

BRINKER INTERNATIONAL, INC.

CHOICES:



THE MAIN INGREDIENT

annual report 2004





Whether you're our guest, employee, vendor, investor, or neighbor, you can always count on Brinker International® to deliver the choices you crave – like dining options to suit almost any appetite and lifestyle; a work environment that rewards initiative and individuality; a diversified portfolio of casual dining concepts, anchored by some of the best-known brands in the nation and the world; and the countless ways in which we choose to give back to our communities.

Though the details of our day-to-day operations are constantly changing with the times, the concept of choice is a timeless principle that continues to guide our decisions and drive our success.

TO OUR SHAREHOLDERS, EMPLOYEES, AND GUESTS

HELLO, EVERYONE

Brinker International is a company built on choices. From the moment we opened the doors of our first restaurant nearly 30 years ago, we've been listening to suggestions with an open ear and exploring new opportunities with an open mind in order to expand those choices – not only for our guests but also for our employees, shareholders, and the communities we serve. Just as we did in the beginning, we still take pride in delivering a personalized dining experience, one guest at a time. The only difference is that now, we do it one million times a day.

Brinker's Leadership Team was invited to ring The Closing BellSM at the New York Stock Exchange®.



Today, Brinker is a \$3.7 billion company that is consistently recognized by FORTUNE magazine as one of "America's Most Admired Companies." In keeping with our long tradition of success, Brinker's performance remained very strong in fiscal 2004, with many of our restaurants breaking all-time sales records. The new fiscal year, 2005, began with a familiar ring on July 29 – the sound of The Closing BellSM of the New

York Stock Exchange being rung by members of the Brinker Leadership Team in honor of our 15th anniversary on the Big Board® under the ticker symbol EAT. We also earned our place among the "FORTUNE 500" this year, marking a major milestone for our company.

We continued to bring new choices to our guests across the nation and around the world this year with the addition of 103 company-owned facilities and 31 franchise restaurants, including our 100th international location and our first Chili's restaurants at international military bases at U.S. Army Forces Central Command in Qatar and Kadena Air Force Base in Japan. And on August 3, 2004, we celebrated the opening of our 1,000th Chili's with a special ribbon-cutting ceremony at our Pinnacle Park restaurant in the Dallas area.

In addition to our growing number of locations, Brinker's seven distinctive dining concepts continue to satisfy a wide range of tastes. Chili's Grill & Bar. Romano's Macaroni Grill. On The Border Mexican Grill & Cantina. Maggiano's Little Italy. Corner Bakery Cafe. Big Bowl Asian Kitchen. Rockfish Seafood Grill. No matter what you're hungry for, chances are you'll find it at a Brinker restaurant. Our menus include proven favorites that guests expect to see along with fresh new additions to our legendary lineups. By constantly reviewing and strategically updating our offerings, we're able to keep our brands relevant and popular while preserving the essence of the restaurants that our guests have grown to love.

One example of our ongoing food innovation is the introduction of more healthful items on our menus in response to guests' requests for low-fat and low-carbohydrate options. As these and other dietary trends continue to evolve, our newly appointed Nutrition Advisory Council, formed in January 2004, will be on hand to help us evaluate current menu initiatives and develop a long-term nutrition strategy. The council consists of food and nutrition experts from the Culinary Institute of America, the Cooper Aerobics Center, and ConAgra Foods, and its members are working hand in hand with our own purchasing teams, culinary staff, and quality assurance personnel to ensure an ongoing focus on nutrition and wellness within each of our concepts. As a result, we are better prepared to deliver the targeted meal choices our guests demand and deserve, including a broad range of low-fat and low-carb menu items, and more nutritious kids' meals.

Brinker was named to the "FORTUNE 500" this year and is consistently recognized by FORTUNE as one of "America's Most Admired Companies."



In today's fast-paced world, Brinker restaurants offer an ideal combination of convenience, great taste, and reasonable prices. Our guests know that whether they choose to dine in or get their food To Go, they'll get the same great Brinker experience every time.

To Go operations have been steadily growing throughout the industry in recent years, and judging by the success of our dedicated To Go windows and curbside take-out service, this

trend is growing even stronger. Our To Go business was an important source of revenue in each of our concepts this year, heightened by our continued focus on perfecting the carry-out experience.

As these trends indicate, time-crunched families still enjoy spending time around the dining room table. But even as our take-out business continues to grow, we're also reaping the benefits of guests who increasingly choose our dining rooms, rather than their own, for family meals. That's why we believe our Brinker gift cards, which can be used at six of the seven concepts in the Brinker family, have steadily gained popularity. Since their introduction in 2000, Brinker gift cards have been a very successful proposition for us, with sales over \$131 million

for a gain of 16 percent this year alone. Gift cards are available online, at each restaurant, and at numerous retail outlets, making it just as convenient to give the gift of choice as it is for recipients to redeem their cards.

The choices we offer not only keep our guests satisfied, they also make Brinker a wise choice for investors. With seven diverse concepts to fuel our performance, we're often referred to as "the mutual fund of casual dining." When the economy is firing on all cylinders, investors reap the rewards of seven different concepts performing at peak levels. Even when market factors or internal challenges impact one or more concepts, the other restaurants in our portfolio are there to balance our overall performance. And because our concepts are complementary, rather than competitive, guests can eat at a different Brinker restaurant every day of the week without overloading on any one cuisine.

Choice is also a common theme within the ranks of our company, both at the restaurant and corporate levels. Our unique company culture encourages individuality and initiative, giving team members the freedom to choose their own paths. Diversity initiatives have opened up new choices for countless applicants. And thanks to our steady growth, the career paths we offer are constantly expanding, offering even more opportunities for advancement within the Brinker family. In fact, at the restaurant level, approximately 25 percent of our managers began as hourly employees.

*Serving one guest at a time,
one million times a day.*

At Brinker, we believe in winning with integrity and being involved in the communities in which we do business, and we make it a priority to donate our time and money to those who need our help. Not only does Brinker contribute at the corporate level, our concepts also champion various causes that are close to their hearts and their communities. Additionally, many of our leaders demonstrate their commitment by serving on boards of charitable organizations and being involved in fund-raising initiatives on their own. In the section that follows, you'll see a more detailed picture of our community involvement, from nationwide fund-raising efforts to our everyday support of local charities, schools, and civic organizations. Our communities are the lifeblood of our company, and we're honored to have the opportunity to give back to our neighbors whenever possible.

As we approach our 30th year in business, Brinker still boasts great restaurant brands, passionate employees, and a terrific culture – and the choices we make are still driven and defined by those we serve. In the months and years ahead, we will continue to refine our menus, concepts, and strategies. With many thanks to our shareholders, employees, guests, vendors, and neighbors, we pledge to make wise choices of our own to enhance near-term returns, while always keeping an eye on our long-term value and equity.



Douglas H. Brooks
Chief Executive Officer and President

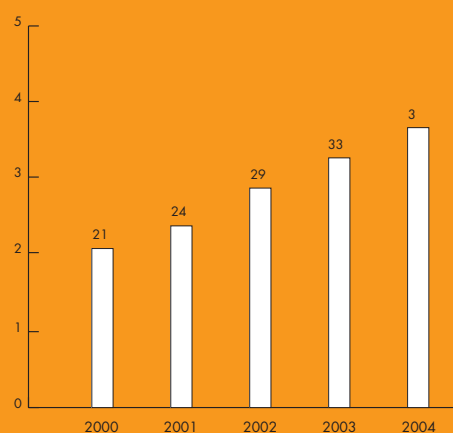
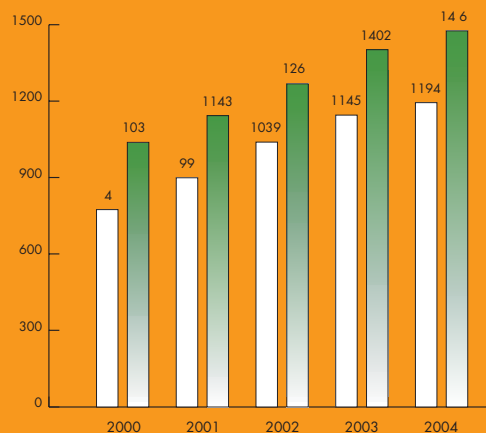
2004 SELECTED FINANCIAL HIGHLIGHTS

(amounts in thousands, except per share amounts)

	2004	2003	2002
Revenues	3,707,486	3,285,394	2,887,111
Operating costs and expenses:			
Cost of sales	1,024,724	900,379	796,714
Restaurant expenses	2,028,569	1,798,752	1,582,644
Depreciation and amortization	175,449	158,153	130,102
General and administrative	153,231	131,763	121,420
Restructure charges and other impairments	74,237	29,744	8,723
Total operating costs and expenses	3,456,210	3,018,791	2,639,603
Operating income	251,276	266,603	247,508
Interest expense	11,603	12,449	13,327
Other, net	1,742	567	2,332
Income before provision for income taxes	237,931	253,587	231,849
Provision for income taxes	83,970	84,951	79,136
Net income	\$ 153,961	\$ 168,636	\$ 152,713
Basic net income per share	\$ 1.60	\$ 1.74	\$ 1.56
Diluted net income per share	\$ 1.57	\$ 1.70	\$ 1.52
Basic weighted average shares outstanding	96,072	97,096	97,862
Diluted weighted average shares outstanding	97,939	99,135	100,565

Company
Operated

Systemwide

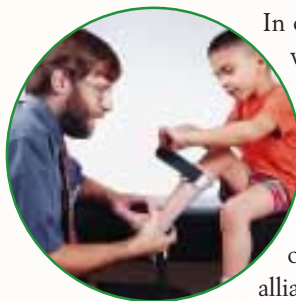


SINCE 1977

OUR CULTURE AND COMMUNITIES

At Brinker, we're not a food company that serves people – we're a people company that serves food. That's what makes our company culture so vibrant, progressive, and enjoyable. It's also the reason we place such a high value on giving back to our communities.

TEXAS
SCOTTISH RITE
HOSPITAL FOR
CHILDREN



In our restaurants and our corporate headquarters, we celebrate the differences that make a good company great and leverage individual strengths to create an innovative, inclusive, and unified team. Over the years, we've implemented diversity initiatives that have become some of the most valuable components of our human resources strategy. We've formed alliances with a number of professional organizations

to expand our pool of qualified minority applicants, physically challenged candidates, and women; and we've taken steps to actively recruit employees whose diverse backgrounds give Brinker a broader perspective of our world.

In recognition of our successful human resources initiatives, our Corner Bakery Cafe concept won the "Best People Practices Award" in the Quick Casual segment from *People Report*™ for the third year in a row. The award is based on hourly and management retention, as well as hourly and management diversity. It's just one example of the recognition we've received for our progressive approach to team building.

Once on board at Brinker, our employees are free to choose from a menu of benefits that best suit them, along with special privileges that only a restaurant company like Brinker could offer. But best of all, they have the pleasure of working with other BrinkerHeads who share the same "Work Hard, Play Hard" philosophy. After all, what other FORTUNE 500 company transforms its corporate campus into a cartoonish miniature golf course for its popular Carpetbaggers tournament? Or brings to life the festivity of the early Olympic Games with the Macaroni Grill-inspired *Olympus Macaronius*, featuring toga-clad Brinker employees as contestants and spectators? Or puts its top executives to the test behind the grill at a cookout for employees, while department teams vie for the coveted volleyball trophy? At Brinker, it's our work that we take seriously – not ourselves – which makes our team members look forward to coming to work each day.

Not only is Brinker committed to creating a better workplace – we're also committed to giving back to our communities. Brinker contributes more than \$4 million annually to worthy charities, both at the corporate level and through the individual contributions from our different concepts throughout the country.



THE
SALESMANSHIP
CLUB YOUTH AND
FAMILY CENTERS



DIVERSITY

As a corporation, Brinker staffs and operates the food pavilion at the EDS Byron Nelson Championship golf tournament with more than 1,300 man-hour shifts covered by BrinkerHeads. All profits from Brinker food and beverage sales are donated to the following charitable organizations:

- Texas Scottish Rite Hospital for Children – a leading treatment center for children with orthopedic conditions and certain neurological and learning disorders;
- Limbs for Life Foundation – an organization dedicated to providing amputees with comfortable, fully-functional prostheses; and
- The Salesmanship Club Youth and Family Centers – offering recreational and educational enrichment for children who are experiencing, or at risk for, emotional, behavioral, or learning difficulties.

In addition to our support of these fine organizations, thousands of employees each year choose to support the Brinker Family Fund, a company-wide safety net for coworkers in crisis. With a payroll deduction of as little as \$1, our employees provided more than \$736,000 to Brinker team members in need last year.



LIMBS FOR LIFE
FOUNDATION

WE'RE FAMILY

COMMUNITY SERVICE

Beyond our corporate community service initiatives, many of our concepts have taken up charitable causes of their own. The following highlights represent just a few of the ways that Brinker concepts are giving back to their communities.

CHILI'S GRILL & BAR®

This year, ChiliHeads nationwide have decided to join forces to support St. Jude Children's Research Hospital®. Throughout the month of September, which is also National Childhood Cancer Awareness Month, Chili's® restaurants will raise money by selling blank peppers for \$1 each for guests to color. Then on September 20, more than 750 corporate restaurants and many of our franchisees will donate 100 percent of their profits for that day to St. Jude. Thanks to these fund-raising initiatives, we anticipate raising upward of \$2 million during the month of September.

ROMANO'S MACARONI GRILL®

In 2004, our Macaroni Grill® team supported Habitat for Humanity® through financial contributions and "sweat equity" from employees who volunteered to help build homes in their communities. Volunteers in the Dallas area even participated in a Blitz Build, an event in which a house was built in just seven days. All told, Macaroni Grill volunteers put in over 8,000 man-hours this year helping to build homes in more than 50 major markets throughout the country. In addition, Macaroni Grill employees nationwide raised \$160,000 for Habitat for Humanity through a fun and innovative tie-selling contest in their restaurants.

ON THE BORDER MEXICAN GRILL & CANTINA®

This year, On The Border® partnered with the Kenny Can Foundation for Brain Cancer, an organization that raises and allocates funds to research causes and cures for brain cancer and also aids brain cancer patients. The Foundation was established in memory of longtime BrinkerHead Kenny Dennis, who was with the company for 26 years and passed away from brain cancer in 2002. He was dearly loved by all who knew him. The Rock Star Rumble was a bartender challenge that helped On The Border continue training its bartenders while raising more than \$50,000 for this worthy cause. On The Border also hosted a golf tournament that raised more than \$80,000 for the Foundation.

MAGGIANO'S LITTLE ITALY®

In May, Maggiano's® kicked off a concept-wide promotion to benefit the Make-A-Wish Foundation®. With every donation, guests were invited to write their names on star cutouts to be displayed in the restaurant. Guests could also choose to Eat-A-Dish for Make-A-Wish by ordering a special menu item priced \$1 higher than usual with proceeds going straight to the Foundation. Maggiano's then matched these donations, dollar for dollar. This promotion culminated with golf putting contests held at various locations throughout the month of June in which guests competed for prizes. In addition, other fun events benefitting Make-A-Wish took place at the restaurants during the month. In all, Maggiano's raised a total of more than \$100,000 for the Make-A-Wish Foundation.

CORNER BAKERY CAFE®

The community focus of Corner Bakery Cafe is readily apparent in its philanthropic efforts, which target the needs of neighbors at the local level. In Dallas, Washington, D.C., and Chicago, for instance, Corner Bakery sponsored the Survivors' Tents at the Susan G. Komen Race for the Cure® this year. They also supported Camp John Marc, a camp for children with chronic illnesses, as well as the Rise School in Dallas, a school for children with Down's syndrome. And across the nation, local schools, booster clubs, homeowners' associations, and nonprofit organizations of all kinds appreciate the support they receive from their local Corner Bakery Cafe.

ROCKFISH SEAFOOD GRILL®

Many of the Chef Partners who operate RockfishSM restaurants have become local celebrities – and a good number of them have begun to channel their fame and expertise toward worthy causes by volunteering their services for charity auctions. Winning bidders receive a gourmet meal in their home cooked by a Rockfish Chef Partner, while charities receive a much-appreciated donation. And, of course, Brinker's Chef Partners have the satisfaction of giving something back to the communities where they work and live.

*Brinker concepts are giving back
to their communities.*



ROMANO'S MACARONI GRILL

Employees support Habitat for Humanity by building homes throughout the country.



MAGGIANO'S LITTLE ITALY

Children from the Make-A-Wish Foundation participate in the World's Largest Strawberry Shortcake Contest at the Costa Mesa, California Maggiano's.



ROCKFISH SEAFOOD GRILL

Chef Partners donate their time to various charity auctions with a chef-prepared dinner party in the home of the highest bidder.



CHILI'S GRILL & BAR

Scott Nietschmann, COO of Chili's, visits with children at St. Jude Children's Research Hospital in Memphis, Tennessee.

ON THE BORDER MEXICAN GRILL & CANTINA

The Rock Star Rumble, a bartender challenge, benefits the Kenny Can Foundation.



CORNER BAKERY CAFE

Corner Bakery Cafe team members had a great time serving breakfast to Camper Scamper participants. The event benefits Camp John Marc – a summer camp program for children with chronic illnesses.





Serving Up A Good-Time, Every Time.



Chili's. Just the mention of our name is enough to make your mouth water. Since 1975, we've been serving up tasty, popular menu items that have kept us at the forefront of the casual dining industry – like our signature Baby Back Ribs, Big Mouth Burgers®, or sizzling Fajitas.

Our tradition of food innovation continued with the January rollout of our *It's Your Choice* menu card. Created especially for guests on today's popular low-carb diets, *It's Your Choice* lists both the carbohydrate and fiber content of each item. This menu is the perfect follow-up to our popular *Guiltless Grill®* specialties, providing lower-fat choices since 1993. In addition, we've added healthier choices to our kids menu, including a grilled chicken platter with fresh vegetables and healthier side-order alternatives.

Now in 49 states and 23 countries, Chili's Grill & Bar recently celebrated a major milestone with the opening of our 1,000th restaurant on July 29. And as we continue to grow, so do the opportunities within our organization. Our ongoing expansion helps us attract and keep outstanding people who understand the tremendous potential for advancement that a growing company like Chili's can offer.

We continued to experience positive sales gains during the year – a trend that we attribute in large part to our deliciously eclectic menu and our casual, friendly atmosphere. By offering a fun, fresh, and flavorful dining experience each time a guest walks through our doors, Chili's continues to strengthen our position as the customer's first choice in casual dining. No matter what your favorite choice at Chili's may be, you can always be sure that we'll be *Serving Up A Good-Time, Every Time.*





Steak and Portobello Fajitas

Chili's Grill & Bar celebrated a major milestone
with the opening of our 1,000th restaurant.



Flame-Grilled Ribeye



Boneless Buffalo Chicken Salad



Presidente Margarita®



“Everything You Love About Italian™”

Guests have almost limitless choices in the Italian food category – but they choose Romano's Macaroni Grill for its consistent quality, energetic atmosphere, and impeccable service. Whether you're in the mood for fresh, light fare from our grill or a comforting slice of old-world Italy, Macaroni Grill serves up your favorite dishes in a lively, comfortable setting.



Our menu still features some of the same great family recipes that have been with us since we first opened our doors in 1988. But we're also on the forefront of culinary trends, offering such popular new delights as Angelini di Mare, Fire-Grilled Chicken and Shrimp, and Grilled Tenderloin Salad. We've also added a wider selection of grilled items and a Sensible Fare section with low-carb and low-fat options, including low-carb cheesecake. Many of these dishes initially make their debuts as Chef Features. If a dish performs particularly well, we'll often choose to add it to our regular menu. As we've continued to refine this program, we've been rewarded with tremendous praise from our guests, as well as an increase in sales volume on featured items.

Just as our menus continued to evolve this year, so did our dining spaces. We completed 39 remodels to freshen up our oldest restaurants and added 18 new locations that share this inviting new look and feel. Meanwhile, our advertising took on a fresh new look too as we launched a campaign that celebrates the passion and energy of Romano's Macaroni Grill and reflects the true equity and essence of the brand.

As in years past, we received a number of local and national accolades in 2004. And although we're honored to accept these awards, we never stop working to perfect the Macaroni Grill experience. That's why we've rolled out a training program to help servers read guests' needs even more intuitively. It's called Viaggio Service – serving from the heart – because that's what we do best.

Guests choose Romano's Macaroni Grill for its consistent quality, energetic atmosphere, and impeccable service.





Mozzarella alla Caprese



Filet Katarina



Cosmopolitan and Sour Apple Martinis



On The Border. Off The Map.®



Mexican food is more than a meal – it's a social event served with chips and salsa. And here, both the food and atmosphere are causes for celebration!



As the country's largest casual dining Mexican chain restaurant company, On The Border Mexican Grill & Cantina continues to see our sales and guest traffic rise. To keep that momentum going this year, we maintained a value-driven marketing approach that highlights flavorful, crave-able food like our Monterey Ranch Chicken Fajitas.

Our menu offerings range from old favorites to innovative new dishes. For instance, we're showcasing more of the flavors of Mexico with entrées like our Red Chile Ribeye and Margarita Chicken. We're also taking freshness to new heights with specialties like Guacamole Live!™ and our Shaken Margarita Shrimp Cocktail, both made to order right at your table.

In addition to our famous food, On The Border is a perfect place to experience the flavor and celebration of Mexico. That's what makes On The Border such a popular destination for Cinco de Mayo celebrants, who flock to our dining rooms and cantinas each spring to commemorate this festive Mexican holiday in authentic Mexican style.

We've updated our restaurants and created a new prototype that reflects the warm and welcoming atmosphere that's so important to our guests, and we're bringing our famous Fajita Grills out of the kitchen and into the dining room so guests can see their food come fresh from the grill. Now, with the addition of dedicated To Go entrances at all of our locations, it's even more convenient to enjoy great Mexican food at home. No wonder our new prototype and recent remodels have received rave reviews from our guests!

Whether you're experiencing our great flavors by dining in or taking your fiesta To Go, On The Border makes every meal something to celebrate.





Shaken Margarita Shrimp Cocktail



Red Chile Ribeye



Mercedes Margarita

When our customers pass through our entrance, they are entering *The Gateway to the Great Flavors of Mexico...* a unique blend of Culinary flavors, Cultural flavors, and the exciting flavor of Celebration.

Chicken and Shrimp Fajitas





“

You just Can't Get More Italian.

”

Famous for our family-style dining, Maggiano's Little Italy is the place to go for an exceptional meal in an extraordinary setting.

Maggiano's is an ideal gathering place for groups of all sizes, with cozy dining rooms, mezzanines, and banquet spaces that make every occasion special. Here, both the food and attitude are distinctly Italian, and there's always plenty of our delicious fare to share.

As we continue to grow, with three new locations this year for a total of 28 nationwide, Maggiano's is committed to maintaining the same stringent standards of quality that our guests have come to expect. We employ an average of four professional chefs at each restaurant. And every single dish that can be grilled, sizzled, or simmered is created from scratch.

As always, we continue to accent our menu of Southern Italian favorites like Lasagna, Eggplant Parmesan, Rigatoni D[®], and Chicken Scaloppine with delicious variations of aged Prime Steaks, Veal, Chops, and Seafood. Our appetizers, salads, and mouthwatering desserts make wonderful complements to each delectable meal. We also took steps to enhance our image among wine lovers this year, including the springtime introduction of a comprehensive new wine menu featuring Food and Wine Pairings.

In the coming year, we'll be working to make our great food even better with our "Five-Star in '05" culinary initiative, which involves subtle enhancements to our current recipes. We'll also be making it easier for guests to take Maggiano's home with them by equipping each new restaurant with carry-out service from day one. Whether you're sharing a meal in our dining room, attending a special event in one of our banquet rooms, or enjoying a carry-out meal at home, Maggiano's delivers an excellent experience every time.

MAGGIANO'S
LITTLE ITALY[®]

Maggiano's is an ideal gathering place for groups of all sizes, with cozy dining rooms, mezzanines, and banquet spaces that make every occasion special.



Bouchetta





Maggiano's Salad

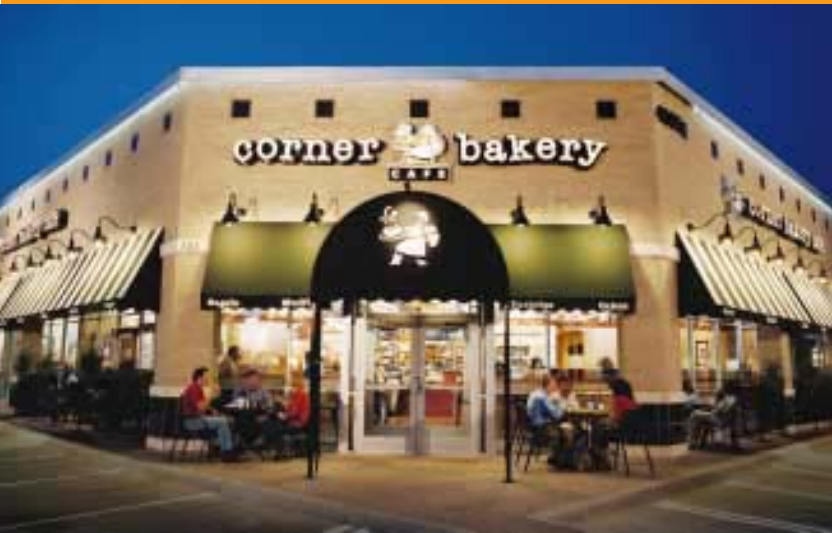


Salmon, Lemon & Herbs



Cosmopolitan Martini

“Feed the Day®”



For breakfast, lunch, dinner, and everything in between, Corner Bakery Cafe delivers the choices that keep our guests coming back to our recognizable black-and-white awnings.

Each Corner Bakery Cafe is a tight-knit community within the broader neighborhood it serves, where “regulars” frequently strike up friendships with one another and employees get to know them by name. Because we’re open from sunup to sundown, Corner Bakery Cafe is a popular meeting place for friends, colleagues, and families all day long. Many guests join us for breakfast then come back for lunch or dinner on the same day. They enjoy everything from breakfast scramblers and pastries to savory soups and salads, delicious sandwiches, and decadent desserts. At Corner Bakery Cafe, you can be as healthy or indulgent as you like. We’ve introduced a Best Picks feature on our Web site, where health-conscious guests can find out which offerings are best suited for them. We’ve also made a commitment to add more menu items with healthful attributes.

This year, Corner Bakery Cafe continued to grow, adding new restaurants in markets that are already very strong for us – Dallas, Chicago, and markets in Orange County and Los Angeles, California. We experienced strong sales growth this past year, including positive increases in our Catering and To Go businesses.

We continued to offer seasonal features such as our Tropical Salad, as well as year-round specialty items like our Chicken Pomodoro Panini. And, we have rolled out specialty coffee bars in select locations to appeal to coffee lovers, with a full rollout planned by the end of 2004. Whatever your heart desires, Corner Bakery Cafe is making it even easier to *Feed the Day®*.



Mixed Berry Parfait



Tropical Salad



Chicken Pomodoro Panini

For breakfast, lunch, dinner, and everything in between, Corner Bakery Cafe delivers the choices that keep our guests coming back.





Food You Can Get Passionate About



Asian food is an exciting, high-growth category that is gaining popularity, prompting a recent surge in the number of Asian restaurants nationwide. Big Bowl Asian KitchenSM offers a delicious and fun way to enjoy the distinctive varieties and tastes of Asian cuisine, while our trademark Stir-Fry Bar continues to set us apart.



The Stir-Fry Bar is especially popular among first-time guests as a great introduction to Asian ingredients and flavors. Guests are drawn to the visually appealing arrangement of fresh vegetables at our Stir-Fry Bar where they're welcome to order *Your Choice* or *Chef's Choice*. With *Your Choice*, guests can step up to our Stir-Fry Bar and see all their options, then choose the things they know they like, or experiment with new ingredients. With our *Chef's Choice*, guests can stay at their table and select chicken, beef, or salmon, their favorite sauce, and choice of noodles or rice, leaving the veggie selection to our chefs. Either way, they can make their meals wholesome or hearty, customizing selections as much or as little as desired. And because every Stir-Fry Bar dish is made to order right in our display kitchen, freshness is always a given.

While our Stir-Fry Bar has changed very little over the years, we recently made some well-received changes to our menu. Big Bowl Asian Kitchen has always been known for our innovative menu that offers tremendous value for the price. Even our beverages are unique, with refreshing Fresh Ginger Soda, Hibiscus Lemonade, our Ultimate Mai Tai, and popular Asian beer and wine selections. But now, we've expanded our offerings to include additional variety and new favorites like our Sweet and Sour Chicken, Kung Pao Shrimp, Cilantro-Citrus Chicken Salad, and Mandarin Chopped Salad. In fact, some of these newly introduced items have become best-sellers. No wonder local publications routinely recognize Big Bowl Asian Kitchen as one of the "Best Asian" restaurants.

Our carry-out service continued to grow during the year, giving people on the go a convenient way to enjoy the delightful tastes of Big Bowl Asian Kitchen. We also opened two new restaurants – one in the Chicago market and another in Madison, Wisconsin. By keeping our growth steady and measured, we're able to focus on the details that keep our guests delighted and loyal.

Our signature Stir-Fry Bar is a great way to explore Asian food, especially for first-time guests.



Sweet and Sour Chicken



Potsticker Combo

Mandarin Chopped Salad



Boston Clam Chowder



Ahi Tuna Salad



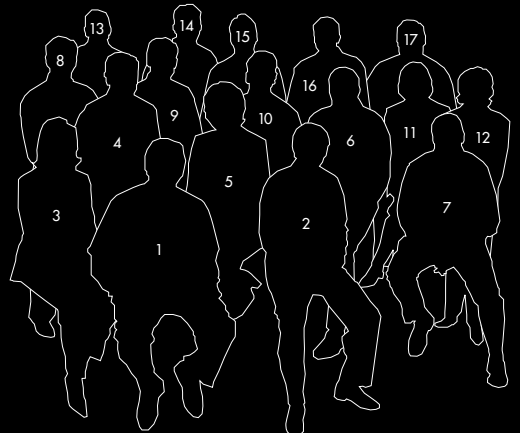
Mexican Shrimp Martini





SENIOR MANAGEMENT TEAM OF BRINKER INTERNATIONAL, INC.

- | | | |
|----------------------|----------------------|--------------------|
| 1. Doug Brooks | 7. Dave Orenstein | 13. Mike Webberman |
| 2. Todd Diener | 8. John Miller | 14. John Hatton |
| 3. Starlette Johnson | 9. Mark Tormey | 15. Randy DeWitt |
| 4. Roger Thomson | 10. Wilson Craft | 16. David Doyle |
| 5. Rebeca Johnson | 11. Jean Birch | 17. Jay Tobin |
| 6. Chuck Sonsteby | 12. Valerie Davisson | |



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MHT Partners, L.P.*

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Partner, Gardere Wynne Sewell, LLP

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Cece Smith
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Phillips-Smith-Machens Venture Partners*

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*Chairman of the Board and
Chief Executive Officer,
The Staubach Company*

Chairman Emeritus

Norman E. Brinker

OUR TEAM

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Chief Operating Officer*

Starlette B. Johnson
*Executive Vice President and
Chief Strategic Officer*

Charles M. Sonstebly
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Roger F. Thomson
*Executive Vice President, Chief Administrative
Officer, General Counsel and Secretary*

Michael B. Webberman
Executive Vice President of Concept Services

Jean M. Birch
*Senior Vice President and
Corner Bakery Cafe President*

Wilson L. Craft
*Senior Vice President and
Chili's Grill & Bar President*

Valerie L. Davisson
Senior Vice President of Human Resources

David R. Doyle
Senior Vice President and Controller

Rebeca M. Johnson
*Senior Vice President of Marketing and Brand
Development*

John C. Miller
*Senior Vice President and Romano's Macaroni
Grill President*

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

Jay L. Tobin
*Senior Vice President, Deputy General Counsel
and Assistant Secretary*

Mark F. Tormey
*Senior Vice President and
Maggiano's Little Italy President*

Frank S. Caliri
Vice President of Corporate Review

William B. Davenport
Vice President of Finance – Emerging Brands

Leon M. De Wet
Vice President of Business Intelligence

Patrick A. Drosch
Vice President of Beverage

Johnny R. Earl
Vice President of Integrated Technology

William A. Feiler, III
Vice President of Franchise Financial Strategy

Stan A. Fletcher
Vice President of Executive Development

Laurie A. Gaines
Vice President of Business Solutions

George N. Hailey
Vice President of Planning and Analysis

Robert P. Hall
*Vice President of Purchasing, Distribution, and
Quality Assurance*

John J. Hatton
*Vice President and
Big Bowl Asian Kitchen President*

Jeffrey A. Hoban
Vice President and Assistant General Counsel

Randall R. Kies
Vice President of Marketing – Chili's Grill & Bar

Richard A. McCaffrey
Vice President of Design and Architecture

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

Rodney Z. Morris
*Vice President of Human Resources –
Emerging Brands*

Marie L. Perry
Vice President of Corporate Accounting

Noah C. Pollack
Vice President and Assistant General Counsel

Susan J. Sandidge
Vice President and Assistant General Counsel

Lynn S. Schweinfurth
Vice President of Investor Relations and Treasurer

Susan L. Sieker
Vice President of Benefits and Risk Management

Jeffrey S. Smith
Vice President of Restaurant Development

Terry W. Stephenson
Vice President of Purchasing

Joseph G. Taylor
Vice President of Corporate Affairs

David N. Tyner
Vice President of Franchise Business Development

Kelli A. Valade
Vice President of Compensation

Kimberly D. Williams
Vice President of Real Estate Development

Jeffrey C. Wood
*Vice President of Concept Development –
Emerging Brands*

PRINCIPAL OFFICERS IN RESTAURANT CONCEPTS

Chili's Grill & Bar

Wilson L. Craft
President

Scott D. Nietschmann
Senior Vice President and Chief Operating Officer

Larry J. Lindsey
Senior Vice President of Operations

John T. McGlone
Senior Vice President of Operations

Jan M. Barr
Vice President of Human Resources, Training and Development

Jon B. Burgin
Vice President and Assistant General Counsel

Randall R. Kies
Vice President of Marketing

Brian J. Kolodziej
Vice President of Culinary Operations

Theodore V. Leovich
Vice President of Franchise Operations

Robert J. Murphy
Vice President of Technology and Systems

Joseph A. Mutti
Vice President of Concept Development

Romano's Macaroni Grill

John C. Miller
President

David C. Schmille
Senior Vice President and Chief Operating Officer

Theodore G. Croft
Vice President of Finance

Elizabeth F. Foster
Vice President of Marketing

Dale A. Goss
Vice President of Concept Development

Jennifer A. Hartley
Vice President of Human Resources and Training

Brian E. Okada
Vice President of Culinary

On The Border Mexican Grill & Cantina

David M. Orenstein
President

Dennis J. Weese
Chief Operating Officer

Krista M. Gibson
Vice President of Marketing and Food and Beverage

Lisa S. Warren
Vice President of Concept Development

Maggiano's Little Italy

Mark F. Tormey
President

Jonathan A. Fox
Senior Vice President and Chief Operating Officer

A. Mychael Bonner
Vice President of Culinary

Paul A. Dykstra
Vice President of Human Resources

Tamara A. Wallace
Vice President of Finance

John J. Wyatt
Vice President of Concept Development

Corner Bakery Cafe

Jean M. Birch
President

Denise K. Clemens
Vice President of Human Resources

Nancy L. Hampton
Vice President of Marketing

Riccardo R. Scicchitano
Vice President of Food and Beverage

James D. Vinz
Vice President of Operations

Big Bowl Asian Kitchen

John J. Hatton
President

Matthew P. McMillin
Vice President of Culinary

Dan A. Ormond
Vice President of Culinary Operations

Rockfish Seafood Grill

Randall M. DeWitt
President

Troy L. Cooper
Chief Operating Officer

Kenneth S. Bowers
Executive Chef

SHAREHOLDER INFORMATION

Executive Offices

Brinker International, Inc.
6820 LBJ Freeway
Dallas, TX 75240

Annual Meeting

Thursday, November 4, 2004, at 10:00 a.m.
InterContinental Hotel
15201 Dallas Parkway
Dallas, TX 75248

Stock Transfer Agent and Registrar

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
Customer Service (800) 635-9270
TDD for Hearing Impaired (800) 635-9270

You can now access your Brinker Shareholder Account online via Investors Service Direct®. Visit us on the Web at www.melloninvestor.com and follow the easy access instructions.

NYSE Symbol: EAT

Auditors

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

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 2004 fiscal year from our Website at: www.brinker.com or upon written request from the shareholder addressed to:

Secretary/Investor Relations

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

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FINANCIAL INFORMATION



BRINKER
INTERNATIONAL®

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

	Fiscal Years				
	2004 (a)	2003	2002	2001	2000
Income Statement Data:	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)
Revenues	<u>\$3,707,486</u>	<u>\$3,285,394</u>	<u>\$2,887,111</u>	<u>\$2,406,874</u>	<u>\$2,100,496</u>
Operating Costs and Expenses:					
Cost of sales	1,024,724	900,379	796,714	663,357	575,570
Restaurant expenses	2,033,474	1,802,639	1,585,944	1,305,918	1,140,536
Depreciation and amortization	175,449	158,153	130,102	100,064	90,647
General and administrative	153,231	131,763	121,420	109,110	100,123
Restructure charges and other impairments	<u>74,237</u>	<u>29,744</u>	<u>8,723</u>	<u>-</u>	<u>-</u>
Total operating costs and expenses	<u>3,461,115</u>	<u>3,022,678</u>	<u>2,642,903</u>	<u>2,178,449</u>	<u>1,906,876</u>
Operating income	246,371	262,716	244,208	228,425	193,620
Interest expense	11,603	12,449	13,327	8,608	10,746
Other, net	<u>1,742</u>	<u>567</u>	<u>2,332</u>	<u>459</u>	<u>3,381</u>
Income before provision for income taxes	233,026	249,700	228,549	219,358	179,493
Provision for income taxes	<u>82,108</u>	<u>83,500</u>	<u>77,904</u>	<u>75,805</u>	<u>62,926</u>
Net income	<u>\$ 150,918</u>	<u>\$ 166,200</u>	<u>\$ 150,645</u>	<u>\$ 143,553</u>	<u>\$ 116,567</u>
Basic net income per share	<u>\$ 1.57</u>	<u>\$ 1.71</u>	<u>\$ 1.54</u>	<u>\$ 1.45</u>	<u>\$ 1.18</u>
Diluted net income per share	<u>\$ 1.54</u>	<u>\$ 1.68</u>	<u>\$ 1.50</u>	<u>\$ 1.41</u>	<u>\$ 1.15</u>
Basic weighted average shares outstanding	<u>96,072</u>	<u>97,096</u>	<u>97,862</u>	<u>99,101</u>	<u>98,445</u>
Diluted weighted average shares outstanding	<u>97,939</u>	<u>99,135</u>	<u>100,565</u>	<u>102,098</u>	<u>101,114</u>
Balance Sheet Data (End of Period):					
Working capital (deficit)	\$ 21,758	\$ (143,744)	\$ (160,266)	\$ (110,006)	\$ (127,377)
Total assets	2,207,386	1,940,285	1,778,931	1,440,915	1,157,923
Long-term obligations	817,802	501,032	509,787	298,502	171,224
Shareholders' equity	1,010,422	1,127,642	966,924	892,183	755,699
Number of Restaurants					
Open (End of Period):					
Company-operated	1,194	1,145	1,039	899	774
Franchised/Joint venture	<u>282</u>	<u>257</u>	<u>229</u>	<u>244</u>	<u>264</u>
Total	<u>1,476</u>	<u>1,402</u>	<u>1,268</u>	<u>1,143</u>	<u>1,038</u>

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

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

GENERAL

For an understanding of the significant factors that influenced the performance of Brinker International, Inc. (the "Company") during the past three fiscal years, the following discussion should be read in conjunction with the consolidated financial statements and related notes found elsewhere in this annual report.

The Company has a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal year 2004, which ended on June 30, 2004, contained 53 weeks while fiscal years 2003 and 2002, which ended on June 25, 2003 and June 26, 2002, respectively, each contained 52 weeks.

RESULTS OF OPERATIONS FOR FISCAL YEARS 2004, 2003, AND 2002

The following table sets forth expenses as a percentage of total revenues for the periods indicated for revenue and expense items included in the consolidated statements of income:

	Percentage of Total Revenues		
	Fiscal Years		
	2004	2003	2002
	(as restated)	(as restated)	(as restated)
Revenues	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Operating Costs and Expenses:			
Cost of sales	27.6%	27.4%	27.6%
Restaurant expenses	54.8%	54.9%	54.9%
Depreciation and amortization	4.7%	4.8%	4.5%
General and administrative	4.2%	4.0%	4.2%
Restructure charges and other impairments	<u>2.0%</u>	<u>0.9%</u>	<u>0.3%</u>
Total operating costs and expenses	<u>93.3%</u>	<u>92.0%</u>	<u>91.5%</u>
Operating income	6.7%	8.0%	8.5%
Interest expense	0.3%	0.4%	0.5%
Other, net	<u>0.1%</u>	<u>-</u>	<u>0.1%</u>
Income before provision for income taxes	6.3%	7.6%	7.9%
Provision for income taxes	<u>2.2%</u>	<u>2.5%</u>	<u>2.7%</u>
Net income	<u>4.1%</u>	<u>5.1%</u>	<u>5.2%</u>

OVERVIEW

The Company is principally engaged in the ownership, operation, development, and franchising of the Chili's Grill & Bar ("Chili's"), Romano's Macaroni Grill ("Macaroni Grill"), Maggiano's Little Italy ("Maggiano's"), On The Border Mexican Grill & Cantina ("On The Border"), Corner Bakery Cafe ("Corner Bakery"), and Big Bowl Asian Kitchen ("Big Bowl") restaurant concepts. In addition, the Company is involved in the ownership and development of Rockfish Seafood Grill.

At June 30, 2004, the Company owned, operated, franchised, or was involved in the ownership of 1,476 restaurants. The Company's core concepts accounted for 82.8% of the total units and included 979 Chili's, 215 Macaroni Grill, and 28 Maggiano's restaurants.

The Company intends to continue the expansion of its restaurant concepts by opening units in strategically desirable markets. The Company considers the restaurant site selection process critical to its long-term success and devotes significant effort to the investigation of new locations utilizing a variety of sophisticated analytical techniques. The Company intends to concentrate on the development of certain identified markets to achieve penetration levels deemed desirable in order to improve competitive position, marketing potential and profitability. Expansion efforts will be focused not only on major metropolitan areas, but also on smaller market areas and non-traditional locations (such as airports, kiosks and food courts) that can adequately support any of the Company's restaurant concepts. The specific rate at which the Company is able to open new restaurants is determined by its success in locating satisfactory sites, negotiating acceptable lease or purchase terms, securing appropriate local governmental permits and approvals, and by its capacity to supervise construction and recruit and train management personnel.

The restaurant industry is a highly competitive business, which is sensitive to changes in economic conditions, trends in lifestyles and fluctuating costs. Operating margins for restaurants are susceptible to fluctuations in prices of commodities, which include among other things, beef, chicken, seafood, dairy, cheese, produce and other necessities to operate a restaurant such as natural gas or other energy supplies. Additionally, the restaurant industry is characterized by a high initial capital investment, coupled with high labor costs.

Revenues for the first quarter of fiscal 2005 are estimated to increase by 5% to 7% compared to the same quarter in fiscal 2004, driven primarily by capacity gains of 4% to 5%. Cost of sales is estimated to be 0.3% to 0.4% higher than last year due to the impact of higher beef, chicken and dairy costs. Restaurant expenses are estimated to be 0.4% to 0.5% higher than last year as a result of increased utility costs. General and administrative expenses are estimated to be 0.2% higher due primarily to increased costs related to consumer research. The effective tax rate during the first quarter is estimated to be approximately 32.3%.

REVENUES

Revenues for fiscal 2004 increased to \$3,707.5 million, 12.8% over the \$3,285.4 million generated for fiscal 2003. Revenues for fiscal 2003 increased 13.8% from fiscal 2002 revenues of \$2,887.1 million. The increases were primarily attributable to a net increase of 49 and 106 company-owned restaurants in fiscal 2004 and 2003, respectively, and an increase in comparable store sales. Revenues for fiscal 2004 increased due to a 10.5% increase in capacity (as measured by average-weighted sales weeks), of which 2.1% was due to the additional week in fiscal 2004, and a 2.3% increase in comparable store sales. Revenues for fiscal 2003 increased due to a 12.3% increase in capacity and a

1.5% increase in comparable store sales. Menu prices in the aggregate increased 1.8% and 1.3% in fiscal 2004 and 2003, respectively.

COSTS AND EXPENSES

Cost of sales, as a percent of revenues, increased 0.2% in fiscal 2004 due to a 0.5% increase in commodity prices for meat, seafood, dairy and cheese, and a 0.7% unfavorable product mix shift for poultry and produce, partially offset by a 0.3% decrease in commodity prices for poultry, a 0.2% favorable product mix shift for meat and seafood, and a 0.5% increase in menu prices. Cost of sales, as a percent of revenues, decreased 0.2% in fiscal 2003 due primarily to a 0.9% decrease in commodity prices for meat and cheese, a 0.4% favorable product mix shift for beverages, and a 0.1% increase in menu prices, partially offset by a 1.0% unfavorable product mix shift for meat and produce, and a 0.2% increase in commodity prices for beverages.

Restaurant expenses, as a percent of revenues, decreased 0.1% in fiscal 2004. The decrease was primarily due to increased sales leverage from the additional week in fiscal 2004 and decreases in pre-opening costs due to a lower number of store openings in fiscal 2004 as compared to fiscal 2003, partially offset by higher labor and training costs related to new service initiatives, higher payroll taxes resulting from increased tip reporting, and increases in utility costs, property taxes, and health, workers compensation and general liability insurance. Also contributing to the decrease was a \$2.4 million gain as a result of the sale of four Chili's restaurants to a franchise partner and the sale of one real estate property. Restaurant expenses, as a percent of revenues, remained flat in fiscal 2003. Increases in wage rates, payroll taxes, and health and workers compensation insurance were offset by an approximate \$11.0 million expense related to the settlement of certain California labor matters recorded in fiscal 2002.

Depreciation and amortization increased \$17.3 million and \$28.1 million in fiscal 2004 and 2003, respectively. The increases were due primarily to new unit construction and ongoing remodel costs, partially offset by a declining depreciable asset base for older units. The increase in fiscal 2003 was also due to the acquisition of previously leased equipment and certain real estate assets, and restaurants acquired during fiscal 2002.

General and administrative expenses increased \$21.5 million and \$10.3 million in fiscal 2004 and 2003, respectively. The increases were due primarily to an increase in payroll costs resulting from an increase in headcount and wage rates. The increase in fiscal 2004 was also attributable to increased costs related to consumer research.

Restructure charges and other impairments recorded during fiscal 2004 primarily relate to the Company's decision to close thirty restaurants, including six Chili's, five Macaroni Grill, six On The Border, six Corner Bakery, and seven Big Bowl restaurants. The decision to close the restaurants was the result of a comprehensive analysis that examined restaurants not meeting minimum return on investment thresholds and certain other operating performance criteria, and resulted in a \$39.5 million charge. As a result of the seven Big Bowl closings and a review of the brand's competitive positioning and future development plans, the earnings forecast was revised and the Company recorded a goodwill impairment charge of \$27.0 million. In addition, the Company recorded a \$7.7 million charge related to the final disposition of the Cozymel's Coastal Grill ("Cozymel's") restaurants. Restructure charges and other impairments recorded during fiscal 2003 include a \$20.2 million charge related to the Company's decision to discontinue growth and sell all sixteen of its Cozymel's restaurants, \$5.4 million in charges resulting from the decision to close nine

restaurants and to write down the assets of one under-performing restaurant, and a \$4.1 million impairment of intellectual property rights.

Interest expense decreased \$846,000 in fiscal 2004 due primarily to debt issuance costs related to the convertible debt being fully amortized in the second quarter of fiscal 2004, lower average outstanding balances on the senior notes and revolving lines-of-credit, and a \$2.4 million gain related to an interest rate lock settled in May 2004. These decreases were partially offset by interest expense related to the 5.75% notes issued in May 2004 (the "Notes") and a decrease in capitalized interest due to lower interest rates. Interest expense decreased by \$878,000 in fiscal 2003 due primarily to decreased average borrowings and interest rates on the Company's revolving lines-of-credit, a decrease in interest expense on the senior notes due to a scheduled repayment, and an increase in interest capitalization related to increased new restaurant construction activity. These decreases were partially offset by the amortization of debt issuance costs and debt discounts on the Company's convertible debt.

Other, net increased \$1.2 million in fiscal 2004 due primarily to gains from life insurance proceeds recorded in fiscal 2003 totaling \$3.5 million, partially offset by a \$1.0 million decrease in the Company's share of losses in equity method investees and an increase in interest income associated with the investment of proceeds received from the issuance of the Notes. Other, net decreased \$1.8 million in fiscal 2003 due primarily to the previously mentioned gains from life insurance proceeds, partially offset by a \$1.1 million increase in the Company's share of losses in equity method investees.

INCOME TAXES

The Company's effective income tax rate was 35.2%, 33.4%, and 34.1% in fiscal 2004, 2003, and 2002, respectively. The increase in fiscal 2004 was primarily due to the Big Bowl goodwill impairment charge, which is not deductible for tax purposes, partially offset by an increase in the FICA tax credit resulting from increased tip reporting. The decrease in fiscal 2003 is primarily due to the increase in the FICA tax credit resulting from increased tip reporting and the non-taxable gains from life insurance proceeds, partially offset by the non-deductible loss resulting from the impairment of Cozymel's goodwill.

IMPACT OF INFLATION

The Company has not experienced a significant overall impact from inflation. As operating expenses increase, the Company, to the extent permitted by competition, recovers increased costs through a combination of menu price increases and reviewing, then implementing, alternative products or processes.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased to \$21.8 million at June 30, 2004 from a deficit of \$143.7 million at June 25, 2003, primarily due to \$298.4 million in cash received from the issuance of the 5.75% Notes in May 2004. Net cash provided by operating activities increased to \$481.2 million for fiscal 2004 from \$448.9 million for fiscal 2003 due to increased profitability before restructuring charges and other impairments, the additional week in fiscal 2004, and the timing of operational receipts and payments. The Company believes that its various sources of capital, including availability under existing credit facilities, ability to raise additional financing, and cash flow from operating activities, are adequate to finance operations as well as the repayment of current debt obligations.

Payments of the Company's contractual obligations under outstanding indebtedness, purchase obligations as defined by the Securities and Exchange Commission, and the expiration of credit facilities as of June 30, 2004 are as follows:

Payments Due by Period (in thousands)					
	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>
5.75% notes	\$298,449	\$ -	\$ -	\$ -	\$298,449
Convertible debt(a)	269,233	-	-	-	269,233
Senior notes	14,851	14,851	-	-	-
Capital leases	60,952	3,390	6,808	7,157	43,597
Mortgage loan obligations	38,931	2,344	4,733	4,349	27,505
Operating leases	881,928	104,356	199,034	174,026	404,512
Purchase obligations(b)	107,905	22,169	51,104	34,632	-

Amount of Credit Facility Expiration by Period (in thousands)					
	<u>Total Commitment</u>	<u>Less than 1 year(d)</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>
Credit facilities(c)	\$325,000	\$50,000	\$275,000	\$ -	\$ -

(a) The convertible debt was issued at a discount representing a yield to maturity of 2.75% per annum. The \$269.2 million balance is the accreted carrying value of the debt at June 30, 2004. The convertible debt will continue to accrete at 2.75% per annum and, if outstanding to maturity in October 2021, the obligation will total \$431.7 million.

(b) A "purchase obligation" is defined as an agreement to purchase goods or services that is enforceable and legally binding on the Company 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. The Company's purchase obligations primarily consist of long-term obligations for the purchase of telecommunication services and certain non-alcoholic beverages and exclude agreements that are cancellable without significant penalty.

(c) There were no amounts outstanding under the credit facilities as of June 30, 2004.

(d) The portion of the credit facilities that expires in less than one year is an uncommitted obligation giving the lenders the option not to extend the Company funding. Should any or all of these obligations not be extended, the Company has adequate capacity under the committed facility, which does not expire until fiscal 2006.

Capital expenditures consist of purchases of land for future restaurant sites, new restaurants under construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures were \$305.9 million in fiscal 2004 compared to \$326.5 million in fiscal 2003. The Company estimates that its fiscal 2005 capital expenditures will approximate \$396.0 million. These capital expenditures will be funded entirely from operations and existing credit facilities.

In May 2004, the Company 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. The proceeds will primarily be used to repurchase common stock under the Company's stock repurchase plan.

In fiscal 2004, the Company closed one Cozymel's restaurant and sold the remaining fifteen restaurants. In connection with the disposition, the Company received cash proceeds totaling \$16.0 million.

In fiscal 2004, the Company's note agreement with the legal entities (collectively, the "Rockfish Partnership") owning and developing Rockfish Seafood Grill was amended and restated, increasing the amount available under the note to \$6.8 million, extending the maturity date to December 2005, and increasing the interest rate to the prime rate plus 1.5% (5.5% at June 30, 2004). The note requires quarterly interest payments until maturity. At June 30, 2004, the Company's note receivable from Rockfish Partnership totaled \$6.8 million.

In August 2004, the Company sold nine of its Chili's restaurants to a franchise partner and received cash proceeds totaling \$12.8 million.

In connection with the closing of thirty restaurants in fiscal 2004, the Company expects to generate cash of approximately \$13.0 million in fiscal 2005 primarily related to the sale of real estate.

In April 2004, the Board of Directors authorized an increase in the stock repurchase plan of \$500.0 million, bringing the total to \$1,010.0 million. Pursuant to the Company's stock repurchase plan, the Company repurchased approximately 9.3 million shares of its common stock for \$322.6 million during fiscal 2004. As of June 30, 2004, approximately 27.5 million shares had been repurchased for \$714.7 million under the stock repurchase plan. The Company's stock repurchase plan will be used to minimize the dilutive impact of a potential conversion of the convertible debt and stock option exercises. The repurchased common stock is reflected as a reduction of shareholders' equity.

In July 2004, the Company began entering into forward purchase contracts to repurchase its common stock. The contracts require the Company to prepay the cost of the common stock at the inception of each contract and require physical settlement of the common stock at any time prior to June 29, 2005. The Company also has the option to extend the maturity date of the contract for a nominal fee. The shares repurchased under the contracts are intended to be used to offset the potential dilutive impact of the convertible debt. The Company expects to enter into forward purchase contracts of approximately \$150.0 million during fiscal 2005.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company is exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. The Company's variable rate financial instruments, consisting of the notional amounts of interest rate swaps, totaled \$129.4 million at June 30, 2004. The impact on the Company's annual results of operations of a one-point interest rate change on the outstanding balance of these variable rate financial instruments as of June 30,

2004 would be approximately \$1.3 million. The Company may from time to time utilize interest rate swaps to manage overall borrowing costs and reduce exposure to adverse fluctuations in interest rates.

The Company purchases certain commodities such as beef, chicken, flour, and cooking oil. These commodities are generally purchased based upon market prices established with vendors. These purchase arrangements may contain contractual features that limit the price paid by establishing certain price floors or caps.

The Company does 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.

CRITICAL ACCOUNTING POLICIES

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

Property and Equipment

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

Impairment of Long-Lived Assets

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

Financial Instruments

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

Self-Insurance

The Company is self-insured for certain losses related to health, general liability and workers' compensation. The Company maintains stop loss coverage with third party insurers to limit its total exposure. The self-insurance liability represents an estimate of the ultimate cost of claims incurred 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 by the Company on a quarterly basis to ensure that the liability is appropriate. If actual trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

The Company is subject to federal and state environmental regulations, and although these have not had a material negative effect on the Company's operations, the Company 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 or prevent development of new restaurants in particular locations.

The Company is subject to the Fair Labor Standards Act, which governs such matters as minimum wages, overtime and other working conditions, along with the Americans With Disabilities Act, various family leave mandates and a variety of other laws enacted, or rules and regulations promulgated, by federal, state and local governmental authorities that govern these and other employment matters. The Company expects increases in payroll expenses as a result of federal, state and local mandated increases in the minimum wage, and although such increases are not expected to be material, the Company cannot assure that there will not be material increases in the future. In addition, the Company's vendors may be affected by higher minimum wage standards, which may increase the price of goods and services supplied to the Company.

Inflation may increase the Company's operating expenses.

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

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

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

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

The Company intends to evaluate potential mergers, acquisitions, joint venture investments, and divestitures as part of its 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; the Company's ability to achieve projected economic and operating synergies; unanticipated changes in business and economic conditions affecting an acquired business; and the ability of the Company to complete divestitures on acceptable terms and at or near the prices estimated as attainable by the Company.

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

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

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

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

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

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

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

	Fiscal Years		
	2004	2003	2002
	(as restated)	(as restated)	(as restated)
Revenues	<u>\$3,707,486</u>	<u>\$3,285,394</u>	<u>\$2,887,111</u>
Operating Costs and Expenses:			
Cost of sales	1,024,724	900,379	796,714
Restaurant expenses	2,033,474	1,802,639	1,585,944
Depreciation and amortization	175,449	158,153	130,102
General and administrative	153,231	131,763	121,420
Restructure charges and other impairments	<u>74,237</u>	<u>29,744</u>	<u>8,723</u>
Total operating costs and expenses	<u>3,461,115</u>	<u>3,022,678</u>	<u>2,642,903</u>
Operating income	246,371	262,716	244,208
Interest expense	11,603	12,449	13,327
Other, net	<u>1,742</u>	<u>567</u>	<u>2,332</u>
Income before provision for income taxes	233,026	249,700	228,549
Provision for income taxes	<u>82,108</u>	<u>83,500</u>	<u>77,904</u>
Net income	<u>\$ 150,918</u>	<u>\$ 166,200</u>	<u>\$ 150,645</u>
Basic net income per share	<u>\$ 1.57</u>	<u>\$ 1.71</u>	<u>\$ 1.54</u>
Diluted net income per share	<u>\$ 1.54</u>	<u>\$ 1.68</u>	<u>\$ 1.50</u>
Basic weighted average shares outstanding	<u>96,072</u>	<u>97,096</u>	<u>97,862</u>
Diluted weighted average shares outstanding	<u>97,939</u>	<u>99,135</u>	<u>100,565</u>

See accompanying notes to consolidated financial statements.

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

	<u>2004</u>	<u>2003</u>
	(as restated)	(as restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 226,762	\$ 33,492
Accounts receivable	37,934	36,019
Inventories	38,113	24,403
Prepaid expenses and other	74,764	73,686
Deferred income taxes	<u>23,347</u>	<u>267</u>
Total current assets	<u>400,920</u>	<u>167,867</u>
Property and Equipment, at Cost:		
Land	283,777	269,212
Buildings and leasehold improvements	1,354,671	1,245,546
Furniture and equipment	666,415	588,815
Construction-in-progress	<u>72,818</u>	<u>71,913</u>
	2,377,681	2,175,486
Less accumulated depreciation and amortization	<u>(810,835)</u>	<u>(675,914)</u>
Net property and equipment	<u>1,566,846</u>	<u>1,499,572</u>
Other Assets:		
Goodwill	158,068	185,068
Other	<u>81,552</u>	<u>87,778</u>
Total other assets	<u>239,620</u>	<u>272,846</u>
Total assets	<u>\$2,207,386</u>	<u>\$1,940,285</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current installments of long-term debt	\$ 18,099	\$ 17,629
Accounts payable	96,795	108,068
Accrued liabilities	227,225	177,983
Income taxes payable	<u>37,043</u>	<u>7,931</u>
Total current liabilities	<u>379,162</u>	<u>311,611</u>
Long-term debt, less current installments	639,291	353,785
Deferred income taxes	72,453	47,509
Other liabilities	106,058	99,738
Commitments and Contingencies (Notes 10 and 16)		
Shareholders' Equity:		
Common stock - 250,000,000 authorized shares; \$.10 par value; 117,499,541 shares issued and 90,647,745 shares outstanding at June 30, 2004, and 117,499,541 shares issued and 97,854,952 shares outstanding at June 25, 2003	11,750	11,750
Additional paid-in capital	357,444	344,486
Accumulated other comprehensive income	737	609
Retained earnings	<u>1,261,647</u>	<u>1,110,729</u>
	1,631,578	1,467,574
Less:		
Treasury stock, at cost (26,851,796 shares at June 30, 2004 and 19,644,589 shares at June 25, 2003)	(619,806)	(337,946)
Unearned compensation	<u>(1,350)</u>	<u>(1,986)</u>
Total shareholders' equity	<u>1,010,422</u>	<u>1,127,642</u>
Total liabilities and shareholders' equity	<u>\$2,207,386</u>	<u>\$1,940,285</u>

See accompanying notes to consolidated financial statements.

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

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Treasury</u>	<u>Accumulated</u>	<u>Unearned</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Stock</u>	<u>Comprehensive</u>	<u>Compensation</u>	<u>Total</u>
Balances at June 27, 2001 (as previously reported)	99,509	\$11,750	\$ 314,867	\$ 801,988	\$ (225,334)	\$ (895)	\$ (2,089)	\$ 900,287
Cumulative effect of restatement on prior years				<u>(8,104)</u>				<u>(8,104)</u>
Balances at June 27, 2001 (as restated)	99,509	11,750	314,867	793,884	(225,334)	(895)	(2,089)	892,183
Net income (as restated)	-	-	-	150,645	-	-	-	150,645
Reclassification adjustment to earnings, net of tax	-	-	-	-	-	895	-	<u>895</u>
Comprehensive income (as restated)								<u>151,540</u>
Purchases of treasury stock	(5,058)	-	-	-	(136,069)	-	-	(136,069)
Issuances of common stock	2,890	-	(4,602)	-	42,394	-	-	37,792
Tax benefit from stock options exercised	-	-	18,826	-	-	-	-	18,826
Amortization of unearned compensation	-	-	-	-	-	-	1,594	1,594
Issuance of restricted stock, net of forfeitures	<u>99</u>	<u>-</u>	<u>1,100</u>	<u>-</u>	<u>1,335</u>	<u>-</u>	<u>(1,377)</u>	<u>1,058</u>
Balances at June 26, 2002 (as restated)	97,440	11,750	330,191	944,529	(317,674)	-	(1,872)	966,924
Net income (as restated)	-	-	-	166,200	-	-	-	166,200
Change in fair value of investments, net of tax	-	-	-	-	-	609	-	<u>609</u>
Comprehensive income (as restated)								<u>166,809</u>
Purchases of treasury stock	(2,208)	-	-	-	(64,477)	-	-	(64,477)
Issuances of common stock	2,492	-	(1,748)	-	42,048	-	-	40,300
Tax benefit from stock options exercised	-	-	13,710	-	-	-	-	13,710
Amortization of unearned compensation	-	-	-	-	-	-	2,101	2,101
Issuance of restricted stock, net of forfeitures	<u>131</u>	<u>-</u>	<u>2,333</u>	<u>-</u>	<u>2,157</u>	<u>-</u>	<u>(2,215)</u>	<u>2,275</u>
Balances at June 25, 2003 (as restated)	97,855	11,750	344,486	1,110,729	(337,946)	609	(1,986)	1,127,642
Net income (as restated)	-	-	-	150,918	-	-	-	150,918
Change in fair value of investments, net of tax	-	-	-	-	-	128	-	<u>128</u>
Comprehensive income (as restated)								<u>151,046</u>
Purchases of treasury stock	(9,326)	-	-	-	(322,615)	-	-	(322,615)
Issuances of common stock	2,053	-	2,049	-	39,538	-	-	41,587
Tax benefit from stock options exercised	-	-	9,752	-	-	-	-	9,752
Amortization of unearned compensation	-	-	-	-	-	-	1,770	1,770
Issuance of restricted stock, net of forfeitures	<u>66</u>	<u>-</u>	<u>1,157</u>	<u>-</u>	<u>1,217</u>	<u>-</u>	<u>(1,134)</u>	<u>1,240</u>
Balances at June 30, 2004 (as restated)	<u>90,648</u>	<u>\$11,750</u>	<u>\$ 357,444</u>	<u>\$1,261,647</u>	<u>\$ (619,806)</u>	<u>\$ 737</u>	<u>\$ (1,350)</u>	<u>\$1,010,422</u>

See accompanying notes to consolidated financial statements.

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

	Fiscal Years		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(as restated)	(as restated)	(as restated)
Cash Flows from Operating Activities:			
Net income	\$ 150,918	\$ 166,200	\$ 150,645
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	175,449	158,153	130,102
Restructure charges and other impairments	74,237	29,744	8,723
Deferred income taxes	1,467	37,743	22,934
Amortization of deferred costs	9,318	11,721	8,252
Gain on sale of assets	(2,452)	-	-
Changes in assets and liabilities, excluding effects of acquisitions and dispositions:			
Receivables	(2,515)	(8,956)	6,138
Inventories	(14,047)	(2,726)	2,863
Prepaid expenses and other	2,182	392	(3,467)
Other assets	(3,146)	2,474	3,640
Current income taxes	38,864	37,314	6,172
Accounts payable	(11,273)	(10,350)	19,982
Accrued liabilities	43,645	14,603	29,006
Other liabilities	18,576	12,559	5,718
Net cash provided by operating activities	<u>481,223</u>	<u>448,871</u>	<u>390,708</u>
Cash Flows from Investing Activities:			
Payments for property and equipment	(305,863)	(326,525)	(371,052)
Proceeds from sale of assets	22,235	-	-
Issuance of loan to affiliate	(2,800)	(4,000)	(1,000)
Net repayments of advances to affiliates	548	372	708
Repayment of notes receivable from affiliate	-	11,000	325
Investments in equity method investee	-	(1,750)	(12,322)
Payments for purchases of restaurants	-	-	(60,491)
Proceeds from sale of affiliate	-	-	4,000
Net cash used in investing activities	<u>(285,880)</u>	<u>(320,903)</u>	<u>(439,832)</u>
Cash Flows from Financing Activities:			
Net proceeds from issuance of debt	296,075	-	244,288
Payments of long-term debt	(17,120)	(16,890)	(16,908)
Purchases of treasury stock	(322,615)	(64,477)	(136,069)
Proceeds from issuances of treasury stock	41,587	40,300	37,792
Net payments on credit facilities	-	(63,500)	(83,200)
Net cash (used in) provided by financing activities	<u>(2,073)</u>	<u>(104,567)</u>	<u>45,903</u>
Net change in cash and cash equivalents	193,270	23,401	(3,221)
Cash and cash equivalents at beginning of year	<u>33,492</u>	<u>10,091</u>	<u>13,312</u>
Cash and cash equivalents at end of year	<u>\$ 226,762</u>	<u>\$ 33,492</u>	<u>\$ 10,091</u>

See accompanying notes to consolidated financial statements.

BRINKER INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The consolidated financial statements include the accounts of Brinker International, Inc. and its wholly-owned subsidiaries (the "Company"). All intercompany accounts and transactions have been eliminated in consolidation. The Company owns and operates, franchises, and is involved in the ownership of various restaurant concepts principally located in the United States. Investments in unconsolidated affiliates in which the Company exercises significant influence, but does not control, are accounted for by the equity method, and the Company's share of the net income or loss of the investees is included in other, net in the consolidated statements of income.

The Company has a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal year 2004, which ended on June 30, 2004, contained 53 weeks while fiscal years 2003 and 2002, which ended on June 25, 2003 and June 26, 2002, respectively, each contained 52 weeks.

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

(b) Revenue Recognition

The Company records revenue from the sale of food, beverage and alcohol as products are sold. Initial fees received from a franchisee to establish a new franchise are recognized as income when the Company has performed its obligations required to assist the franchisee in opening a new franchise restaurant, which is generally upon 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 redeemed by the holder.

(c) Financial Instruments

The Company's policy is to invest cash in excess of operating requirements in income-producing investments. Income-producing investments with maturities of three months or less at the time of investment are reflected as cash equivalents.

The Company's financial instruments at June 30, 2004 and June 25, 2003 consist of cash equivalents, accounts receivable, notes receivable, and long-term debt. The fair value of the Company's convertible debt, based on quoted market prices, totaled approximately \$287.0 million and \$308.3 million at June 30, 2004 and June 25, 2003, respectively. The fair value of all other financial instruments approximates the carrying amounts reported in the consolidated balance sheets. The following methods were used in estimating the fair value of financial instruments other than the convertible debt: cash equivalents and accounts receivable approximate their carrying amounts due to the short duration of those items; notes receivable are based on the present value of expected future cash flows discounted at the interest rate currently offered by the Company which approximates rates currently being offered by local lending institutions for loans of similar terms to companies with comparable credit risk; and long-term debt is based on the amount of future cash flows discounted using the Company's expected borrowing rate for debt of comparable risk and maturity.

The Company's use of derivative instruments is primarily related to interest rate swaps, which are entered into with the intent of hedging exposures to changes in value of certain fixed-rate debt and lease obligations. The Company records

all 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 debt and lease obligations are recorded as adjustments to interest expense and restaurant expenses, respectively. Cash flows related to derivative transactions are included in operating activities. See Notes 8 and 9 for additional discussion of debt-related agreements and hedging activities.

(d) Inventories

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

(e) Property and Equipment

Buildings and leasehold improvements are amortized 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 4 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.

The Company evaluates 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 carrying amount or fair value less costs to sell.

(f) Capitalized Interest

Interest costs capitalized during the construction period of restaurants were approximately \$3.4 million, \$5.6 million, and \$4.5 million during fiscal 2004, 2003, and 2002, respectively.

(g) Advertising

Advertising costs are expensed as incurred. Advertising costs were \$151.3 million, \$135.2 million, and \$116.6 million in fiscal 2004, 2003, and 2002, respectively, and are included in restaurant expenses in the consolidated statements of income.

(h) Goodwill and Other Intangible Assets

Intangible assets include both goodwill and identifiable intangibles arising from the allocation of the purchase prices of assets acquired. Goodwill represents the residual purchase price after allocation to all other identifiable net assets acquired. Other intangibles consist mainly of intellectual property.

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. Intangible assets with lives restricted by contractual, legal, or other means are amortized over their useful lives and consist primarily of intellectual property. Amortization expense is calculated using the straight-line method over their estimated useful lives of 15 to 20 years. See Note 5 for additional disclosures related to goodwill and other intangibles.

(i) Self-Insurance Program

The Company utilizes 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 the Company's per occurrence cash outlay. Additionally, in fiscal 2002, the Company entered into a guaranteed cost agreement with an insurance company to eliminate all future general liability losses for that fiscal year. Accrued expenses and other liabilities include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims.

(j) 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.

(k) Stock-Based Compensation

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(as restated)	(as restated)	(as restated)
Net income - as reported	\$150,918	\$166,200	\$150,645
Add: Reported stock-based compensation expense, net of taxes	1,756	1,863	2,285
Deduct: Fair value based compensation expense, net of taxes	(18,663)	(17,697)	(17,195)
Net income - pro forma	<u>\$134,011</u>	<u>\$150,366</u>	<u>\$135,735</u>
Earnings per share:			
Basic - as reported	<u>\$ 1.57</u>	<u>\$ 1.71</u>	<u>\$ 1.54</u>
Basic - pro forma	<u>\$ 1.39</u>	<u>\$ 1.55</u>	<u>\$ 1.39</u>
Diluted - as reported	<u>\$ 1.54</u>	<u>\$ 1.68</u>	<u>\$ 1.50</u>
Diluted - pro forma	<u>\$ 1.37</u>	<u>\$ 1.52</u>	<u>\$ 1.33</u>

The weighted average fair value of option grants was \$11.38, \$10.76, and \$10.66 during fiscal 2004, 2003, and 2002, respectively. The fair value is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Expected volatility	33.0%	34.0%	35.5%
Risk-free interest rate	3.4%	3.0%	4.1%
Expected lives	5 years	5 years	5 years
Dividend yield	0.0%	0.0%	0.0%

The pro forma disclosures provided are not likely to be representative of the effects on reported net income for future years due to future grants.

(l) 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 2004 and 2003 comprehensive income consists of net income and the unrealized portion of changes in the fair value of the Company's investments in mutual funds. Fiscal 2002 comprehensive income consists of net income and the effective unrealized portion of changes in the fair value of the Company's cash flow hedges.

(m) 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 determined using the treasury stock method. The Company had approximately 700,000, 1.4 million, and 1.9 million stock options outstanding at June 30, 2004, June 25, 2003, and June 26, 2002, respectively, that were not included in the diluted earnings per share calculation because the effect would have been antidilutive. The Company's contingently convertible debt securities are not considered for purposes of diluted earnings per share unless the required conversion criteria have been met.

(n) 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. The Company identifies operating segments based on management responsibility and believes it meets the criteria for aggregating its operating segments into a single reporting segment.

(o) 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.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company has corrected its computation of straight-line rent expense and the related deferred rent liability. Historically, when accounting for leases with renewal options, rent expense has been recorded on a straight-line basis over the initial non-cancelable lease term. Buildings and leasehold improvements on those properties are depreciated over a period equal to the shorter of the term of the lease, including option periods provided for in the lease, or the useful life of the assets. The Company has determined that it should recognize rent expense on a straight-line basis over sufficient renewal periods to equal or exceed the depreciable life of the assets, including cancelable option periods where failure to exercise such options would result in an economic penalty.

The Company also evaluated the accounting of an intangible asset related to franchise rights acquired in fiscal 1998 and has determined that it would have been more appropriate to expense the purchase price of the franchise rights.

As a result of the above items, the cumulative effect of the restatement through fiscal 2004 was an increase in the deferred rent liability of approximately \$20.7 million and a decrease in intangible franchise rights of \$4.4 million. In addition, the deferred income tax liability at the end of fiscal 2004 decreased by approximately \$9.4 million, and retained earnings at the end of fiscal 2004 decreased by approximately \$15.7 million. The cumulative effect of the restatement through fiscal 2003 was an increase in the deferred rent liability of approximately \$15.8 million and a decrease in intangible franchise rights of \$4.4 million. In addition, the deferred income tax liability at the end of fiscal 2004 decreased by approximately \$7.6 million, and retained earnings at the end of fiscal 2004 decreased by approximately \$12.6 million. Rent expense for fiscal years ended 2002, 2003 and 2004 increased by approximately \$3.3 million, \$3.9 million and \$4.9 million, respectively.

The restatement decreased diluted net earnings per share by approximately \$0.02, \$0.02 and \$0.03 for the fiscal years ended 2002, 2003 and 2004, respectively. The restatement does not have any impact on the Company's previously reported cash flows, sales or comparable store sales or compliance with any covenant under its credit facility or other debt instruments.

The impacts of these restatements on the consolidated financial statements are summarized below:

CONSOLIDATED BALANCE SHEET
SUMMARY OF RESTATEMENT IMPACTS
AS OF JUNE 30, 2004
(In thousands)

ASSETS	AS REPORTED	ADJUSTMENTS	AS RESTATED
Current Assets:			
Cash and cash equivalents	\$ 226,762	-	\$ 226,762
Accounts receivable	37,934	-	37,934
Inventories	38,113	-	38,113
Prepaid expenses and other	74,764	-	74,764
Deferred income taxes	23,347	-	23,347
Total current assets	<u>400,920</u>	<u>-</u>	<u>400,920</u>
Property and Equipment, at Cost:			
Land	283,777	-	283,777
Buildings and leasehold improvements	1,354,671	-	1,354,671
Furniture and equipment	666,415	-	666,415
Construction-in-process	72,818	-	72,818
	<u>2,377,681</u>	<u>-</u>	<u>2,377,681</u>
Less accumulated depreciation and amortization	<u>(810,835)</u>	<u>-</u>	<u>(810,835)</u>
Net property and equipment	1,566,846	-	1,566,846
Other Assets:			
Goodwill	158,068	-	158,068
Other	85,957	(4,405)	81,552
Total other assets	<u>244,025</u>	<u>(4,405)</u>	<u>239,620</u>
Total assets	<u>\$ 2,211,791</u>	<u>(4,405)</u>	<u>\$ 2,207,386</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Current installments of long-term debt	\$ 18,099	-	\$ 18,099
Accounts payable	96,795	-	96,795
Accrued liabilities	227,225	-	227,225
Income taxes payable	37,043	-	37,043
Total current liabilities	<u>379,162</u>	<u>-</u>	<u>379,162</u>
Long-term debt, less current installments	639,291	-	639,291
Deferred income taxes	81,902	(9,449)	72,453
Other liabilities	85,363	20,695	106,058
Shareholders' Equity:			
Common stock	11,750	-	11,750
Additional paid-in capital	357,444	-	357,444
Accumulated other comprehensive income	737	-	737
Retained earnings	1,277,298	(15,651)	1,261,647
	<u>1,647,229</u>	<u>(15,651)</u>	<u>1,631,578</u>
Less:			
Treasury stock, at cost	(619,806)	-	(619,806)
Unearned compensation	(1,350)	-	(1,350)
Total shareholders' equity	<u>1,026,073</u>	<u>(15,651)</u>	<u>1,010,422</u>
Total liabilities and shareholders' equity	<u>\$ 2,211,791</u>	<u>(4,405)</u>	<u>\$ 2,207,386</u>

CONSOLIDATED BALANCE SHEET
SUMMARY OF RESTATEMENT IMPACTS
AS OF JUNE 25, 2003
(In thousands)

ASSETS	AS REPORTED	ADJUSTMENTS	AS RESTATED
Current Assets:			
Cash and cash equivalents	\$ 33,492	-	\$ 33,492
Accounts receivable	36,019	-	36,019
Inventories	24,403	-	24,403
Prepaid expenses and other	73,686	-	73,686
Deferred income taxes	267	-	267
Total current assets	<u>167,867</u>	<u>-</u>	<u>167,867</u>
Property and Equipment, at Cost:			
Land	269,212	-	269,212
Buildings and leasehold improvements	1,245,546	-	1,245,546
Furniture and equipment	588,815	-	588,815
Construction-in-process	71,913	-	71,913
	<u>2,175,486</u>	<u>-</u>	<u>2,175,486</u>
Less accumulated depreciation and amortization	<u>(675,914)</u>	<u>-</u>	<u>(675,914)</u>
Net property and equipment	<u>1,499,572</u>	<u>-</u>	<u>1,499,572</u>
Other Assets:			
Goodwill	185,068	-	185,068
Other	92,183	(4,405)	87,778
Total other assets	<u>277,251</u>	<u>(4,405)</u>	<u>272,846</u>
Total assets	<u>\$ 1,944,690</u>	<u>(4,405)</u>	<u>\$ 1,940,285</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Current installments of long-term debt	\$ 17,629	-	\$ 17,629
Accounts payable	108,068	-	108,068
Accrued liabilities	177,983	-	177,983
Income taxes payable	7,931	-	7,931
Total current liabilities	<u>311,611</u>	<u>-</u>	<u>311,611</u>
Long-term debt, less current installments	353,785	-	353,785
Deferred income taxes	55,096	(7,587)	47,509
Other liabilities	83,948	15,790	99,738
Shareholders' Equity:			
Common stock	11,750	-	11,750
Additional paid-in capital	344,486	-	344,486
Accumulated other comprehensive income	609	-	609
Retained earnings	<u>1,123,337</u>	<u>(12,608)</u>	<u>1,110,729</u>
	<u>1,480,182</u>	<u>(12,608)</u>	<u>1,467,574</u>
Less:			
Treasury stock, at cost	(337,946)	-	(337,946)
Unearned compensation	(1,986)	-	(1,986)
Total shareholders' equity	<u>1,140,250</u>	<u>(12,608)</u>	<u>1,127,642</u>
Total liabilities and shareholders' equity	<u>\$ 1,944,690</u>	<u>(4,405)</u>	<u>\$ 1,940,285</u>

CONSOLIDATED STATEMENT OF INCOME
SUMMARY OF RESTATEMENT IMPACTS
FOR THE YEAR ENDED JUNE 30, 2004
(In thousands, except per share amounts)

	AS REPORTED	ADJUSTMENTS	AS RESTATED
Revenues	\$ 3,707,486	-	\$ 3,707,486
Operating Costs and Expenses:			
Cost of sales	1,024,724	-	1,024,724
Restaurant expenses	2,028,569	4,905	2,033,474
Depreciation and amortization	175,449	-	175,449
General and administrative	153,231	-	153,231
Restructure charges and other impairments	74,237	-	74,237
Total operating costs and expenses	<u>3,456,210</u>	<u>4,905</u>	<u>3,461,115</u>
Operating income	251,276	(4,905)	246,371
Interest expense	11,603	-	11,603
Other, net	1,742	-	1,742
Income before tax expense	237,931	(4,905)	233,026
Income tax expense	(83,970)	1,862	(82,108)
Net income	<u>\$ 153,961</u>	<u>(3,043)</u>	<u>\$ 150,918</u>
Basic net income per share	<u>\$ 1.60</u>	<u>(0.03)</u>	<u>\$ 1.57</u>
Diluted net income per share	<u>\$ 1.57</u>	<u>(0.03)</u>	<u>\$ 1.54</u>
Basic weighted average shares outstanding	<u>96,072</u>		<u>96,072</u>
Diluted weighted average shares outstanding	<u>97,939</u>		<u>97,939</u>

CONSOLIDATED STATEMENT OF INCOME
SUMMARY OF RESTATEMENT IMPACTS
FOR THE YEAR ENDED JUNE 25, 2003
(In thousands, except per share amounts)

	AS REPORTED	ADJUSTMENTS	AS RESTATED
Revenues	\$ 3,285,394	-	\$ 3,285,394
Operating Costs and Expenses:			
Cost of sales	900,379	-	900,379
Restaurant expenses	1,798,752	3,887	1,802,639
Depreciation and amortization	158,153	-	158,153
General and administrative	131,763	-	131,763
Restructure charges and other impairments	29,744	-	29,744
Total operating costs and expenses	<u>3,018,791</u>	<u>3,887</u>	<u>3,022,678</u>
Operating income	266,603	(3,887)	262,716
Interest expense	12,449	-	12,449
Other, net	567	-	567
Income before tax expense	253,587	(3,887)	249,700
Income tax expense	(84,951)	1,451	(83,500)
Net income	<u>\$ 168,636</u>	<u>(2,436)</u>	<u>\$ 166,200</u>
Basic net income per share	<u>\$ 1.74</u>	<u>(0.03)</u>	<u>\$ 1.71</u>
Diluted net income per share	<u>\$ 1.70</u>	<u>(0.02)</u>	<u>\$ 1.68</u>
Basic weighted average shares outstanding	<u>97,096</u>		<u>97,096</u>
Diluted weighted average shares outstanding	<u>99,135</u>		<u>99,135</u>

CONSOLIDATED STATEMENT OF INCOME
SUMMARY OF RESTATEMENT IMPACTS
FOR THE YEAR ENDED JUNE 26, 2002
(In thousands, except per share amounts)

	AS REPORTED	ADJUSTMENTS	AS RESTATED
Revenues	\$ 2,887,111	-	\$ 2,887,111
Operating Costs and Expenses:			
Cost of sales	796,714	-	796,714
Restaurant expenses	1,582,644	3,300	1,585,944
Depreciation and amortization	130,102	-	130,102
General and administrative	121,420	-	121,420
Restructure charges and other impairments	8,723	-	8,723
Total operating costs and expenses	<u>2,639,603</u>	<u>3,300</u>	<u>2,642,903</u>
Operating income	247,508	(3,300)	244,208
Interest expense	13,327	-	13,327
Other, net	<u>2,332</u>	-	<u>2,332</u>
Income before tax expense	231,849	(3,300)	228,549
Income tax expense	<u>(79,136)</u>	<u>1,232</u>	<u>(77,904)</u>
Net income	<u>\$ 152,713</u>	<u>(2,068)</u>	<u>\$ 150,645</u>
Basic net income per share	<u>\$ 1.56</u>	<u>(0.02)</u>	<u>\$ 1.54</u>
Diluted net income per share	<u>\$ 1.52</u>	<u>(0.02)</u>	<u>\$ 1.50</u>
Basic weighted average shares outstanding	<u>97,862</u>		<u>97,862</u>
Diluted weighted average shares outstanding	<u>100,565</u>		<u>100,565</u>

Certain amounts in Notes 1, 5, 6, 7, 10, and 17 have been restated to reflect the restatement adjustments described above. The restatement adjustments did not affect cash flows provided by or used in operating, investing or financing activities. The restatement adjustments decreased retained earnings as of June 27, 2001 by \$8.1 million.

3. BUSINESS COMBINATION AND INVESTMENT IN EQUITY METHOD INVESTEE

In November 2001, the Company acquired from its franchise partner, Sydran Group, LLC and Sydran Food Services III, L.P., thirty-nine Chili's restaurants for approximately \$53.9 million. As part of the acquisition, the Company assumed \$35.5 million in capital lease obligations (\$19.9 million principal plus \$15.6 million representing a debt premium) and recorded goodwill totaling approximately \$52.5 million. The operations of the restaurants are included in the Company's consolidated results of operations from the date of the acquisition. The pro-forma effect of this acquisition on the Company's historical results of operations is not material.

In July 2001, the Company made a \$12.3 million capital contribution to Rockfish Partnership in exchange for an approximate 40% ownership interest. In October 2002, the Company made an additional \$1.8 million capital contribution to Rockfish Partnership increasing its ownership interest to approximately 43%.

4. RESTRUCTURE CHARGES AND OTHER IMPAIRMENTS

In fiscal 2004, the Company recorded a \$39.5 million charge resulting from the decision to close thirty restaurants, including six Chili's, five Macaroni Grill, six On The Border, six Corner Bakery, and seven Big Bowl restaurants. The decision to close the restaurants was the result of a comprehensive analysis that examined restaurants not meeting minimum return on investment thresholds and certain other operating performance criteria. The charge consists of long-lived asset impairments totaling \$31.2 million, lease obligation charges totaling \$6.2 million, and the write-off of inventory and other supplies totaling \$2.1 million.

The remaining carrying values of the long-lived assets associated with the closed stores totaled approximately \$13.0 million at June 30, 2004. In addition, the Company made lease payments related to the closed stores totaling \$800,000 during fiscal 2004, reducing the lease obligation included in accrued liabilities to \$5.4 million at June 30, 2004.

As a result of the seven Big Bowl closings and a review of the brand's competitive positioning and future development plans, the earnings forecast was revised and the Company recorded a goodwill impairment charge of \$27.0 million. The fair value of Big Bowl was estimated using the present value of expected future cash flows.

In fiscal 2003, the Company evaluated the results of its efforts to reposition Cozymel's. Based on the performance of recent openings, the Company decided the brand no longer met the growth characteristics needed to remain in the Company's portfolio. As a result, the Company entered into negotiations during the fourth quarter of fiscal 2003 to sell all sixteen of its Cozymel's restaurants. The decision to discontinue growth and sell the brand required the Company to record asset impairment charges totaling \$20.2 million (\$13.7 million for property and equipment and \$6.5 million for the remaining carrying value of goodwill). The carrying values of the assets to be sold were approximately \$23.8 million as of June 25, 2003 and consisted primarily of property and equipment. In fiscal 2004, the Company closed one Cozymel's restaurant and finalized the sale of the remaining fifteen restaurants. In connection with the disposition, the Company received cash proceeds totaling \$16.0 million and recorded an additional impairment charge totaling \$7.7 million.

In fiscal 2003, the Company recorded a \$5.4 million charge for long-lived asset impairments and exit costs resulting from the decision to close nine restaurants and to write down the assets of one under-performing restaurant. Substantially all of the assets were fully impaired.

In fiscal 2003, the Company closed one of the two remaining PIZZAAHHH! restaurant locations and cancelled all future development plans for the concept. As a result of this decision, a \$4.1 million impairment charge was recorded, representing the remaining net book value of the intellectual property rights associated with the PIZZAAHHH! concept.

In fiscal 2002, the Company recorded an approximate \$8.7 million charge to reduce its notes receivable from Eatzi's Corporation to their net realizable value (see Note 15 for additional discussion).

5. GOODWILL AND OTHER INTANGIBLES

The changes in the carrying amount of goodwill for the fiscal years ended June 30, 2004 and June 25, 2003 are as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$185,068	\$193,899
Impairment of goodwill (see Note 4)	(27,000)	(6,501)
Purchase allocation adjustments	-	(2,330)
Balance at end of year	<u>\$158,068</u>	<u>\$185,068</u>

The gross carrying amount of intellectual property subject to amortization totaled \$1.2 million at June 30, 2004 and June 25, 2003. Accumulated amortization related to these intangible assets totaled approximately \$359,000 and \$308,000 at June 30, 2004 and June 25, 2003, respectively.

6. ACCRUED AND OTHER LIABILITIES

Accrued liabilities consist of the following (in thousands):

	<u>2004</u>	<u>2003</u>
Payroll	\$ 84,776	\$ 73,916
Gift cards	43,550	36,013
Sales tax	28,254	20,606
Property tax	21,404	14,901
Other	49,241	32,547
	<u>\$227,225</u>	<u>\$177,983</u>

Other liabilities consist of the following (in thousands):

	<u>2004</u>	<u>2003</u>
	(as restated)	(as restated)
Retirement plan (see Note 13)	\$ 38,473	\$ 33,086
Other	67,585	66,652
	<u>\$ 106,058</u>	<u>\$ 99,738</u>

7. INCOME TAXES

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(as restated)	(as restated)	(as restated)
Current income tax expense:			
Federal	\$ 65,977	\$ 36,761	\$ 47,228
State	12,885	8,107	6,819
Foreign	1,098	889	923
Total current income tax expense	<u>79,960</u>	<u>45,757</u>	<u>54,970</u>
Deferred income tax expense:			
Federal	1,896	35,968	20,975
State	252	1,775	1,959
Total deferred income tax expense	<u>2,148</u>	<u>37,743</u>	<u>22,934</u>
	<u>\$ 82,108</u>	<u>\$ 83,500</u>	<u>\$ 77,904</u>

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(as restated)	(as restated)	(as restated)
Income tax expense at statutory rate	\$ 81,559	\$ 87,395	\$ 79,992
FICA tax credit	(17,506)	(13,236)	(9,002)
State income taxes, net of Federal benefit	8,539	6,423	5,706
Goodwill impairment	9,450	2,275	-
Other	66	643	1,208
	<u>\$ 82,108</u>	<u>\$ 83,500</u>	<u>\$ 77,904</u>

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities as of June 30, 2004 and June 25, 2003 are as follows (in thousands):

	2004 (as restated)	2003 (as restated)
Deferred income tax assets:		
Restructuring charges and other impairments	\$ 17,399	\$ 5,149
Employee benefit plans	13,863	13,387
Leasing transactions	16,716	14,844
Insurance reserves	4,717	3,966
Other, net	24,158	16,361
Total deferred income tax assets	<u>76,853</u>	<u>53,707</u>
Deferred income tax liabilities:		
Depreciation and capitalized interest on property and equipment	88,509	72,390
Prepaid expenses	10,456	9,969
Goodwill and other amortization	11,887	9,106
Other, net	15,107	9,484
Total deferred income tax liabilities	<u>125,959</u>	<u>100,949</u>
Net deferred income tax liability	<u>\$ 49,106</u>	<u>\$ 47,242</u>

8. DEBT

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

	2004	2003
5.75% notes	\$298,449	\$ -
Convertible debt	269,233	262,086
Senior notes	14,851	30,969
Capital lease obligations (see Note 10)	35,926	37,004
Mortgage loan obligations	38,931	41,355
	<u>657,390</u>	<u>371,414</u>
Less current installments	(18,099)	(17,629)
	<u>\$639,291</u>	<u>\$353,785</u>

In May 2004, the Company 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.

In October 2001, the Company issued \$431.7 million of zero coupon convertible senior debentures (the "Debentures"), maturing on October 10, 2021, and received proceeds totaling approximately \$250.0 million prior to debt issuance costs. The Debentures require no interest payments and were issued at a discount representing a yield to maturity of 2.75% per annum. The Debentures are redeemable at the Company's option beginning on October 10, 2004. If redeemed by the Company, the holders of the Debentures may elect to receive payment in cash or common stock. The holders may require the Company to redeem the Debentures on October 10, 2005, 2011 or 2016, and in certain other circumstances. If the holders exercise their redemption rights, the Company may choose to pay in cash, common stock, or a combination of the two. In addition, each \$1,000 Debenture is convertible into 18.08 shares (7.8 million shares in total) of the Company's common stock if the stock's market price exceeds 120% of the accreted conversion price for at least 20 trading days during the first 30 trading days of each quarter, the Company exercises its option to redeem the Debentures, the credit rating of the Debentures is reduced below both Baa3 and BBB-, or upon the occurrence of certain specified corporate transactions. The market price of the Company's common stock has not exceeded 120% of the accreted conversion price for any quarter, including the first quarter of fiscal 2005, since the issuance of the Debentures. The

conversion trigger price for the Company's second quarter of fiscal 2005 is \$41.81.

The \$14.9 million of unsecured senior notes bear interest at an annual rate of 7.8%. Interest is payable semi-annually and the remaining principal is due in fiscal 2005.

The Company has credit facilities aggregating \$325.0 million at June 30, 2004. A revolving credit facility of \$275.0 million bears interest at LIBOR (1.61% at June 30, 2004) plus a maximum of 1.375% (0.65% at June 30, 2004) and expires in fiscal 2006. The remaining credit facility is uncommitted and bears interest based upon the lower of the banks' "Base" rate, certificate of deposit rate, negotiated rate, or LIBOR rate plus 0.375%, and expires in fiscal 2005. Unused credit facilities available to the Company totaled \$325.0 million at June 30, 2004.

The mortgage loan obligations require monthly principal and interest payments, mature on various dates through March 2020, and bear interest at rates ranging from 8.44% to 10.75% per year. The obligations are collateralized by the underlying restaurant properties.

The Company's debt agreements contain various restrictive covenants that, among other things, require the maintenance of certain fixed charge, net worth, and leverage ratios. The Company is currently in compliance with all covenants.

Excluding capital lease obligations (see Note 10), the Company's long-term debt maturities for the five years following June 30, 2004 are as follows (in thousands):

<u>Fiscal</u> <u>Year</u>	
2005	\$ 17,195
2006	2,431
2007	2,302
2008	2,139
2009	2,210
Thereafter	595,187
	<u>\$621,464</u>

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Company entered into two interest rate swaps in April 2000 with a total notional value of \$14.2 million at June 30, 2004. These fair value hedges change the fixed-rate interest on the senior notes to variable-rate interest. Under the terms of the hedges (which expire in fiscal 2005), the Company pays semi-annually a variable interest rate based on 90-Day LIBOR (1.61% at June 30, 2004) plus 0.530% for one of the swaps and 180-Day LIBOR (1.94% at June 30, 2004) plus 0.395% for the other swap, in arrears, compounded at three-month intervals. The Company receives semi-annually the fixed interest rate of 7.8% on the senior notes. The estimated fair values of these agreements at June 30, 2004 and June 25, 2003 were approximately \$700,000 and \$2.5 million, respectively, which are included in other assets in the Company's consolidated balance sheets. The Company's interest rate swap hedges meet the criteria for the "short-cut method" under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Accordingly, changes in the fair value of the swaps are offset by a like adjustment to the carrying value of the debt and no hedge ineffectiveness is assumed.

The Company entered into three interest rate swaps in December 2001 with a total notional value of \$115.2 million at June 30, 2004. These fair value hedges change the fixed-rate interest component of an operating lease commitment for certain real estate properties entered into in November 1997 to variable-rate interest. Under the terms of the hedges (which expire in fiscal 2018), the Company pays monthly a variable rate based on 30-Day LIBOR (1.37% at June 30, 2004) plus 1.26%. The Company receives monthly the fixed interest rate of 7.156% on the lease. The estimated fair values of these agreements at June 30, 2004 and

June 25, 2003 were assets of approximately \$7.7 million and \$21.4 million, respectively. There was no hedge ineffectiveness during fiscal 2004, 2003, or 2002. Changes in the fair value of the swaps are recorded in other assets with a like adjustment in other liabilities.

10. LEASES

(a) Capital Leases

The Company leases certain buildings under capital leases. The asset values of \$27.5 million at June 30, 2004 and June 25, 2003, and the related accumulated amortization of \$9.5 million and \$8.2 million at June 30, 2004 and June 25, 2003, respectively, are included in property and equipment. Amortization of assets under capital leases is included in depreciation and amortization expense.

(b) Operating Leases

The Company leases restaurant facilities, office space, and certain equipment under operating leases having terms expiring at various dates through fiscal 2095. The restaurant leases have renewal clauses of 1 to 35 years at the option of the Company and, in some cases, have provisions for contingent rent based upon a percentage of gross sales, as defined in the leases. Rent expense for fiscal 2004, 2003, and 2002 was \$123.1 million, \$111.1 million, and \$103.7 million, respectively. Contingent rent included in rent expense for fiscal 2004, 2003, and 2002 was \$11.6 million, \$10.3 million, and \$9.7 million, respectively.

In fiscal 1998 and 2000, the Company entered into equipment leasing facilities totaling \$55.0 million and \$25.0 million, respectively. The leasing facilities were accounted for as operating leases and had expiration dates of 2004 and 2006, respectively. The Company guaranteed a residual value of approximately 87% of the total amount funded under the leases. The Company had the option to purchase all of the leased equipment for an amount equal to the unamortized lease balance, which could not exceed 75% of the total amount funded through the leases. In February 2002, the Company acquired the remaining assets leased under the equipment leasing facilities for \$36.2 million and terminated the lease arrangements.

In fiscal 2000, the Company entered into a \$50.0 million real estate leasing facility. During fiscal 2001, the Company increased the facility to \$75.0 million. The real estate facility was accounted for as an operating lease and was to expire in fiscal 2007. The Company guaranteed a residual value of approximately 87% of the total amount funded under the lease. The Company had the option to purchase all of the leased real estate for an amount equal to the unamortized lease balance. In February 2002, the Company acquired the remaining assets leased under the real estate leasing facility for \$56.8 million and terminated the lease arrangement.

(c) Commitments

At June 30, 2004, future non-cancelable minimum lease payments on capital and operating leases were as follows (in thousands):

<u>Fiscal Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2005	\$ 3,390	\$ 104,356
2006	3,361	101,778
2007	3,447	97,256
2008	3,534	91,241
2009	3,623	82,785
Thereafter	43,597	404,512
Total minimum lease payments	60,952	<u>\$ 881,928</u>
Imputed interest (average rate of 7%)	(25,026)	
Present value of minimum lease payments	35,926	
Less current installments	(904)	
	<u>\$ 35,022</u>	

At June 30, 2004, the Company 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.

11. STOCK OPTION PLANS

(a) 1983, 1992, and 1998 Employee Incentive Stock Option Plans

In accordance with the Incentive Stock Option Plans adopted in October 1983, November 1992, and October 1998, options to purchase approximately 40.2 million shares of Company common stock may be granted to officers, directors, and eligible employees, as defined. Options are granted at the market value of the underlying common stock on the date of grant, are exercisable beginning one to two years from the date of grant, with various vesting periods, and expire 10 years from the date of grant.

In October 1993, the 1983 Incentive Stock Option Plan (the "1983 Plan") expired. Consequently, no options were granted under the 1983 Plan subsequent to fiscal 1993. Options granted prior to the expiration of the 1983 Plan were exercisable through April 2003.

In October 1998, the Stock Option and Incentive Plan (the "1998 Plan") was adopted and no additional options were granted under the 1992 Incentive Stock Option Plan (the "1992 Plan"). Options granted under the 1992 Plan prior to the adoption of the 1998 Plan remain exercisable through March 2008.

Transactions during fiscal 2004, 2003, and 2002 were as follows (in thousands, except option prices):

	Number of Company Options			Weighted Average Share Exercise Price		
	2004	2003	2002	2004	2003	2002
Options outstanding at beginning of year	9,611	9,944	10,759	\$24.07	\$20.50	\$16.91
Granted	2,879	2,639	2,512	32.53	30.68	27.90
Exercised	(1,978)	(2,477)	(2,892)	20.54	16.05	13.09
Forfeited	(653)	(495)	(435)	29.08	27.54	23.38
Options outstanding at end of year	<u>9,859</u>	<u>9,611</u>	<u>9,944</u>	<u>\$26.92</u>	<u>\$24.07</u>	<u>\$20.50</u>
Options exercisable at end of year	<u>3,918</u>	<u>3,809</u>	<u>4,091</u>	<u>\$20.64</u>	<u>\$16.69</u>	<u>\$13.38</u>

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
\$ 7.42-\$11.58	655	2.56	\$ 8.52	655	\$ 8.52
\$13.58-\$18.67	1,377	4.90	17.09	1,377	17.09
\$25.50-\$37.25	7,827	8.22	30.19	1,886	27.45
	<u>9,859</u>	<u>7.38</u>	<u>\$26.92</u>	<u>3,918</u>	<u>\$20.64</u>

(b) 1991 and 1999 Non-Employee Stock Option Plans

In accordance with the Stock Option Plan for Non-Employee Directors and Consultants adopted in May 1991 (the "1991 Plan"), options to purchase 881,250 shares of Company common stock were authorized for grant. In fiscal 2000, the 1991 Plan was replaced by the 1999 Stock Option and Incentive Plan for Non-Employee Directors and Consultants which authorized the issuance of up to 450,000 shares of Company common stock. The authority to issue the remaining stock options under the 1991 Plan has been terminated. Options are granted at the market value of the

underlying common stock on the date of grant, vest one-third each year beginning two years from the date of grant, and expire 10 years from the date of grant.

Transactions during fiscal 2004, 2003, and 2002 were as follows (in thousands, except option prices):

	Number of Company Options			Weighted Average Share Exercise Price		
	2004	2003	2002	2004	2003	2002
Options outstanding at beginning of year	440	353	351	\$21.21	\$17.79	\$13.96
Granted	83	102	82	32.80	32.18	30.06
Exercised	(35)	(15)	(70)	10.60	15.36	11.24
Forfeited	-	-	(10)	-	-	30.06
Options outstanding at end of year	<u>488</u>	<u>440</u>	<u>353</u>	<u>\$23.90</u>	<u>\$21.21</u>	<u>\$17.79</u>
Options exercisable at end of year	<u>244</u>	<u>238</u>	<u>199</u>	<u>\$16.24</u>	<u>\$13.57</u>	<u>\$12.61</u>

At June 30, 2004, the range of exercise prices for options outstanding was \$8.33 to \$33.26 with a weighted average remaining contractual life of 6.48 years.

12. SHAREHOLDERS' EQUITY

(a) Stockholder Protection Rights Plan

The Company maintains a Stockholder Protection Rights Plan (the "Plan"). Upon implementation of the Plan, the Company declared a dividend of one right on each outstanding share of common stock. The rights are evidenced by the common stock certificates, automatically trade with the common stock, and are not exercisable until it is announced that a person or group has become an Acquiring Person, as defined in the Plan. Thereafter, separate rights certificates will be distributed and each right (other than rights beneficially owned by any Acquiring Person) will entitle, among other things, its holder to purchase, for an exercise price of \$40, a number of shares of Company common stock having a market value of twice the exercise price. The rights may be redeemed by the Board of Directors for \$0.01 per right prior to the date of the announcement that a person or group has become an Acquiring Person.

(b) Preferred Stock

The Company's 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 30, 2004, no preferred shares were issued.

(c) Treasury Stock

In April 2004, the Board of Directors authorized an increase in the stock repurchase plan of \$500.0 million, bringing the total to \$1,010.0 million. Pursuant to the Company's stock repurchase plan, the Company repurchased approximately 9.3 million shares of its common stock for \$322.6 million during fiscal 2004. As of June 30, 2004, approximately 27.5 million shares had been repurchased for \$714.7 million under the stock repurchase plan. The Company's stock repurchase plan will be used to minimize the dilutive impact of a potential conversion of the convertible debt and stock option exercises. The repurchased common stock is reflected as a reduction of shareholders' equity.

(d) Restricted Stock

Pursuant to shareholder approval in November 1999, the Company implemented the Executive Long-Term Incentive Plan for certain key employees, one component of which is the award of restricted stock. During fiscal 2004 and 2003, respectively, approximately 66,000 and 131,000 shares of restricted stock were awarded, the majority of which vests over a three-year period. Unearned compensation was recorded as a separate component of shareholders' equity at the date of the award based on the market value of the shares and is being amortized to compensation expense over the vesting period.

13. SAVINGS PLANS

The Company sponsors a qualified defined contribution retirement plan ("Plan I") covering salaried employees who have attained the age of twenty-one and hourly employees who have completed one year of service and have attained the age of twenty-one. Plan I allows eligible employees to contribute, subject to Internal Revenue Service 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. The Company matches in cash at a rate of 25% of the first 5% a salaried employee contributes. Hourly employees do not receive matching contributions. Employee contributions vest immediately while Company contributions vest 25% annually beginning in the participant's second year of eligibility. In fiscal 2004, 2003, and 2002, the Company contributed approximately \$797,000, \$889,000, and \$828,000, respectively.

The Company sponsors a non-qualified defined contribution retirement plan ("Plan II") covering highly compensated employees, as defined in the plan. Plan II allows eligible employees to defer receipt of up to 50% of their base compensation and 100% of their eligible bonuses, as defined in the plan. The Company matches in cash at a rate of 25% of the first 5% of contributions. Employee contributions vest immediately while Company contributions vest 25% annually beginning in the participant's second year of eligibility. In fiscal 2004, 2003, and 2002, the Company contributed approximately \$799,000, \$724,000, and \$657,000, respectively. At the inception of Plan II, the Company established a Rabbi Trust to fund Plan II obligations. The market value of the trust assets is included in other assets and the liability to Plan II participants is included in other liabilities.

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Income taxes, net of refunds	\$40,677	\$7,553	\$48,801
Interest, net of amounts capitalized	3,977	3,215	8,229

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Retirement of fully depreciated assets	\$14,235	\$164,509	\$10,487
Net (decrease)increase in fair value of interest rate swaps	(15,523)	15,063	5,953
Restricted common stock issued, net of forfeitures	2,374	4,490	2,435

15. RELATED PARTY TRANSACTIONS

The Company entered into a note agreement with Rockfish Partnership in December 2002. During fiscal 2004, the note was amended and restated, increasing the amount available under the note to \$6.8 million, extending the maturity date to December 2005, and increasing the interest rate to the prime rate plus 1.5% (5.5% at June 30, 2004). The note requires quarterly interest payments until maturity.

At June 30, 2004, the Company's note receivable from Rockfish Partnership totaled \$6.8 million.

In fiscal 2002, the Company recorded an approximate \$8.7 million charge to reduce its notes receivable from Eatzi's Corporation ("Eatzi's") to their net realizable value of \$11.0 million. In November 2002, the Company completed the divestiture of Eatzi's and received an \$11.0 million cash payment and a \$4.0 million promissory note. The promissory note is unsecured and payable only upon the closing of an initial public offering by Eatzi's. Due to the uncertainty of collecting the promissory note, the Company has established a reserve for the entire principal balance.

Notes receivable are included in other assets in the accompanying consolidated balance sheets.

16. CONTINGENCIES

In January 1996, the Company entered into a Tip Reporting Alternative Commitment agreement (the "Contract") with the Internal Revenue Service (the "IRS"). The Contract required the Company, among other things, to implement tip reporting educational programs for its hourly restaurant employees and to establish tip reporting procedures. The IRS has alleged that the Company did not meet the requirements of the Contract and has retroactively and unilaterally revoked it. As a result of the revocation, the IRS commenced an examination during fiscal 2004 of the Company's 2000 through 2002 calendar years, which involved interviews of current and former employees for the purpose of assessing employer-only Federal Insurance Contributions Act ("FICA") taxes on estimated unreported cash tips. In connection with this examination, the IRS has also alleged that some portion of these unreported tips should have been treated as service charges subject to employment taxes. On August 30, 2004, the IRS notified the Company that it intends to issue a notice and demand, on or after September 29, 2004, for the employer's share of FICA taxes on unreported tips. The Company believes that it has complied and continues to comply with all of the terms of the Contract and with the law pertaining to the employment tax treatment of service charges. The Company intends to vigorously contest the accuracy of any assessment that may be proposed with respect to either unreported tips or service charges and, in the case of tips, to assert that the Contract precludes the retroactive assessment of employer-only FICA taxes. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any, with respect to either issue.

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

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2004 and 2003 (in thousands, except per share amounts):

	Fiscal Year 2004			
	Quarters Ended			
	<u>Sept. 24</u>	<u>Dec. 24</u>	<u>March 24</u>	<u>June 30</u>
	(as restated)	(as restated)	(as restated)	(as restated)
Revenues	\$870,898	\$886,490	\$931,922	\$1,018,176
Income before provision for income taxes	\$ 64,709	\$ 63,945	\$ 11,674	\$ 92,698
Net income	\$ 43,873	\$ 43,359	\$ 6	\$ 63,680
Basic net income per share	\$ 0.45	\$ 0.45	\$ 0.00	\$ 0.67
Diluted net income per share	\$ 0.44	\$ 0.44	\$ 0.00	\$ 0.66
Basic weighted average shares outstanding	97,404	96,156	95,973	94,854
Diluted weighted average shares outstanding	99,367	97,731	98,007	96,806

	Fiscal Year 2004			
	Quarters Ended			
	<u>Sept. 24</u>	<u>Dec. 24</u>	<u>March 24</u>	<u>June 30</u>
	(as reported)	(as reported)	(as reported)	(as reported)
Revenues	\$870,898	\$886,490	\$931,922	\$1,018,176
Income before provision for income taxes	\$ 65,872	\$ 65,157	\$ 12,854	\$ 94,048
Net income	\$ 44,595	\$ 44,111	\$ 738	\$ 64,517
Basic net income per share	\$ 0.46	\$ 0.46	\$ 0.01	\$ 0.68
Diluted net income per share	\$ 0.45	\$ 0.45	\$ 0.01	\$ 0.67
Basic weighted average shares outstanding	97,404	96,156	95,973	94,854
Diluted weighted average shares outstanding	99,367	97,731	98,007	96,806

Fiscal Year 2003				
Quarters Ended				
	<u>Sept. 25</u>	<u>Dec. 25</u>	<u>March 26</u>	<u>June 25</u>
	(as restated)	(as restated)	(as restated)	(as restated)
Revenues	\$773,892	\$794,510	\$840,776	\$876,216
Income before provision for income taxes	\$ 66,861	\$ 54,800	\$ 68,236	\$ 59,803
Net income	\$ 44,430	\$ 36,593	\$ 45,552	\$ 39,625
Basic net income per share	\$ 0.46	\$ 0.38	\$ 0.47	\$ 0.41
Diluted net income per share	\$ 0.45	\$ 0.37	\$ 0.46	\$ 0.40
Basic weighted average shares outstanding	97,177	96,784	97,025	97,405
Diluted weighted average shares outstanding	99,235	98,848	98,901	99,579

Fiscal Year 2003				
Quarters Ended				
	<u>Sept. 25</u>	<u>Dec. 25</u>	<u>March 26</u>	<u>June 25</u>
	(as reported)	(as reported)	(as reported)	(as reported)
Revenues	\$773,892	\$794,510	\$840,776	\$876,216
Income before provision for income taxes	\$ 67,777	\$ 55,809	\$ 69,205	\$ 60,796
Net income	\$ 45,004	\$ 37,225	\$ 46,160	\$ 40,247
Basic net income per share	\$ 0.46	\$ 0.38	\$ 0.48	\$ 0.41
Diluted net income per share	\$ 0.45	\$ 0.38	\$ 0.47	\$ 0.40
Basic weighted average shares outstanding	97,177	96,784	97,025	97,405
Diluted weighted average shares outstanding	99,235	98,848	98,901	99,579

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 as of June 30, 2004 and June 25, 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 30, 2004. 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 30, 2004 and June 25, 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its consolidated financial statements for each of the years in the three year period ended June 30, 2004.

KPMG LLP

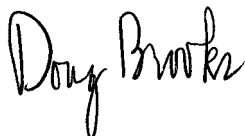
Dallas, Texas
August 5, 2004, except for Note 16,
as to which the date is as of August 30, 2004
and Note 2 as to which the date is as of December 22, 2004

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based upon our estimate and judgments, as required. The consolidated financial statements have been audited and reported on by our independent auditors, 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.

The Company maintains a system of internal controls over financial reporting designed to provide reasonable assurance of the reliability of the consolidated financial statements. The Company's 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 30, 2004 provide reasonable assurance that the consolidated financial statements are reliable.



DOUGLAS H. BROOKS
President and Chief Executive Officer



CHARLES M. SONSTEBY
Executive Vice President and Chief Financial Officer



Brinker International, Inc. • 6820 LBJ Freeway • Dallas, Texas 75240