pork, poultry, seafood, produce, and dairy. These commodities are generally purchased based upon market prices established with vendors. These purchase arrangements may contain contractual features that fix the price paid for certain commodities. We do not use financial instruments to hedge commodity prices because these purchase arrangements help control the ultimate cost paid and any commodity price aberrations are generally short-term in nature.

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

BRINKER INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Fiscal Years		
	2008	2007	2006
Revenues	$4,235,223	$4,376,904	$4,151,291
Operating Costs and Expenses:			
Cost of sales	1,200,763	1,222,198	1,160,931
Restaurant expenses	2,397,908	2,435,866	2,283,737
Depreciation and amortization	165,229	189,162	190,206
General and administrative	170,703	194,349	207,080
Other gains and charges	203,950	(8,999)	(17,262)
Total operating costs and expenses	4,138,553	4,032,576	3,824,692
Operating income	96,670	344,328	326,599
Interest expense	45,862	30,929	22,857
Other, net	(4,046)	(5,071)	(1,656)
Income before provision for income taxes	54,854	318,470	305,398
Provision for income taxes	3,132	88,421	91,448
Income from continuing operations	51,722	230,049	213,950
Loss from discontinued operations, net of tax	—	—	(1,555)
Net income	$ 51,722	$ 230,049	$ 212,395
Basic net income per share:			
Income from continuing operations	$ 0.50	$ 1.90	$ 1.66
Loss from discontinued operations	$ —	$ —	$ (0.01)
Net income per share	$ 0.50	$ 1.90	$ 1.65
Diluted net income per share:			
Income from continuing operations	$ 0.49	$ 1.85	$ 1.63
Loss from discontinued operations	$ —	$ —	$ (0.01)
Net income per share	$ 0.49	$ 1.85	$ 1.62
Basic weighted average shares outstanding	103,101	121,062	128,766
Diluted weighted average shares outstanding	104,897	124,116	130,934
Cash dividends per share	$ 0.42	$ 0.34	$ 0.20

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 54,714	$ 84,823
Accounts receivable	52,304	49,851
Inventories	35,534	29,189
Prepaid expenses and other	106,472	70,515
Deferred income taxes	71,595	16,100
Assets held for sale	134,102	404,692
Total current assets	454,721	655,170
Property and Equipment:		
Land	198,554	202,742
Buildings and leasehold improvements	1,573,305	1,401,585
Furniture and equipment	669,201	614,472
Construction-in-progress	35,106	94,670
	2,476,166	2,313,469
Less accumulated depreciation and amortization	(945,150)	(830,733)
Net property and equipment	1,531,016	1,482,736
Other Assets:		
Goodwill	140,371	138,876
Deferred income taxes	23,160	4,778
Other	43,854	36,461
Total other assets	207,385	180,115
Total assets	$ 2,193,122	$ 2,318,021
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current installments of long-term debt	$ 1,973	$ 1,761
Accounts payable	168,619	167,789
Accrued liabilities	331,943	330,031
Income taxes payable	5,946	21,555
Liabilities associated with assets held for sale	17,688	22,328
Total current liabilities	526,169	543,464
Long-term debt, less current installments	901,604	826,918
Other liabilities	170,260	142,550
Commitments and Contingencies (Notes 11 and 15)		
Shareholders' Equity:		
Common stock—250,000,000 authorized shares; $.10 par value; 176,246,649 shares issued and 101,316,461 shares outstanding at June 25, 2008, and 176,246,666 shares issued and 110,127,072 shares outstanding at June 27, 2007	17,625	17,625
Additional paid-in capital	464,666	450,665
Accumulated other comprehensive loss	(168)	(37)
Retained earnings	1,800,300	1,791,311
	2,282,423	2,259,564
Less treasury stock, at cost (74,930,188 shares at June 25, 2008 and 66,119,594 shares at June 27, 2007)	(1,687,334)	(1,454,475)
Total shareholders' equity	595,089	805,089
Total liabilities and shareholders' equity	$ 2,193,122	$ 2,318,021

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balances at June 29, 2005	133,772	$17,625	$369,813	$1,415,991	$ (703,847)	$ 700	$1,100,282
Net income	—	—	—	212,395	—	—	212,395
Change in fair value of investments, net of tax	—	—	—	—	—	73	73
Comprehensive income							212,468
Cash dividends ($0.20 per share)	—	—	—	(25,600)	—	—	(25,600)
Stock-based compensation	—	—	33,201	—	—	—	33,201
Purchases of treasury stock	(11,742)	—	—	—	(305,714)	—	(305,714)
Issuances of common stock	2,860	—	3,173	—	50,635	—	53,808
Tax benefit from stock options exercised	—	—	7,387	—	—	—	7,387
Issuance of restricted stock, net of forfeitures	417	—	(6,948)	—	6,948	—	—
Balances at June 28, 2006	125,307	17,625	406,626	1,602,786	(951,978)	773	1,075,832
Net income	—	—	—	230,049	—	—	230,049
Currency translation adjustment	—	—	—	—	—	(37)	(37)
Change in fair value of investments, net of tax	—	—	—	—	—	181	181
Realized gain on sale of investments, net of tax	—	—	—	—	—	(954)	(954)
Comprehensive income							229,239
Cash dividends ($0.34 per share)	—	—	—	(41,524)	—	—	(41,524)
Stock-based compensation	—	—	31,510	—	—	—	31,510
Purchases of treasury stock	(18,617)	—	—	—	(569,347)	—	(569,347)
Issuances of common stock	3,409	—	(15)	—	66,302	—	66,287
Tax benefit from stock options exercised	—	—	13,092	—	—	—	13,092
Issuance of restricted stock, net of forfeitures	28	—	(548)	—	548	—	—
Balances at June 27, 2007	110,127	17,625	450,665	1,791,311	(1,454,475)	(37)	805,089
Net income	—	—	—	51,722	—	—	51,722
Currency translation adjustment	—	—	—	—	—	(131)	(131)
Comprehensive income							51,591
Adjustment to initially apply FIN 48	—	—	—	847	—	—	847
Cash dividends ($0.42 per share)	—	—	—	(43,580)	—	—	(43,580)
Stock-based compensation	—	—	16,100	—	—	—	16,100
Purchases of treasury stock	(9,130)	—	(465)	—	(240,319)	—	(240,784)
Issuances of common stock	345	—	(2,472)	—	7,749	—	5,277
Tax benefit from stock options exercised	—	—	549	—	—	—	549
Forfeitures of restricted stock, net of issuances	(26)	—	289	—	(289)	—	—
Balances at June 25, 2008	101,316	$17,625	$464,666	$1,800,300	$(1,687,334)	$(168)	$ 595,089

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Fiscal Years		
	2008	**2007**	**2006**
Cash Flows from Operating Activities:			
Net income	$ 51,722	$ 230,049	$ 212,395
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	165,229	189,162	190,206
Restructure charges and other impairments	225,945	13,812	1,950
Stock-based compensation	16,577	29,870	32,200
Deferred income taxes	(68,064)	(18,823)	(34,219)
Gain on sale of assets	(29,682)	(21,207)	(19,278)
Amortization of deferred costs	283	(130)	(39)
Loss from discontinued operations, net of taxes	—	—	1,555
Changes in assets and liabilities, excluding effects of acquisitions and dispositions:			
Accounts receivable	(972)	3,394	(8,948)
Inventories	(6,640)	3,229	8,474
Prepaid expenses and other	1,454	25,541	(3,773)
Other assets	459	(5,168)	19,198
Income taxes payable	2,581	(1,945)	11,994
Accounts payable	13,320	(1,978)	18,120
Accrued liabilities	(20,458)	19,966	53,978
Other liabilities	9,786	19,225	(13,346)
Net cash provided by operating activities of continuing operations	361,540	484,997	470,467
Cash Flows from Investing Activities:			
Payments for property and equipment	(270,413)	(430,532)	(354,607)
Proceeds from sale of assets	127,780	180,966	48,462
Increase in restricted cash	(34,435)	—	—
Payments for purchases of restaurants	(2,418)	—	(23,095)
(Investment in) disposition of equity method investee	(8,711)	—	1,101
Proceeds from sale of investments	—	5,994	—
Net cash used in investing activities of continuing operations	(188,197)	(243,572)	(328,139)
Cash Flows from Financing Activities:			
Net proceeds from issuance of long-term debt	399,287	—	—
Net (payments) borrowings on credit facilities	(323,586)	338,188	80,300
Payments on long-term debt	(1,062)	(12,979)	(1,581)
Purchases of treasury stock	(240,784)	(569,347)	(305,714)
Proceeds from issuances of treasury stock	5,277	66,287	53,808
Payments of dividends	(42,914)	(40,906)	(25,417)
Excess tax benefits from stock-based compensation	330	7,139	2,107
Net cash used in financing activities of continuing operations	(203,452)	(211,618)	(196,497)
Cash Flows from Discontinued Operations:			
Net cash provided by operating activities of discontinued operations	—	—	5,042
Net cash provided by investing activities of discontinued operations	—	—	62,845
Net cash provided by discontinued operations	—	—	67,887
Net change in cash and cash equivalents	(30,109)	29,807	13,718
Cash and cash equivalents at beginning of year	84,823	55,016	41,298
Cash and cash equivalents at end of year	$ 54,714	$ 84,823	$ 55,016

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Our consolidated financial statements include the accounts of Brinker International, Inc. and our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. We own, operate, or franchise various restaurant brands in the United States and 24 other countries.

We have a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal years 2008, 2007, and 2006, which ended on June 25, 2008, June 27, 2007, and June 28, 2006, respectively, each contained 52 weeks.

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform with fiscal 2008 presentation. These reclassifications have no effect on our net income or financial position as previously reported.

(b) Use of Estimates

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

(c) Revenue Recognition

We record revenue from the sale of food, beverages and alcohol as products are sold. Initial fees received from a franchisee to establish a new franchise are recognized as income when we have performed our obligations required to assist the franchisee in opening a new franchise restaurant, which is generally upon the opening of such restaurant. Continuing royalties, which are a percentage of net sales of franchised restaurants, are accrued as income when earned. Proceeds from the sale of gift cards are recorded as deferred revenue and recognized as income when the gift card is redeemed by the holder or the likelihood of redemption, based upon our historical redemption patterns, becomes remote.

(d) Financial Instruments

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

Our financial instruments at June 25, 2008 and June 27, 2007 consist of cash equivalents, accounts receivable, and long-term debt. The fair value of cash equivalents and accounts receivable approximates their carrying amounts reported in the consolidated balance sheets. The fair value of the 5.75% notes, based on quoted market prices, totaled approximately $283.4 million and $288.8 million at June 25, 2008 and June 27, 2007, respectively. The fair value of capital lease obligations is based on the amount of future cash flows discounted using our expected borrowing rate for debt of comparable risk and maturity.

We are required by our insurers to collateralize a part of the self-insured portion of our workers' compensation and liability claims. We have chosen to satisfy these collateral requirements by depositing approximately $18.2 million into an insurance escrow account and by issuing a $16.2 million cash secured

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

letter of credit in fiscal 2008. These cash balances have been classified as restricted and are included within prepaid expenses and other in the consolidated balance sheet as of June 25, 2008 (See Note 6).

Our use of derivative instruments has been primarily related to interest rate swaps which were entered into with the intent of hedging exposures to changes in value of certain fixed-rate lease obligations. We record derivative instruments in the consolidated balance sheet at fair value. The accounting for the gain or loss due to changes in fair value of the derivative instrument depends on whether the derivative instrument qualifies as a hedge. If the derivative instrument does not qualify as a hedge, the gains or losses are reported in earnings when they occur. However, if the derivative instrument qualifies as a hedge, the accounting varies based on the type of risk being hedged. Amounts receivable or payable under interest rate swaps related to the hedged lease obligations are recorded as adjustments to restaurant expense. Cash flows related to derivative transactions are included in operating activities.

We entered into interest rate swaps in December 2001 with the intent of hedging exposures to changes in value of certain fixed-rate lease obligations. These fair value hedges changed the fixed-rate interest component of an operating lease commitment for certain real estate properties entered into in November 1997 to variable-rate interest. We terminated our interest rate swaps in fiscal 2007 and recorded a $3.2 million gain, which is included in other gains and charges in the consolidated statements of income. At June 25, 2008 we do not have any outstanding derivative instruments.

(e) Accounts Receivable

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

(f) Inventories

Inventories, which consist of food, beverages, and supplies, are stated at the lower of cost (weighted average cost method) or market.

(g) Property and Equipment

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

We evaluate property and equipment held and used in the business for impairment whenever events or changes in circumstances indicate that the carrying amount of a restaurant's assets may not be recoverable. An impairment is determined by comparing estimated undiscounted future operating cash flows for a restaurant to the carrying amount of its assets. If an impairment exists, the amount of impairment is measured as the excess of the carrying amount over the estimated discounted future operating cash flows of the asset and the expected proceeds upon sale of the asset. Assets held for sale are reported at the lower of the carrying amount or fair value less costs to sell.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Operating Leases

Rent expense for leases that contain scheduled rent increases is recognized on a straight-line basis over the lease term, including cancelable option periods where failure to exercise such options would result in an economic penalty such that the renewal appears reasonably assured. We adopted FASB Staff Position 13-1, "Accounting for Rental Costs Incurred During a Construction Period" beginning December 29, 2005. Subsequent to the adoption, the straight-line rent calculation and rent expense includes the rent holiday period, which is the period of time between taking control of a leased site and the rent commencement date. Prior to the adoption of FASB Staff Position 13-1, the portion of straight-line rent allocated to the construction period was capitalized and amortized to depreciation and amortization expense over the useful life of the related assets.

Contingent rents are generally amounts due as a result of sales in excess of amounts stipulated in certain restaurant leases and are included in rent expense as they are incurred. Landlord contributions are recorded when received as a deferred rent liability and amortized as a reduction of rent expense on a straight-line basis over the lesser of the lease term, including renewal options, or 20 years.

(i) Capitalized Interest

Interest costs capitalized during the construction period of restaurants were approximately $3.7 million, $6.0 million and $5.0 million during fiscal 2008, 2007, and 2006, respectively.

(j) Advertising

Advertising production costs are expensed in the period when the advertising first takes place. Other advertising costs are expensed as incurred. Advertising costs were $133.6 million, $135.5 million and $135.2 million in fiscal 2008, 2007, and 2006, respectively, and are included in restaurant expenses in the consolidated statements of income.

(k) Goodwill

Goodwill represents the residual purchase price after allocation to all other identifiable net assets acquired. Goodwill is not subject to amortization but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," requires a two-step process for testing impairment of goodwill. First, the fair value of each reporting unit is compared to its carrying value to determine whether an indication of impairment exists. If an impairment is indicated, then the fair value of the reporting unit's goodwill is determined by allocating the unit's fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill is measured as the excess of its carrying value over its implied fair value. See Note 7 for additional disclosures related to goodwill.

(l) Sales Taxes

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Self-Insurance Program

We utilize a paid loss self-insurance plan for health, general liability and workers' compensation coverage. Predetermined loss limits have been arranged with insurance companies to limit our per occurrence cash outlay. Accrued liabilities include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims.

We utilize a wholly-owned captive insurance company for our general liability and workers' compensation coverage. We make premium payments to the captive insurance company and accrue for claims costs based on the actuarially predicted ultimate losses, and the captive insurance company then pays administrative fees and the insurance claims. As a result of these premium payments, approximately $44.2 million and $70.5 million of cash from the captive insurance company is included in cash and cash equivalents in the consolidated balance sheets as of June 25, 2008 and June 27, 2007, respectively. Additionally, a total of $34.4 million of cash from the captive insurance company is included in prepaid expenses and other in the consolidated balance sheet as of June 25, 2008.

(n) Income Taxes

Income taxes are accounted for under the asset and liability method prescribed by SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. We are no longer subject to U.S. federal examinations by tax authorities for fiscal years before 2006. We are audited by the taxing authorities of most states and certain foreign countries and are subject to examination by these taxing jurisdictions for fiscal years generally after 2003.

Effective June 28, 2007, we adopted the provisions of the Financial Accounting Standards Board's ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The adoption of this standard was consistent with FSP FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48," that was issued in May 2007 and that provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing unrecognized tax benefits. As a result of the adoption we recognized an $847,000 decrease in the liability for unrecognized tax benefits, net of the federal deferred tax benefit, with a corresponding increase to retained earnings. We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. See Note 9 for additional disclosures.

(o) Stock-Based Compensation

Stock-based compensation is accounted for under SFAS No. 123 (Revised 2004), "Share-Based Payment," ("SFAS 123R"), which requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options. Stock-based compensation expense for fiscal 2008, 2007 and 2006 includes compensation expense, recognized over the applicable vesting periods, for new share-based awards and for share-based awards granted prior to, but not yet vested, as of June 29,

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2005. We record compensation expense using a graded-vesting schedule over the vesting period, or to the date on which retirement eligibility is achieved, if shorter (non-substantive vesting period approach).

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

Stock-based compensation expense totaled approximately $15.6 million, $29.9 million and $32.2 million for fiscal 2008, 2007 and 2006, respectively. The total income tax benefit recognized in the consolidated statements of income related to stock-based compensation was approximately $6.1 million, $10.5 million and $7.7 million during fiscal 2008, 2007 and 2006, respectively.

The weighted average fair values of option grants were $7.18, $7.37 and $7.65 during fiscal 2008, 2007 and 2006, respectively. The fair value of stock options is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2008	2007	2006
Expected volatility	23.6%	26.1%	28.8%
Risk-free interest rate	4.2%	4.6%	4.2%
Expected lives	5 years	5 years	5 years
Dividend yield	1.2%	1.1%	1.0%

Expected volatility and the expected life of stock options are based on historical experience. The risk-free rate is based on the yield of a five-year Treasury Note.

(p) Preferred Stock

Our Board of Directors is authorized to provide for the issuance of 1.0 million preferred shares with a par value of $1.00 per share, in one or more series, and to fix the voting rights, liquidation preferences, dividend rates, conversion rights, redemption rights, and terms, including sinking fund provisions, and certain other rights and preferences. As of June 25, 2008, no preferred shares were issued.

(q) Shareholders' Equity

Our Board of Directors has authorized a total of $2,060.0 million of share repurchases. Pursuant to our stock repurchase plan, we repurchased approximately 9.1 million shares of our common stock for $240.3 million during fiscal 2008. As of June 25, 2008, approximately $59.8 million was available under our share repurchase authorizations. The repurchased common stock is reflected as a reduction of shareholders' equity.

(r) Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Fiscal 2008 comprehensive

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

income consists of net income and currency translation adjustments. Fiscal 2007 comprehensive income consists of net income, currency translation adjustments, and the realized gain on the sale of our investments in mutual funds. Fiscal 2006 comprehensive income consists of net income and the unrealized portion of changes in the fair value of our investments in mutual funds.

(s) Net Income Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted share awards, determined using the treasury stock method. We had approximately 5.8 million stock options and restricted share awards outstanding at June 25, 2008, 28,000 stock options and restricted share awards outstanding at June 27, 2007, and 885,000 stock options and restricted share awards outstanding at June 28, 2006 that were not included in the dilutive earnings per share calculation because the effect would have been antidilutive.

(t) Segment Reporting

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" permits two or more operating segments to be aggregated into a single operating segment if they have similar economic characteristics and are similar in the following areas:

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

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

2. ASSETS HELD FOR SALE

In the first quarter of fiscal 2008, we announced our intention to sell the Macaroni Grill restaurant brand and began presenting its results from operations as discontinued operations in our quarterly financial statements during fiscal 2008 in accordance with the reporting provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144"). In August 2008, we entered into an agreement with Mac Acquisition LLC, an affiliate of Golden Gate Capital, for the sale of a majority interest in Macaroni Grill. Per terms of the agreement, we will receive proceeds of $131.5 million in cash, of which $6.0 million will be contributed to the new entity for a 19.9% continuing ownership interest in the brand. We will also provide corporate support services for the new entity for one year with an option for one additional year. In accordance with SFAS 144, we have classified the results of Macaroni Grill in continuing operations for fiscal 2008 and prior years as we will have significant continuing involvement in the operations of Macaroni Grill after the sale. The transaction is expected to close in the second quarter of fiscal 2009 subject to customary closing conditions.

During fiscal 2008, we recorded impairment charges of $152.7 million to write-down the net assets of Macaroni Grill to their estimated fair value less costs to sell at June 25, 2008, which has been included in other gains and charges in the consolidated statements of income. The assets to be sold totaled approximately $134.1 million and consisted primarily of property and equipment of $113.6 million. The associated liabilities totaled approximately $17.7 million and consisted primarily of straight-line rent accruals of $13.2 million.

3. RESTAURANT ACQUISITIONS, DISPOSITIONS AND EQUITY METHOD INVESTMENTS

In November 2007, we entered into an agreement with CMR, S.A.B. de C.V. for a joint venture investment in a new corporation to develop 50 Chili's and Maggiano's restaurants in Mexico. In fiscal 2008, we made an $8.7 million capital contribution to the joint venture. We account for the investment under the equity method of accounting and record our share of the net income or loss of the investee within operating income since the operations of the joint venture are similar to our ongoing operations. For the year ended June 25, 2008, this amount has been included in restaurant expense in our consolidated statements of income due to the immaterial nature. At June 25, 2008, eight Chili's restaurants were operating in the joint venture.

In May 2007, we entered into an agreement with ERJ Dining IV, LLC to sell 76 company-owned Chili's restaurants for approximately $121.9 million. The assets and liabilities associated with these restaurants were classified as held for sale in the consolidated balance sheet for the fiscal year ended June 27, 2007. The sale was completed in November 2007 and we recorded a gain of $29.7 million in other gains and charges in the consolidated statements of income. The net assets sold totaled approximately $88.2 million and consisted primarily of property and equipment of $86.4 million and goodwill of $2.7 million.

In January 2007, we entered into an agreement with Pepper Dining, Inc. to sell 95 company-owned Chili's restaurants for approximately $155.0 million. The sale was completed in June 2007 and we recorded a gain of $17.1 million in other gains and charges in the consolidated statements of income. The net assets sold totaled approximately $127.9 million and consisted primarily of property and equipment of $126.1 million and goodwill of $3.9 million.

4. DISCONTINUED OPERATIONS

In September 2005, we entered into an agreement to sell Corner Bakery. The decision to sell the brand was a result of our continued focus on maximizing returns on investment. The sale of the brand was completed in February 2006. There was no operating activity during fiscal 2008 or fiscal 2007 related to Corner Bakery. We have reported the results of operations of Corner Bakery as discontinued operations which consist of the following (in thousands):

	2006
Revenues	$108,932
Income before provision for income taxes from discontinued operations	$ 13,061
Provision for income taxes	4,911
Net income from discontinued operations	8,150
Loss on sale of Corner Bakery, net of taxes(1)	(9,705)
Loss from discontinued operations	$ (1,555)

(1) The sale of Corner Bakery resulted in a taxable gain due to $11.0 million of goodwill not being deductible for tax purposes. The $9.7 million loss includes tax expense totaling $784,000.

5. OTHER GAINS AND CHARGES

	2008	2007	2006
Gains on the sale of restaurants (see Note 3)	$ (29,684)	$(19,116)	$(15,940)
Macaroni Grill fair value impairment (see Note 2)	152,692	—	—
Restaurant closures and impairments	58,504	12,854	3,051
Development-related costs	13,223	—	—
Severance and other benefits	6,735	—	—
Other gains and charges, net	2,480	(2,737)	(4,373)
	$203,950	$ (8,999)	$(17,262)

In fiscal 2008, we recorded $58.5 million in charges primarily related to long-lived asset impairments. The charges include $39.8 million of long-lived asset impairments and $9.3 million in lease obligation charges resulting from the decision to close or decline lease renewals for 61 restaurants including 20 Chili's, 12 On The Border, and 29 Macaroni Grill restaurants. The decision to close the restaurants and decline lease renewals was based on a comprehensive analysis that examined restaurants not performing at required levels of return. Also included is a $7.5 million impairment charge related to two restaurants which were impaired based on an analysis of projected operating performance and operating cash flows and a $1.9 million charge related to the decrease in the estimated sales value of land associated with previously closed restaurants.

In fiscal 2008, we also made the decision to reduce future domestic company-owned restaurant development as well as discontinue certain projects that do not align with our strategic goals. As a result, we evaluated our infrastructure needed to support this evolving business model, which resulted in the restructuring of our Restaurant Support Center and the elimination of certain administrative positions. In

5. OTHER GAINS AND CHARGES (Continued)

connection with these actions, we incurred $13.2 million in charges related to asset write-offs for sites under development and other discontinued projects. In addition, we incurred approximately $6.7 million in severance, vacation and other benefits, net of income related to the forfeiture of stock-based compensation awards.

In fiscal 2007, we recorded a $12.9 million charge for long-lived asset impairments resulting from the decision to close 13 restaurants, including nine Macaroni Grill, three On The Border, and one Chili's restaurants. The decision to close the restaurants was based on a comprehensive analysis that examined restaurants not meeting minimum return on investment thresholds and certain other operating performance criteria. The $12.9 million charge consists of long-lived asset impairments totaling $10.7 million and a $2.2 million charge primarily related to remaining lease obligations associated with the closed restaurants.

6. PREPAID EXPENSES AND OTHER

Prepaid expenses and other consist of the following (in thousands):

	2008	2007
Prepaid opening supplies	$ 41,247	$ 38,795
Restricted cash (see Note 1)	34,435	—
Other	30,790	31,720
	$106,472	$ 70,515

7. GOODWILL

The changes in the carrying amount of goodwill for the fiscal years ended June 25, 2008 and June 27, 2007 are as follows (in thousands):

	2008	2007
Balance at beginning of year	$138,876	$139,500
Goodwill arising from acquisitions	1,357	—
Other	138	(624)
Balance at end of year	$140,371	$138,876

8. ACCRUED AND OTHER LIABILITIES

Accrued liabilities consist of the following (in thousands):

	2008	2007
Payroll	$ 94,389	$107,629
Gift cards	85,897	83,105
Property tax	32,996	31,976
Insurance	32,512	31,091
Sales tax	30,433	31,002
Other	55,716	45,228
	$331,943	$330,031

8. ACCRUED AND OTHER LIABILITIES (Continued)

Other liabilities consist of the following (in thousands):

	2008	2007
Straight-line rent	$ 57,584	$ 58,887
Insurance	43,146	37,129
Landlord contributions	30,907	31,049
Unrecognized tax benefits (see Note 9)	23,701	—
Other	14,922	15,485
	$170,260	$142,550

9. INCOME TAXES

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

	2008	2007	2006
Current income tax expense:			
Federal	$ 59,500	$ 94,418	$ 98,267
State	10,959	13,259	12,170
Foreign	1,808	1,431	1,391
Total current income tax expense	72,267	109,108	111,828
Deferred income tax benefit:			
Federal	(62,646)	(18,756)	(18,638)
State	(6,489)	(1,931)	(1,742)
Total deferred income tax benefit	(69,135)	(20,687)	(20,380)
	$ 3,132	$ 88,421	$ 91,448

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

	2008	2007	2006
Income tax expense at statutory rate	$ 19,197	$111,465	$106,889
FICA tax credit	(23,835)	(23,307)	(22,774)
State income taxes, net of Federal benefit	2,902	7,363	6,778
Tax settlements	—	(6,790)	(5,529)
Stock-based compensation	(289)	576	4,077
Other	5,157	(886)	2,007
	$ 3,132	$ 88,421	$ 91,448

9. INCOME TAXES (Continued)

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities as of June 25, 2008 and June 27, 2007 are as follows (in thousands):

	2008	2007
Deferred income tax assets:		
Leasing transactions	$ 43,740	$ 43,884
Stock-based compensation	19,601	14,636
Restructure charges and impairments	54,681	4,284
Insurance reserves	4,590	3,967
Employee benefit plans	2,019	2,235
Other, net	21,385	17,616
Total deferred income tax assets	146,016	86,622
Deferred income tax liabilities:		
Prepaid expenses	19,810	20,408
Goodwill and other amortization	15,768	14,324
Depreciation and capitalized interest on property and equipment	5,969	18,530
Captive insurance	2,998	6,397
Other, net	6,716	6,085
Total deferred income tax liabilities	51,261	65,744
Net deferred income tax asset	$ 94,755	$ 20,878

As a result of the adoption of FIN 48 we recognized an $847,000 decrease in the liability for unrecognized tax benefits, net of the federal deferred tax benefit, with a corresponding increase to retained earnings. A reconciliation of the 2008 beginning and ending amount of unrecognized tax benefits is a follows:

	(in thousands)
Balance at June 28, 2007	$ 23,193
Additions based on tax positions related to fiscal 2008	5,587
Additions based on tax positions related to prior years	57
Settlements with tax authorities	(1,081)
Expiration of statute of limitations	(617)
Balance at June 25, 2008	$ 27,139

The total amount of unrecognized tax benefits as of June 25, 2008 was $27.1 million ($19.9 million of which would favorably affect the effective tax rate if resolved in our favor due to the effect of deferred tax benefits). During the next twelve months, we anticipate that it is reasonably possible that the amount of unrecognized tax benefits could be reduced by approximately $3.3 million ($2.3 million of which would affect the effective tax rate due to the effect of deferred tax benefits) either because our tax position will be sustained upon audit or as a result of the expiration of the statute of limitations for specific jurisdictions.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. During 2008 we recognized approximately $1.3 million in interest. As of June 25, 2008, we had $5.3 million ($3.8 million net of a $1.5 million Federal deferred tax benefit) of interest and penalties

9. INCOME TAXES (Continued)

accrued, compared to $4.3 million ($3.3 million net of a $1.0 million federal deferred tax benefit) at June 28, 2007.

10. DEBT

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

	2008	2007
Term loan	$400,000	$ —
Credit facilities	158,000	481,498
5.75% notes	299,070	298,913
Capital lease obligations (see Note 11)	46,507	48,268
	903,577	828,679
Less current installments	(1,973)	(1,761)
	$901,604	$826,918

In October 2007, we entered into a three-year term loan agreement for $400 million and terminated a one-year unsecured committed credit facility of $400 million. The term loan proceeds were used to pay off all outstanding amounts under the one-year unsecured committed credit facility. The term loan bears interest at LIBOR plus an applicable margin, which is a function of our credit rating at such time, but is subject to a maximum of LIBOR plus 1.5% and expires in October 2010. At June 25, 2008, $400.0 million was outstanding and, based on our current credit rating, we are paying interest at a rate of LIBOR plus 0.65% (3.13%).

We have credit facilities aggregating $550.0 million at June 25, 2008. A revolving credit facility of $300.0 million bears interest at LIBOR plus 0.75% (3.23% as of June 25, 2008) with a maximum rate of LIBOR plus 1.5% and expires in October 2009. At June 25, 2008, no balance was outstanding under this facility. In August 2007, we extended the $50.0 million uncommitted credit facility through August 2008. In September 2007, we increased the $50.0 million uncommitted credit facility to $100.0 million and extended the expiration date to September 2008. The uncommitted credit facility of $100.0 million bears interest at LIBOR plus 0.23% (2.71% as of June 25, 2008). At June 25, 2008, $100.0 million was outstanding under this facility. The remaining credit facility of $150.0 million is an uncommitted obligation giving the lender an option not to extend funding and bears interest based upon a negotiated rate (federal funds rate plus 0.84% or 2.90% as of June 25, 2008). Our current borrowing capacity under this credit facility as of June 25, 2008 was $150.0 million based on our current credit rating. At June 25, 2008, $58.0 million was outstanding under this facility.

Unused credit facilities available to us totaled $392.0 million at June 25, 2008. Obligations under our credit facilities, which require short-term repayments, have been classified as long-term debt, reflecting our intent and ability to refinance these borrowings through other existing credit facilities.

In December 2007, we terminated a $10.0 million revolving credit facility which was set to expire in July 2011 and paid off the outstanding balance of $3.6 million.

In May 2004, we issued $300.0 million of 5.75% notes and received proceeds totaling approximately $298.4 million prior to debt issuance costs. The Notes require semi-annual interest payments and mature in June 2014.

10. DEBT (Continued)

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

Excluding capital lease obligations (see Note 11) our long-term debt maturities for the five years following June 25, 2008 are as follows (in thousands):

Fiscal Year	
2009	$158,000
2010	—
2011	400,000
2012	—
2013	—
Thereafter	299,070
	$857,070

11. LEASES

(a) Capital Leases

We lease certain buildings under capital leases. The asset value of $32.6 million at June 25, 2008 and June 27, 2007, and the related accumulated amortization of $9.1 million and $7.4 million at June 25, 2008 and June 27, 2007, respectively, are included in property and equipment. Amortization of assets under capital leases is included in depreciation and amortization expense.

(b) Operating Leases

We lease restaurant facilities, office space, and certain equipment under operating leases having terms expiring at various dates through fiscal 2093. The restaurant leases have renewal clauses of 1 to 35 years at our option and, in some cases, have provisions for contingent rent based upon a percentage of sales in excess of specified levels, as defined in the leases. Rent expense for fiscal 2008, 2007, and 2006 was $145.6 million, $149.1 million, and $135.6 million, respectively. Contingent rent included in rent expense for fiscal 2008, 2007, and 2006 was $9.0 million, $10.9 million, and $12.7 million, respectively.

11. LEASES (Continued)

(c) Commitments

As of June 25, 2008, future minimum lease payments on capital and operating leases were as follows (in thousands):

Fiscal Year	Capital Leases	Operating Leases
2009	$ 4,948	$121,864
2010	5,040	114,076
2011	5,134	106,310
2012	5,244	96,882
2013	5,342	85,927
Thereafter	44,503	345,586
Total minimum lease payments	70,211	$870,645
Imputed interest (average rate of 7%)	(23,704)	
Present value of minimum lease payments	46,507	
Less current installments	(1,973)	
	$ 44,534	

As of June 25, 2008, we had entered into other lease agreements for restaurant facilities currently under construction or yet to be constructed. Classification of these leases as capital or operating has not been determined as construction of the leased properties has not been completed.

12. STOCK-BASED COMPENSATION

In November 2005, our shareholders approved the Performance Share Plan, the Restricted Stock Unit Plan, and amendments to the 1998 Stock Option and Incentive Plan and the 1999 Stock Option and Incentive Plan for Non-Employee Directors and Consultants (collectively, the "Plans"), authorizing the issuance of up to 33.3 million shares of our common stock to employees and non-employee directors and consultants. The Plans provide for grants of options to purchase our common stock, restricted stock, restricted stock units, performance shares and stock appreciation rights.

(a) Stock Options

Expense related to stock options issued to eligible employees under the Plans is recognized using a graded-vesting schedule over the vesting period. For options granted after the adoption of SFAS 123R on June 30, 2005, expense is recognized to the date on which retirement eligibility is achieved, if shorter than the vesting period. Stock options generally vest over a period of 1 to 4 years and have contractual terms to exercise of 8 to 10 years. Full or partial vesting of awards may occur upon a change in control (as defined in the Plans), or upon an employee's death, disability or involuntary termination.

12. STOCK-BASED COMPENSATION (Continued)

Transactions during fiscal 2008 were as follows (in thousands, except option prices):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding at June 27, 2007	7,588	$21.34		
Granted	651	28.26		
Exercised	(274)	19.25		
Forfeited	(351)	24.40		
Options outstanding at June 25, 2008	7,614	$21.86	5.16	$(17,062)
Options exercisable at June 25, 2008	6,315	$20.85	4.90	$ (7,758)

At June 25, 2008, unrecognized compensation expense related to stock options totaled approximately $2.1 million and will be recognized over a weighted average period of 2.6 years. The intrinsic value of options exercised totaled approximately $1.5 million, $38.8 million and $23.3 million during fiscal 2008, 2007 and 2006, respectively.

(b) Restricted Share Awards

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

Transactions during fiscal 2008 were as follows (in thousands, except fair values):

	Number of Restricted Share Awards	Weighted Average Fair Value Per Award
Restricted share awards outstanding at June 27, 2007	2,387	$22.22
Granted	892	24.76
Vested	(115)	25.43
Forfeited	(410)	22.12
Restricted share awards outstanding at June 25, 2008	2,754	$22.92

12. STOCK-BASED COMPENSATION (Continued)

At June 25, 2008, unrecognized compensation expense related to restricted share awards totaled approximately $16.4 million and will be recognized over a weighted average period of 2.1 years. The fair value of shares that vested during fiscal 2008, 2007, and 2006 totaled approximately $3.2 million, $1.8 million and $3.0 million, respectively.

13. SAVINGS PLANS

We sponsor a qualified defined contribution retirement plan ("Plan I") covering all employees who have attained the age of twenty-one and have completed one year and 1,000 hours of service. Plan I allows eligible employees to contribute, subject to IRS limitations on total annual contributions, up to 50% of their base compensation and 100% of their eligible bonuses, as defined in the plan, to various investment funds. We match in cash at a rate of 100% of the first 3% an employee contributes and 50% of the next 2% the employee contributes with immediate vesting. In fiscal 2008, 2007, and 2006, we contributed approximately $8.9 million, $8.2 million, and $3.5 million, respectively.

We also sponsor a non-qualified defined contribution plan covering a select group of highly compensated employees, as defined in the plan. Eligible employees are allowed to defer receipt of up to 50% of their base compensation, as defined in the plan. There is no company match, but employee contributions earn interest based on a rate determined and announced in November prior to the start of the plan year. Employee contributions and earnings thereon vest immediately. A Rabbi Trust is used to fund obligations of the non-qualified plan. The market value of the trust assets is included in other assets and the liability to plan participants is included in other liabilities.

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2008	2007	2006
Income taxes, net of refunds	$ 62,260	$100,593	$115,877
Interest, net of amounts capitalized	48,919	26,167	22,319

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

	2008	2007	2006
Retirement of fully depreciated assets	$ 21,778	$ 40,133	$ 49,488
Net decrease in fair value of interest rate swaps	—	—	(12,101)

15. CONTINGENCIES

As of June 25, 2008, we guaranteed lease payments totaling $154.0 million as a result of the sale of certain brands and the sale of restaurants to franchisees. This amount represents the maximum potential liability of future payments under the guarantees. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from fiscal 2009 through fiscal 2023. We remain secondarily liable for the leases. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of June 25, 2008.

Certain current and former hourly restaurant employees filed a lawsuit against us in California Superior Court alleging violations of California labor laws with respect to meal and rest breaks. The lawsuit seeks penalties and attorney's fees and was certified as a class action in July 2006. On July 22, 2008,

15. CONTINGENCIES (Continued)

the California Court of Appeal decertified the class action on all claims with prejudice. We cannot anticipate what actions the plaintiff will take in response to this ruling, but we intend to vigorously defend our position. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any.

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

16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2008 and 2007 (in thousands, except per share amounts):

	Fiscal Year 2008 Quarters Ended			
	Sept. 26	Dec. 26	March 26	June 25
Revenues	$1,054,686	$1,029,785	$1,077,183	$1,073,569
Income (loss) before provision for income taxes	$ 52,863	$ 78,106	$ (70,158)	$ (5,957)
Income (loss) from continuing operations	$ 37,600	$ 54,480	$ (38,818)	$ (1,540)
Basic net income (loss) per share from continuing operations	$ 0.35	$ 0.53	$ (0.38)	$ (0.02)
Diluted net income (loss) per share from continuing operations	$ 0.34	$ 0.52	$ (0.38)	$ (0.02)
Basic weighted average shares outstanding	106,464	103,498	101,175	101,267
Diluted weighted average shares outstanding	109,155	105,339	102,377	102,717

	Fiscal Year 2007 Quarters Ended			
	Sept. 27	Dec. 27	March 28	June 27
Revenues	$1,039,935	$1,070,587	$1,123,428	$1,142,954
Income before provision for income taxes	$ 69,953	$ 64,357	$ 77,327	$ 106,833
Income from continuing operations	$ 47,639	$ 44,192	$ 54,571	$ 83,647
Basic net income per share from continuing operations	$ 0.38	$ 0.36	$ 0.45	$ 0.73
Diluted net income per share from continuing operations	$ 0.38	$ 0.35	$ 0.43	$ 0.71
Basic weighted average shares outstanding	124,280	123,451	122,019	114,606
Diluted weighted average shares outstanding	126,098	126,641	125,712	118,032

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Brinker International, Inc.:

We have audited the accompanying consolidated balance sheets of Brinker International Inc. and subsidiaries ("the Company") as of June 25, 2008 and June 27, 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended June 25, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brinker International, Inc. and subsidiaries as of June 25, 2008 and June 27, 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended June 25, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 25, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 22, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 1 of the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123R (revised 2004), "Share-Based Payment" in fiscal year 2006. Also as discussed in Note 1 of the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standards Board's Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" in fiscal year 2008.

KPMG LLP

Dallas, Texas
August 22, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Brinker International, Inc.:

We have audited Brinker International, Inc.'s internal control over financial reporting as of June 25, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 25, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 25, 2008 and June 27, 2007, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 25, 2008, and our report dated August 22, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Dallas, Texas
August 22, 2008

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

We maintain a system of internal controls over financial reporting designed to provide reasonable assurance of the reliability of the consolidated financial statements. Our internal audit function monitors and reports on the adequacy of the compliance with the internal control system and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is comprised solely of outside directors, provides oversight to the financial reporting process through periodic meetings with our independent auditors, internal auditors, and management. Both our independent auditors and internal auditors have free access to the Audit Committee. Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of and for the year ended June 25, 2008 provide reasonable assurance that the consolidated financial statements are reliable.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. We have assessed the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we concluded that our internal control over financial reporting was effective as of June 25, 2008.

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

The effectiveness of our internal control over financial reporting as of June 25, 2008 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

DOUGLAS H. BROOKS
President and Chief Executive Officer

CHARLES M. SONSTEBY
Executive Vice President and Chief Financial Officer

Exhibit 21

BRINKER INTERNATIONAL, INC., A DELAWARE CORPORATION
SUBSIDIARIES

REGISTRANT'S subsidiaries operate full-service restaurants in various locations throughout the United States under the names Chili's Grill & Bar, Romano's Macaroni Grill, On The Border Mexican Grill & Cantina, and Maggiano's Little Italy.

BRINKER RESTAURANT CORPORATION, a Delaware corporation
MAGGIANO'S, INC., an Illinois corporation
BRINKER ALABAMA, INC., a Delaware corporation
BRINKER ARKANSAS, INC., a Delaware corporation
BRINKER OF CARROLL COUNTY, INC., a Maryland corporation
BRINKER CONNECTICUT CORPORATION, a Delaware corporation
BRINKER DELAWARE, INC., a Delaware corporation
BRINKER OF FREDERICK COUNTY, INC., a Maryland corporation
BRINKER FLORIDA, INC., a Delaware corporation
BRINKER GEORGIA, INC., a Delaware corporation
BRINKER INDIANA, INC., a Delaware corporation
BRINKER IOWA, INC., a Delaware corporation
BRINKER KENTUCKY, INC., a Delaware corporation
BRINKER LOUISIANA, INC., a Delaware corporation
BRINKER MASSACHUSETTS CORPORATION, a Delaware corporation
BRINKER MISSISSIPPI, INC., a Delaware corporation
BRINKER MISSOURI, INC., a Delaware corporation
BRINKER OF MONTGOMERY COUNTY, INC., a Maryland corporation
BRINKER NEVADA, INC., a Nevada corporation
BRINKER NEW JERSEY, INC., a Delaware corporation
BRINKER NORTH CAROLINA, INC., a Delaware corporation
BRINKER OHIO, INC., a Delaware corporation
BRINKER OKLAHOMA, INC., a Delaware corporation
BRINKER SOUTH CAROLINA, INC., a Delaware corporation
BRINKER VIRGINIA, INC., a Delaware corporation
BRINKER TEXAS, INC., a Delaware corporation
CHILI'S BEVERAGE COMPANY, INC., a Texas corporation
CHILI'S, INC., a Tennessee corporation
CHILI'S OF MINNESOTA, INC., a Minnesota corporation
CHILI'S OF KANSAS, INC., a Kansas corporation
BRINKER PENN TRUST, a Pennsylvania business trust
CHILI'S OF WEST VIRGINIA, INC., a West Virginia corporation
CHILI'S OF WISCONSIN, INC., a Wisconsin corporation
BRINKER FREEHOLD, INC., a New Jersey corporation
MAGGIANO'S OF TYSON'S, INC., a Virginia corporation
ROMANO'S OF ANNAPOLIS, INC., a Maryland corporation
CHILI'S OF BEL AIR, INC., a Maryland corporation
CHILI'S OF MARYLAND, INC., a Maryland corporation
BRINKER OF BALTIMORE COUNTY, INC., a Maryland corporation
BRINKER OF HOWARD COUNTY, INC., a Maryland corporation
BRINKER OF PRINCE GEORGE'S COUNTY, INC., a Maryland corporation
BRINKER RHODE ISLAND, INC., a Rhode Island corporation
BRINKER OF D.C., INC., a Delaware corporation
CHILI'S, INC., a Delaware corporation
MAGGIANO'S BEVERAGE COMPANY, a Texas corporation
MAGGIANO'S HOLDING CORPORATION, a Delaware corporation
MAGGIANO'S TEXAS, INC., a Delaware corporation
BRINKER VERMONT, INC., a Vermont corporation
BRINKER OF CHARLES COUNTY, INC., a Maryland corporation
BRINKER OF CECIL COUNTY, INC., a Maryland corporation
BRINKER MICHIGAN, INC., a Delaware corporation

Exhibit 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Brinker International, Inc.:

We consent to the incorporation by reference in Registration Statement Nos. 33-61594, 33-56491, 333-02201, 333-93755, 333-42224, 333-105720, and 333-125289 on Form S-8, 333-74902 on Form S-3 and 333-116879 on Form S-4 of Brinker International, Inc. of our reports dated August 22, 2008, with respect to the consolidated balance sheets of Brinker International, Inc. as of June 25, 2008 and June 27, 2007, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 25, 2008, and the effectiveness of internal control over financial reporting as of June 25, 2008, which reports appear in the 2008 Annual Report on Form 10-K of Brinker International, Inc.

Our report dated August 22, 2008, with respect to the consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 25, 2008 and June 27, 2007, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 25, 2008 refers to the adoption of the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," in fiscal year 2006 and the adoption of the provisions of the Financial Accounting Standards Board's Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," in fiscal year 2008.

KPMG LLP

Dallas, Texas
August 22, 2008

Exhibit 31(a)

CERTIFICATION

I, Douglas H. Brooks, certify that:

1. I have reviewed this Annual Report on Form 10-K of Brinker International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 25, 2008

/s/ DOUGLAS H. BROOKS

Douglas H. Brooks
Chairman of the Board, President and
Chief Executive Officer (Principal Executive Officer)

Exhibit 31(b)

CERTIFICATION

I, Charles M. Sonsteby, certify that:

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

Dated: August 25, 2008

/s/ CHARLES M. SONSTEBY

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

Exhibit 32(a)

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Brinker International, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended June 25, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 25, 2008

By: /s/ DOUGLAS H. BROOKS

Name: Douglas H. Brooks
Title: *Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)*

Exhibit 32(b)

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Brinker International, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended June 25, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 25, 2008

By: /s/ CHARLES M. SONSTEBY

Name: Charles M. Sonsteby
Title: *Executive Vice President and*
Chief Financial Officer
(Principal Financial Officer)

BRINKER INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF INCOME (in thousands, except per share amounts)

	2008	2007	2006
Revenues	$4,235,223	$4,376,904	$4,151,291
Operating costs and expenses:			
Cost of sales	1,200,763	1,222,198	1,160,931
Restaurant expenses	2,397,908	2,435,866	2,283,737
Depreciation and amortization	165,229	189,162	190,206
General and administrative	170,703	194,349	207,080
Other gains and charges	203,950	(8,999)	(17,262)
Total operating costs and expenses	4,138,553	4,032,576	3,824,692
Operating income	96,670	344,328	326,599
Interest expense	45,862	30,929	22,857
Other, net	(4,046)	(5,071)	(1,656)
Income before provision for income taxes	54,854	318,470	305,398
Provision for income taxes	3,132	88,421	91,448
Income from continuing operations	$ 51,722	$ 230,049	$ 213,950
Basic net income per share from continuing operations	$ 0.50	$ 1.90	$ 1.66
Diluted net income per share from continuing operations	$ 0.49	$ 1.85	$ 1.63
Basic weighted average shares outstanding	103,101	121,062	128,766
Diluted weighted average shares outstanding	104,897	124,116	130,934

Restaurant Locations	2008	2007	2006
Systemwide	1,888	1,801	1,622
Company-Operated	1,265	1,312	1,290

Brinker International, Inc.

6820 LBJ Freeway

Dallas, Texas 75240

www.brinker.com

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