

BRINKER INTERNATIONAL INC  
 Form 10-Q  
 February 01, 2016  
 UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
 SECURITIES EXCHANGE ACT OF 1934  
 For the Quarterly Period Ended December 23, 2015  
 Commission File Number 1-10275

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

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

|  |            |
|--|------------|
| 6820 LBJ FREEWAY, DALLAS, TEXAS                      | 75240      |
| (Address of principal executive offices)             | (Zip Code) |
| (972) 980-9917                                       |            |
| (Registrant's telephone number, including area code) |            |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
 Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

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

|                                |                          |
|--------------------------------|--------------------------|
| Class                          | Outstanding at 1/25/2016 |
| Common Stock, \$0.10 par value | 57,106,559 shares        |

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## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## BRINKER INTERNATIONAL, INC.

## Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

|  | December 23,<br>2015 | June 24,<br>2015 |
|--|----------------------|------------------|
| <b>ASSETS</b>  |                      |                  |
| Current Assets:  |                      |                  |
| Cash and cash equivalents  | \$71,288             | \$55,121         |
| Accounts receivable, net   | 87,706               | 46,588           |
| Inventories  | 25,868               | 23,035           |
| Restaurant supplies  | 44,468               | 43,968           |
| Prepaid expenses   | 23,611               | 18,512           |
| Deferred income taxes  | 997                  | 2,493            |
| Total current assets   | 253,938              | 189,717          |
| Property and Equipment, at Cost:   |                      |                  |
| Land   | 147,576              | 147,763          |
| Buildings and leasehold improvements   | 1,622,146            | 1,546,957        |
| Furniture and equipment  | 649,169              | 618,084          |
| Construction-in-progress   | 13,356               | 15,001           |
|  | 2,432,247            | 2,327,805        |
| Less accumulated depreciation and amortization   | (1,361,015 )         | (1,295,761 )     |
| Net property and equipment   | 1,071,232            | 1,032,044        |
| Other Assets:  |                      |                  |
| Goodwill   | 160,208              | 132,381          |
| Deferred income taxes  | 28,808               | 30,644           |
| Intangibles, net   | 31,214               | 16,642           |
| Other  | 34,484               | 34,445           |
| Total other assets   | 254,714              | 214,112          |
| Total assets   | \$1,579,884          | \$1,435,873      |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>   |                      |                  |
| Current Liabilities:   |                      |                  |
| Current installments of long-term debt   | \$3,605              | \$3,439          |
| Accounts payable   | 82,941               | 92,947           |
| Gift card liability  | 166,035              | 114,726          |
| Accrued payroll  | 73,443               | 82,915           |
| Other accrued liabilities  | 121,997              | 111,197          |
| Income taxes payable   | 989                  | 13,251           |
| Total current liabilities  | 449,010              | 418,475          |
| Long-term debt, less current installments  | 1,156,493            | 970,825          |
| Other liabilities  | 139,313              | 125,033          |
| Commitments and Contingencies (Note 10)  |                      |                  |
| Shareholders' Deficit:   |                      |                  |
| Common stock—250,000,000 authorized shares; \$0.10 par value; 176,246,649 shares issued and 58,255,713 shares outstanding at December 23, 2015, and 176,246,649 shares issued and 60,585,608 shares outstanding at June 24, 2015 | 17,625               | 17,625           |
| Additional paid-in capital   | 488,229              | 490,111          |

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|  |             |              |   |
|--|-------------|--------------|---|
| Accumulated other comprehensive loss   | (11,895     | ) (8,630     | ) |
| Retained earnings  | 2,474,441   | 2,431,683    |   |
|  | 2,968,400   | 2,930,789    |   |
| Less treasury stock, at cost (117,990,936 shares at December 23, 2015 and 115,661,041 shares at June 24, 2015) | (3,133,332  | ) (3,009,249 | ) |
| Total shareholders' deficit  | (164,932    | ) (78,460    | ) |
| Total liabilities and shareholders' deficit  | \$1,579,884 | \$1,435,873  |   |
| See accompanying notes to consolidated financial statements.   |             |              |   |

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## BRINKER INTERNATIONAL, INC.

## Consolidated Statements of Comprehensive Income

(In thousands, except per share amounts)

(Unaudited)

|   | Thirteen Week Periods<br>Ended |                      | Twenty-Six Week Periods<br>Ended |                      |
|---|--------------------------------|----------------------|----------------------------------|----------------------|
|   | December 23,<br>2015           | December 24,<br>2014 | December 23,<br>2015             | December 24,<br>2014 |
| Revenues:   |                                |                      |                                  |                      |
| Company sales   | \$765,672                      | \$ 717,768           | \$1,506,153                      | \$ 1,404,632         |
| Franchise and other revenues                                  | 22,938                         | 25,130               | 45,016                           | 49,284               |
| Total revenues  | 788,610                        | 742,898              | 1,551,169                        | 1,453,916            |
| Operating costs and expenses:                                 |                                |                      |                                  |                      |
| Company restaurants (excluding depreciation and amortization) |                                |                      |                                  |                      |
| Cost of sales   | 203,799                        | 193,762              | 400,402                          | 378,547              |
| Restaurant labor  | 247,596                        | 227,733              | 494,173                          | 455,009              |
| Restaurant expenses   | 190,660                        | 178,898              | 379,833                          | 354,436              |
| Company restaurant expenses                                   | 642,055                        | 600,393              | 1,274,408                        | 1,187,992            |
| Depreciation and amortization                                 | 39,114                         | 36,072               | 78,285                           | 71,614               |
| General and administrative                                    | 31,909                         | 32,660               | 65,020                           | 65,294               |
| Other gains and charges                                       | (87                            | ) 8,291              | 1,590                            | 9,224                |
| Total operating costs and expenses                            | 712,991                        | 677,416              | 1,419,303                        | 1,334,124            |
| Operating income  | 75,619                         | 65,482               | 131,866                          | 119,792              |
| Interest expense  | 7,907                          | 7,349                | 15,674                           | 14,348               |
| Other, net  | (560                           | ) (611               | ) (833                           | ) (1,114             |
| Income before provision for income taxes                      | 68,272                         | 58,744               | 117,025                          | 106,558              |
| Provision for income taxes                                    | 20,578                         | 17,438               | 36,124                           | 32,514               |
| Net income  | \$47,694                       | \$ 41,306            | \$80,901                         | \$ 74,044            |
| Basic net income per share                                    | \$0.81                         | \$ 0.65              | \$1.35                           | \$ 1.15              |
| Diluted net income per share                                  | \$0.80                         | \$ 0.64              | \$1.34                           | \$ 1.13              |
| Basic weighted average shares outstanding                     | 59,198                         | 63,590               | 59,712                           | 64,129               |
| Diluted weighted average shares outstanding                   | 59,899                         | 64,963               | 60,553                           | 65,613               |
| Other comprehensive loss:                                     |                                |                      |                                  |                      |
| Foreign currency translation adjustment                       | \$(460                         | ) \$(3,529           | ) \$(3,265                       | ) \$(4,336           |
| Other comprehensive loss                                      | (460                           | ) (3,529             | ) (3,265                         | ) (4,336             |
| Comprehensive income  | \$47,234                       | \$ 37,777            | \$77,636                         | \$ 69,708            |
| Dividends per share   | \$0.32                         | \$ 0.28              | \$0.64                           | \$ 0.56              |

See accompanying notes to consolidated financial statements.

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

|   | Twenty-Six Week Periods<br>Ended |                      |
|---|----------------------------------|----------------------|
|   | December 23,<br>2015             | December 24,<br>2014 |
| Cash Flows from Operating Activities:   |                                  |                      |
| Net income  | \$80,901                         | \$74,044             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |                      |
| Depreciation and amortization   | 78,285                           | 71,614               |
| Stock-based compensation  | 7,522                            | 6,992                |
| Deferred income taxes   | 16,305                           | (3,969)              |
| Restructure charges and other impairments   | 1,229                            | 8,326                |
| Net (gain) loss on disposal of assets   | (274)                            | ) 2,974              |
| Undistributed earnings on equity investments                                      | (213)                            | ) (188)              |
| Other   | 149                              | 418                  |
| Changes in assets and liabilities:  |                                  |                      |
| Accounts receivable   | (41,551)                         | ) (49,665)           |
| Inventories   | (720)                            | ) (1,564)            |
| Prepaid expenses and other  | (4,760)                          | ) 2,495              |
| Intangibles and other assets  | (724)                            | ) (2,018)            |
| Accounts payable  | (11,899)                         | ) (12,107)           |
| Accrued liabilities   | 39,367                           | 60,569               |
| Current income taxes  | (13,254)                         | ) (2,286)            |
| Other liabilities   | 5,202                            | 6,830                |
| Net cash provided by operating activities   | 155,565                          | 162,465              |
| Cash Flows from Investing Activities:   |                                  |                      |
| Payments for property and equipment   | (52,199)                         | ) (79,481)           |
| Payment for business acquisition, net of cash acquired                            | (105,577)                        | ) 0                  |
| Proceeds from sale of assets  | 2,756                            | 1,950                |
| Net cash used in investing activities   | (155,020)                        | ) (77,531)           |
| Cash Flows from Financing Activities:   |                                  |                      |
| Borrowings on revolving credit facility   | 207,500                          | 83,000               |
| Purchases of treasury stock   | (140,089)                        | ) (112,789)          |
| Payments of dividends   | (37,363)                         | ) (35,409)           |
| Payments on revolving credit facility   | (20,000)                         | ) 0                  |
| Excess tax benefits from stock-based compensation                                 | 4,907                            | 10,351               |
| Proceeds from issuances of treasury stock   | 1,691                            | 3,975                |
| Payments on long-term debt  | (1,024)                          | ) (13,338)           |
| Net cash provided by (used in) financing activities                               | 15,622                           | (64,210)             |
| Net change in cash and cash equivalents   | 16,167                           | 20,724               |
| Cash and cash equivalents at beginning of period                                  | 55,121                           | 57,685               |
| Cash and cash equivalents at end of period  | \$71,288                         | \$78,409             |

See accompanying notes to consolidated financial statements.



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BRINKER INTERNATIONAL, INC.

Notes to Consolidated Financial Statements  
(Unaudited)

1. BASIS OF PRESENTATION

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

Our consolidated financial statements as of December 23, 2015 and June 24, 2015 and for the thirteen and twenty-six week periods ended December 23, 2015 and December 24, 2014 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). We are principally engaged in the ownership, operation, development, and franchising of the Chili’s Grill & Bar (“Chili’s”) and Maggiano’s Little Italy (“Maggiano’s”) restaurant brands. At December 23, 2015, we owned, operated or franchised 1,646 restaurants in the United States and 30 countries and two territories outside of the United States.

The foreign currency translation adjustment included in comprehensive income on the consolidated statements of comprehensive income represents the unrealized impact of translating the financial statements of the Canadian restaurants and the Mexican joint venture from their respective functional currencies to U.S. dollars. This amount is not included in net income and would only be realized upon disposition of the businesses. The accumulated other comprehensive loss is presented on the consolidated balance sheets. We reinvest foreign earnings, therefore, United States deferred income taxes have not been provided on foreign earnings.

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

The information furnished herein reflects all adjustments (consisting only of normal recurring accruals and adjustments) which are, in our opinion, necessary to fairly state the interim operating results for the respective periods. However, these operating results are not necessarily indicative of the results expected for the full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to SEC rules and regulations. The notes to the consolidated financial statements (unaudited) should be read in conjunction with the notes to the consolidated financial statements contained in the June 24, 2015 Form 10-K. We believe the disclosures are sufficient for interim financial reporting purposes.

2. ACQUISITION OF CHILI'S RESTAURANTS

On June 25, 2015, we completed the stock acquisition of Pepper Dining Holding Corp. (“Pepper Dining”), a franchisee of 103 Chili's Grill & Bar restaurants primarily located in the Northeast and Southeast United States. The purchase price of \$106.5 million, excluding cash and customary working capital adjustments of \$0.9 million, was funded with borrowings from our existing credit facility. The results of operations of these restaurants are included in our consolidated financial statements from the date of acquisition. The assets and liabilities of the restaurants were recorded at their preliminary respective fair values as of the date of acquisition. We are in the process of finalizing the fair value of the acquired assets and liabilities through internal studies and third-party valuations. This process is substantially complete and we do not expect any material adjustments to the fair values recorded.

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The preliminary allocation of the purchase price is as follows (in thousands):

|   |           |
|---|-----------|
| Current assets including cash and cash equivalents <sup>(1)</sup> | \$6,331   |
| Current deferred income taxes                                     | 2,050     |
| Property and equipment  | 70,576    |
| Goodwill  | 28,543    |
| Reacquired franchise rights <sup>(2)</sup>                        | 10,400    |
| Deferred income taxes   | 10,928    |
| Favorable leases  | 5,496     |
| Total assets acquired   | 134,324   |
| Current liabilities   | 18,065    |
| Unfavorable leases  | 8,846     |
| Total liabilities assumed   | 26,911    |
| Net assets acquired <sup>(1)</sup>                                | \$107,413 |

<sup>(1)</sup> The net assets acquired includes cash and cash equivalents of \$1.8 million.

<sup>(2)</sup> The reacquired franchise rights have an amortization period of 12 years.

We expect \$12.8 million of the goodwill balance to be deductible for tax purposes. The portion of the purchase price attributable to goodwill represents the benefits expected as a result of the acquisition, including sales and unit growth opportunities. The acquired restaurants generated approximately \$62.2 million and \$124.0 million of revenue for the thirteen and twenty-six week periods ended December 23, 2015 and are expected to generate approximately \$2.5 million of average annual revenue per restaurant in fiscal 2016, partially offset by the loss of average annual royalty revenues of approximately \$104,000 per restaurant. Pro-forma financial information of the combined entities is not presented due to the immaterial impact of the financial results of the acquired restaurants on our consolidated financial statements.

### 3. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the reporting periods. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted earnings per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted share awards determined using the treasury stock method. We had approximately 682,000 stock options and restricted share awards outstanding at December 23, 2015 and 235,000 stock options and restricted share awards outstanding at December 24, 2014 that were not included in the dilutive earnings per share calculation because the effect would have been anti-dilutive.

Basic weighted average shares outstanding is reconciled to diluted weighted average shares outstanding as follows (in thousands):

|   | Thirteen Week Periods |                   | Twenty-Six Week Periods |                   |
|---|-----------------------|-------------------|-------------------------|-------------------|
|   | Ended                 |                   | Ended                   |                   |
|   | December 23, 2015     | December 24, 2014 | December 23, 2015       | December 24, 2014 |
| Basic weighted average shares outstanding   | 59,198                | 63,590            | 59,712                  | 64,129            |
| Dilutive stock options                      | 314                   | 673               | 356                     | 663               |
| Dilutive restricted shares                  | 387                   | 700               | 485                     | 821               |
|   | 701                   | 1,373             | 841                     | 1,484             |
| Diluted weighted average shares outstanding | 59,899                | 64,963            | 60,553                  | 65,613            |

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## 4. LONG-TERM DEBT

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

|                           | December 23,<br>2015 | June 24,<br>2015 |
|---------------------------|----------------------|------------------|
| Revolving credit facility | \$571,250            | \$383,750        |
| 3.88% notes               | 299,781              | 299,766          |
| 2.60% notes               | 249,917              | 249,899          |
| Capital lease obligations | 39,150               | 40,849           |
|                           | 1,160,098            | 974,264          |
| Less current installments | (3,605               | ) (3,439         |
|                           | \$1,156,493          | \$970,825        |

During the first six months of fiscal 2016, \$207.5 million was drawn from the \$750 million revolving credit facility primarily to fund the acquisition of Pepper Dining and share repurchases. We repaid \$20.0 million in the second quarter.

The maturity date of the \$750 million revolving credit facility is March 12, 2020. The revolving credit facility bears interest of LIBOR plus an applicable margin, which is a function of our credit rating and debt to cash flow ratio, but is subject to a maximum of LIBOR plus 2.00%. Based on our current credit rating, we are paying interest at a rate of LIBOR plus 1.38%. One month LIBOR at December 23, 2015 was approximately 0.42%. As of December 23, 2015, \$178.8 million of credit is available under the revolving credit facility.

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

## 5. OTHER GAINS AND CHARGES

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

|  | Thirteen Week Periods Ended |                      | Twenty-Six Week Periods Ended |                      |
|--|-----------------------------|----------------------|-------------------------------|----------------------|
|  | December 23,<br>2015        | December 24,<br>2014 | December 23,<br>2015          | December 24,<br>2014 |
| Litigation                             | \$(2,032                    | ) \$5,800            | \$(2,032                      | ) \$5,800            |
| Restaurant impairment charges          | 468                         | 747                  | 525                           | 747                  |
| Severance                              | 209                         | 0                    | 2,368                         | 0                    |
| Acquisition costs                      | 0                           | 0                    | 580                           | 0                    |
| Loss (Gain) on the sale of assets, net | 0                           | 1,069                | (1,762                        | ) 1,093              |
| Restaurant closure charges             | 0                           | 509                  | 0                             | 1,381                |
| Impairment of liquor licenses          | 0                           | 175                  | 0                             | 175                  |
| Other                                  | 1,268                       | (9                   | ) 1,911                       | 28                   |
|  | \$(87                       | ) \$8,291            | \$1,590                       | \$9,224              |

We were a plaintiff in a class action lawsuit against US Foods styled as In re U.S. Foodservice, Inc. Pricing Litigation. A settlement agreement was fully executed by all parties in September 2015 and we received approximately \$2.0 million during the second quarter of fiscal 2016 in settlement of this litigation. Additionally, we incurred expenses of \$1.2 million to reserve for royalties, rents and other outstanding amounts related to a bankrupt franchisee. We also recorded impairment charges of \$0.5 million primarily related to a capital lease asset that is subleased to a franchisee and an undeveloped parcel of land that we own for the excess of the carrying amounts over the fair values. See note 7 for fair value disclosures.

During the first quarter of fiscal 2016, we incurred \$2.2 million in severance and other benefits related to organizational changes made during the quarter. Additionally, we recorded \$0.6 million of transaction costs related to the acquisition of Pepper Dining and a \$1.8 million gain on the sale of property.

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In the second quarter of fiscal 2015, the class action lawsuit styled as Hohnbaum, et al. v. Brinker Restaurant Corp., et al. was finalized resulting in an additional charge of approximately \$5.8 million to adjust our previous estimate of the final settlement amount. Additionally, we recorded restaurant impairment charges of \$0.7 million related to underperforming restaurants that either continue to operate or are scheduled to close and \$0.2 million for the excess of the carrying amount of a transferable liquor license over the fair value. We also recorded a \$1.1 million charge primarily related to the sale of two company owned restaurants located in Mexico and restaurant closure charges of \$0.5 million primarily related to lease termination charges.

**6. ACCRUED AND OTHER LIABILITIES**

Other accrued liabilities consist of the following (in thousands):

|              | December 23,<br>2015 | June 24,<br>2015 |
|--------------|----------------------|------------------|
| Sales tax    | \$22,990             | \$20,308         |
| Insurance    | 24,431               | 22,658           |
| Property tax | 17,096               | 14,224           |
| Dividends    | 18,719               | 16,961           |
| Other        | 38,761               | 37,046           |
|              | \$121,997            | \$111,197        |

Other liabilities consist of the following (in thousands):

|                           | December 23,<br>2015 | June 24,<br>2015 |
|---------------------------|----------------------|------------------|
| Straight-line rent        | \$58,521             | \$56,345         |
| Insurance                 | 35,809               | 30,988           |
| Landlord contributions    | 25,192               | 24,785           |
| Unfavorable leases        | 7,197                | 663              |
| Unrecognized tax benefits | 5,008                | 5,144            |
| Other                     | 7,586                | 7,108            |
|                           | \$139,313            | \$125,033        |

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7. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In determining fair value, the accounting standards establish a three level hierarchy for inputs used in measuring fair value, as follows:

Level 1 – inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 – inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities.

Level 3 – inputs are unobservable and reflect our own assumptions.

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

We review the carrying amounts of property and equipment and transferable liquor licenses semi-annually or when events or circumstances indicate that the carrying amount may not be recoverable. If the carrying amount is not recoverable, we record an impairment charge for the excess of the carrying amount over the fair value.

We determine the fair value of property and equipment based on discounted projected future cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model. Based on our semi-annual review, during the first six months of fiscal 2016, long-lived assets with a carrying value of \$106,000, primarily related to underperforming restaurants previously impaired, were determined to have no fair value resulting in an impairment charge of \$106,000. During fiscal 2015, long-lived assets with a carrying value of \$747,000, primarily related to two underperforming restaurants, were determined to have no fair value resulting in an impairment charge of \$747,000.

We determine the fair value of transferable liquor licenses based on prices in the open market for licenses in the same or similar jurisdictions. Based on our semi-annual review, during the second quarter of fiscal 2016, we determined there was no impairment. During fiscal 2015, one transferable liquor license with a carrying value of \$225,000 was written down to the fair value of \$50,000 resulting in an impairment charge of \$175,000.

We review the carrying amounts of goodwill and reacquired franchise rights annually or when events or circumstances indicate that the carrying amount may not be recoverable. If the carrying amount is not recoverable, we record an impairment charge for the excess of the carrying amount over the fair value. We determined that there was no impairment of goodwill during our annual test in the second quarter of fiscal 2016 and fiscal 2015 as the fair value of our reporting units was substantially in excess of the carrying value. We also determined that there was no impairment of reacquired franchise rights during our annual test in the second quarter of fiscal 2016 and fiscal 2015. No indicators of impairment were identified through the end of the second quarter of fiscal 2016.

During the second quarter of fiscal 2016, we recorded an impairment charge of \$187,000 related to a parcel of undeveloped land that we own. The land had a carrying value of \$937,000 and was written down to the fair value of \$750,000. The fair value was based on the sales price of comparable properties. Additionally, we recorded an impairment charge of \$231,000 related to a capital lease asset that is subleased to a franchise. The capital lease asset had a carrying value of \$338,000 and was written down to the fair value of \$107,000. The fair value of the capital lease asset is based on discounted projected future cash flows from the sublease.

All impairment charges were included in other gains and charges in the consolidated statements of comprehensive income for the periods presented.

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The following table presents fair values for those assets measured at fair value on a non-recurring basis at December 23, 2015 and December 24, 2014 (in thousands):

|                                 | Fair Value Measurements Using |           |           | Total |
|---------------------------------|-------------------------------|-----------|-----------|-------|
|                                 | (Level 1)                     | (Level 2) | (Level 3) |       |
| Long-lived assets held for use: |                               |           |           |       |
| At December 23, 2015            | \$0                           | \$0       | \$0       | \$0   |
| At December 24, 2014            | \$0                           | \$0       | \$0       | \$0   |
| Liquor licenses:                |                               |           |           |       |
| At December 23, 2015            | \$0                           | \$0       | \$0       | \$0   |
| At December 24, 2014            | \$0                           | \$50      | \$0       | \$50  |
| Other long-lived assets:        |                               |           |           |       |
| At December 23, 2015            | \$0                           | \$750     | \$107     | \$857 |
| At December 24, 2014            | \$0                           | \$0       | \$0       | \$0   |

## (b) Other Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts because of the short maturity of these items. The carrying amount of debt outstanding related to the revolving credit facility approximates fair value as the interest rate on this instrument approximates current market rates (Level 2). The fair values of the 2.60% notes and 3.88% notes are based on quoted market prices and are considered Level 2 fair value measurements.

The carrying amounts and fair values of the 2.60% notes and 3.88% notes are as follows (in thousands):

|             | December 23, 2015 |            | June 24, 2015   |            |
|-------------|-------------------|------------|-----------------|------------|
|             | Carrying Amount   | Fair Value | Carrying Amount | Fair Value |
| 2.60% Notes | \$249,917         | \$249,173  | \$249,899       | \$250,583  |
| 3.88% Notes | \$299,781         | \$289,443  | \$299,766       | \$290,706  |

## 8. SHAREHOLDERS' DEFICIT

In August 2015, our Board of Directors authorized a \$250.0 million increase to our existing share repurchase program resulting in total authorizations of \$4,185.0 million. We repurchased approximately 2.8 million shares of our common stock for \$140.1 million during the first two quarters of fiscal 2016, including shares purchased as part of our share repurchase program and shares repurchased to satisfy team member tax withholding obligations on the vesting of restricted shares. As of December 23, 2015, approximately \$477.6 million was available under our share repurchase authorizations. Our stock repurchase plan has been and will be used to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. We evaluate potential share repurchases under our plan based on several factors, including our cash position, share price, operational liquidity, proceeds from divestitures, borrowings, and planned investment and financing needs. Repurchased common stock is reflected as an increase in treasury stock within shareholders' deficit.

During the first two quarters of fiscal 2016, we granted approximately 279,000 stock options with a weighted average exercise price per share of \$54.11 and a weighted average fair value per share of \$11.18, and approximately 269,000 restricted share awards with a weighted average fair value per share of \$49.83. Additionally, during the first two quarters of fiscal 2016, approximately 65,000 stock options were exercised resulting in cash proceeds of approximately \$1.7 million. We received an excess tax benefit from stock-based compensation of approximately \$4.9 million during the first two quarters primarily as a result of the vesting and distribution of restricted stock grants and performance shares and stock option exercises. The excess tax benefit from stock-based compensation represents the

additional income tax benefit received resulting from the increase in the fair value of awards from the time of grant to the exercise date.

During the first two quarters of fiscal 2016, we paid dividends of \$37.4 million to common stock shareholders, compared to \$35.4 million in the prior year. Additionally, our Board of Directors approved a 14% increase in the quarterly dividend from

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\$0.28 to \$0.32 per share effective with the dividend declared in August 2015. We also declared a quarterly dividend of \$18.7 million in October 2015 which was paid on December 24, 2015. The dividend accrual was included in other accrued liabilities on our consolidated balance sheet as of December 23, 2015.

**9. SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for income taxes and interest in the first two quarters of fiscal 2016 and 2015 are as follows (in thousands):

|                                      | December 23,<br>2015 | December 24,<br>2014 |
|--------------------------------------|----------------------|----------------------|
| Income taxes, net of refunds         | \$26,966             | \$26,643             |
| Interest, net of amounts capitalized | 13,828               | 13,002               |

Non-cash investing and financing activities for the first two quarters of fiscal 2016 and 2015 are as follows (in thousands):

|  | December 23,<br>2015 | December 24,<br>2014 |
|--|----------------------|----------------------|
| Retirement of fully depreciated assets | \$9,901              | \$25,029             |
| Dividends declared but not paid        | 18,912               | 18,403               |
| Accrued capital expenditures           | 1,283                | 1,745                |

**10. CONTINGENCIES**

In connection with the sale of restaurants to franchisees and brand divestitures, we have, in certain cases, guaranteed lease payments. As of December 23, 2015 and June 24, 2015, we have outstanding lease guarantees or are secondarily liable for \$77.7 million and \$98.9 million, respectively. These amounts represent the maximum potential liability of future payments under the guarantees. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from fiscal 2016 through fiscal 2025. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of December 23, 2015. Our secondary liability position was reduced by approximately \$19.0 million in the first quarter of fiscal 2016 related to the Pepper Dining acquisition. See Note 2 for additional disclosures related to the acquisition.

We provide letters of credit to various insurers to collateralize obligations for outstanding claims. As of December 23, 2015, we had \$25.2 million in undrawn standby letters of credit outstanding. All standby letters of credit are renewable annually.

Evaluating contingencies related to litigation is a complex process involving subjective judgment on the potential outcome of future events and the ultimate resolution of litigated claims may differ from our current analysis. Accordingly, we review the adequacy of accruals and disclosures pertaining to litigated matters each quarter in consultation with legal counsel, and we assess the probability and range of possible losses associated with contingencies for potential accrual in the consolidated financial statements.

We are engaged in various legal proceedings and have certain unresolved claims pending. Reserves have been established based on our best estimates of our potential liability in certain of these matters. Based upon consultation with legal counsel, Management is of the opinion that there are no matters pending or threatened which are expected to have a material adverse effect, individually or in the aggregate, on our consolidated financial condition or results of operations.

**11. SUBSEQUENT EVENTS**

Subsequent to the end of the quarter, an additional \$20.0 million was borrowed from the revolver for general corporate purposes, including share repurchases. Additionally, we repurchased approximately 1.9 million shares for \$91.0 million.



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12. EFFECT OF NEW ACCOUNTING STANDARDS

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). This update requires that entities with a classified balance sheet present all deferred tax assets and liabilities as noncurrent. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early adoption is permitted for financial statements that have not been previously issued. This update can be applied on either a prospective or retrospective basis. We do not expect the adoption of this update to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update requires that debt issuance costs be presented in the balance sheet as a direct deduction from the associated debt liability. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2015, which will require us to adopt these provisions in the first quarter of fiscal 2017. Early adoption is permitted for financial statements that have not been previously issued. This update will be applied on a retrospective basis. We do not expect the adoption of this update to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance to customers about whether a cloud computing arrangement includes a software license and the related accounting treatment. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2015, which will require us to adopt these provisions in the first quarter of fiscal 2017. Early adoption is permitted for financial statements that have not been previously issued. This update may be applied prospectively for all arrangements entered into or materially modified after the effective date or on a retrospective basis. We do not expect the adoption of this update to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU 2015-14 delaying the effective date of adoption. This update is now effective for annual and interim periods for fiscal years beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2019. Early application in fiscal 2018 is permitted. This update permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect this update will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of this update on our ongoing financial reporting.

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

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

|   | Thirteen Week Periods Ended |                      | Twenty-Six Week Periods Ended |                      |    |
|---|-----------------------------|----------------------|-------------------------------|----------------------|----|
|   | December 23,<br>2015        | December 24,<br>2014 | December<br>23,<br>2015       | December 24,<br>2014 |    |
| Revenues:   |                             |                      |                               |                      |    |
| Company sales   | 97.1                        | % 96.6               | % 97.1                        | % 96.6               | %  |
| Franchise and other revenues                                  | 2.9                         | % 3.4                | % 2.9                         | % 3.4                | %  |
| Total revenues  | 100.0                       | % 100.0              | % 100.0                       | % 100.0              | %  |
| Operating costs and expenses:                                 |                             |                      |                               |                      |    |
| Company restaurants (excluding depreciation and amortization) |                             |                      |                               |                      |    |
| Cost of sales <sup>(1)</sup>                                  | 26.6                        | % 27.0               | % 26.6                        | % 27.0               | %  |
| Restaurant labor <sup>(1)</sup>                               | 32.4                        | % 31.7               | % 32.8                        | % 32.4               | %  |
| Restaurant expenses <sup>(1)</sup>                            | 24.9                        | % 24.9               | % 25.2                        | % 25.2               | %  |
| Company restaurant expenses <sup>(1)</sup>                    | 83.9                        | % 83.6               | % 84.6                        | % 84.6               | %  |
| Depreciation and amortization                                 | 5.0                         | % 4.9                | % 5.0                         | % 4.9                | %  |
| General and administrative                                    | 4.0                         | % 4.4                | % 4.2                         | % 4.5                | %  |
| Other gains and charges                                       | 0.0                         | % 1.1                | % 0.1                         | % 0.6                | %  |
| Total operating costs and expenses                            | 90.4                        | % 91.2               | % 91.5                        | % 91.8               | %  |
| Operating income  | 9.6                         | % 8.8                | % 8.5                         | % 8.2                | %  |
| Interest expense  | 1.0                         | % 1.0                | % 1.0                         | % 1.0                | %  |
| Other, net  | (0.1)                       | )% (0.1)             | )% —                          | % (0.1)              | )% |
| Income before provision for income taxes                      | 8.7                         | % 7.9                | % 7.5                         | % 7.3                | %  |
| Provision for income taxes                                    | 2.7                         | % 2.3                | % 2.3                         | % 2.2                | %  |
| Net income  | 6.0                         | % 5.6                | % 5.2                         | % 5.1                | %  |

<sup>(1)</sup> As a percentage of company sales.

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The following table details the number of restaurant openings during the second quarter, total restaurants open at the end of the second quarter, and total projected openings in fiscal 2016:

|                                 | Second Quarter<br>Openings |                | Year-to-Date<br>Openings |                | Total Open at End<br>Of Second Quarter |                | Projected<br>Openings |
|---------------------------------|----------------------------|----------------|--------------------------|----------------|--|----------------|-----------------------|
|                                 | Fiscal<br>2016             | Fiscal<br>2015 | Fiscal<br>2016           | Fiscal<br>2015 | Fiscal<br>2016                         | Fiscal<br>2015 | Fiscal<br>2016        |
| Company-owned restaurants:      |                            |                |                          |                |  |                |                       |
| Chili's domestic <sup>(1)</sup> | 4                          | 3              | 8                        | 4              | 935                                    | 826            | 11-13                 |
| Chili's international           | 0                          | 1              | 0                        | 1              | 13                                     | 13             | 0                     |
| Maggiano's                      | 2                          | 1              | 2                        | 3              | 51                                     | 49             | 2                     |
| Total company-owned             | 6                          | 5              | 10                       | 8              | 999                                    | 888            | 13-15                 |
| Franchise restaurants:          |                            |                |                          |                |  |                |                       |
| Chili's domestic <sup>(1)</sup> | 2                          | 1              | 3                        | 4              | 326                                    | 440            | 8-10                  |
| Chili's international           | 11                         | 9              | 17                       | 15             | 321                                    | 306            | 25-30                 |
| Total franchise                 | 13                         | 10             | 20                       | 19             | 647                                    | 746            | 33-40                 |
| Total restaurants:              |                            |                |                          |                |  |                |                       |
| Chili's domestic                | 6                          | 4              | 11                       | 8              | 1,261                                  | 1,266          | 19-23                 |
| Chili's international           | 11                         | 10             | 17                       | 16             | 334                                    | 319            | 25-30                 |
| Maggiano's                      | 2                          | 1              | 2                        | 3              | 51                                     | 49             | 2                     |
| Grand total                     | 19                         | 15             | 30                       | 27             | 1,646                                  | 1,634          | 46-55                 |

Chili's domestic company-owned restaurants total open at the end of the second quarter of fiscal 2016 includes an <sup>(1)</sup> increase of 103 Chili's restaurants acquired from a franchisee with a corresponding decrease to Chili's domestic franchise restaurants.

At December 23, 2015, we owned the land and buildings for 191 of the 999 company-owned restaurants. The net book values of the land and buildings associated with these restaurants totaled approximately \$141.7 million and \$110.7 million, respectively.

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GENERAL

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Brinker International, Inc., our operations, and our current operating environment. For an understanding of the significant factors that influenced our performance during the quarters ended December 23, 2015 and December 24, 2014, the MD&A should be read in conjunction with the consolidated financial statements and related notes included in this quarterly report.

OVERVIEW

We are principally engaged in the ownership, operation, development, and franchising of the Chili's Grill & Bar ("Chili's") and Maggiano's Little Italy ("Maggiano's") restaurant brands. At December 23, 2015, we owned, operated, or franchised 1,646 restaurants.

We are committed to strategies and initiatives that are centered on long-term sales and profit growth, enhancing the guest experience and team member engagement. These strategies are intended to differentiate our brands from the competition, reduce the costs associated with managing our restaurants and establish a strong presence for our brands in key markets around the world.

Growing sales and traffic continues to be a challenge with increasing competition and heavy discounting in the casual dining industry along with recent economic pressures in certain oil producing states. U.S. economic growth has been steady but wage growth has been slow. This wage pressure has challenged both restaurant operators and consumers as discretionary income available for restaurant visits has been limited. In response to these economic factors, we have developed both short and long-term strategies that we believe are appropriate for all operating conditions and will provide a solid foundation for earnings growth going forward.

We have completed a number of significant initiatives in recent years that have helped us drive profitable sales and traffic growth and to improve the guest experience in our restaurants. Investments in restaurant reimages, new kitchen equipment and operations software have improved the relevance of our brands and the efficiency of our restaurants. We believe that these initiatives have positively impacted the customer perception of our restaurants in both the dining room and bar areas and provide us with a great foundation for continued success.

We have also differentiated the Chili's brand by leveraging technology initiatives to create a digital guest experience that we believe will help us engage our guests more effectively and drive traffic. All domestic Chili's restaurants with the exception of airport and college locations are now outfitted with tabletop devices which gives us the largest network of tabletop devices in the country. Our Ziosk branded tabletop device is a multi-functional device which provides entertainment, ordering, guest survey, pay-at-the-table capabilities and loyalty program functionality. We also plan to leverage our tabletop devices to enable our recently announced partnership with Plenti, a consumer rewards program including a coalition of major national brands. We believe the integration of the My Chili's Rewards program into Plenti will allow us to drive sales and profits. We are also investing in a new online ordering system that expands our current capabilities and gives our guests greater control of their experience. We plan to launch the Plenti and online ordering platforms late this fiscal year or early in fiscal 2017. We have also launched No Wait, a new application which allows our hosts to provide more accurate wait times when a guest arrives during peak shifts and to send them a text when their table is ready. Guests can also add themselves to the wait list via the Chili's mobile app which we believe will reduce restaurant wait times. The application also enables our hosts to optimize available seating to increase the efficiency of our restaurants.

We continually evaluate our menu at Chili's to improve quality, freshness and value by introducing new items and improving existing favorites. Our Fresh Mex platform introduced last year has been successful and includes Fresh Mex Bowls, Mix and Match Fajitas, and Tableside Guacamole. We leveraged this success by launching our new Top-Shelf Taco category including Pork Carnitas, Ranchero Chicken and Prime Rib tacos. Our recently launched Texas themed Fresh Tex platform features ribs, steaks and burgers, and our traditional burger menu now features Craft Burgers with fresh potato buns and house made garlic pickles. We also have a strong focus on innovation with our lunch business and are planning to enhance the daypart by offering new price points and a quicker pace. We continually seek opportunities to reinforce value and create interest for the brand with new and varied offerings to further enhance sales and drive incremental traffic. We are committed to offering a compelling everyday menu that provides items our customers prefer at a solid value.

Improvements at Chili's will have the most significant impact on the business; however, our results will also benefit through additional contributions from Maggiano's and our global business. Maggiano's opened two restaurants this year based on the new prototype, which excludes banquet space. This new prototype allows the brand to enter new markets for which the existing model was not suited. Maggiano's is committed to delivering high quality food and a dining experience in line with our brand heritage. We will continue to strengthen the brand's business model with kitchen efficiency and inventory controls that we believe will continue to enhance profitability.

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We capitalized on an opportunity to further expand our domestic business by acquiring a franchisee which owned 103 Chili's restaurants primarily located in the Northeast and Southeast United States. We believe this acquisition fits well within our capital allocation strategy and will enable us to grow our sales and profits in fiscal 2016. Our global Chili's business continues to grow with locations in 31 countries and two U.S. territories. Our international franchisees are on track to open 25-30 new restaurants this year.

**REVENUES**

Total revenues for the second quarter of fiscal 2016 increased to \$788.6 million, a 6.2% increase from the \$742.9 million generated for the same quarter of fiscal 2015 driven by a 6.7% increase in company sales. Total revenues for the twenty-six week period ended December 23, 2015 were \$1,551.2 million, a 6.7% increase from the \$1,453.9 million generated for the same period in fiscal 2015 driven by a 7.2% increase in company sales. The increase in company sales for the second quarter and year-to-date periods was driven by an increase in restaurant capacity resulting from the acquisition of Pepper Dining, partially offset by negative comparable restaurant sales (see table below).

|   | Thirteen Week Period Ended December 23, 2015 |                |           |         |          |       |      |     |   |
|---|--|----------------|-----------|---------|----------|-------|------|-----|---|
|   | Comparable Sales                             | Price Increase | Mix Shift | Traffic | Capacity |       |      |     |   |
| Company-owned Chili's <sup>(1)</sup>        | (2.6)  | )%             | 1.2       | % 0.1   | % (3.9)  | )%    | 12.4 | %   |   |
| Maggiano's Chili's Franchise <sup>(2)</sup> | (2.8)  | )%             | 0.8       | % 0.4   | % (4.0)  | )%    | 13.0 | %   |   |
| U.S. International                          | (1.8)  | )%             | 2.3       | % (1.2) | )%       | (2.9) | )%   | 2.1 | % |
| Chili's Domestic <sup>(3)</sup>             | 0.9  | %              |           |         |          |       |      |     |   |
| System-wide <sup>(4)</sup>                  | (0.1)  | )%             |           |         |          |       |      |     |   |
|   | 2.6  | %              |           |         |          |       |      |     |   |
|   | (2.1)  | )%             |           |         |          |       |      |     |   |
|   | (1.6)  | )%             |           |         |          |       |      |     |   |

|   | Thirteen Week Period Ended December 24, 2014 |                |           |                        |          |   |  |   |  |
|---|--|----------------|-----------|------------------------|----------|---|--|---|--|
|   | Comparable Sales                             | Price Increase | Mix Shift | Traffic <sup>(5)</sup> | Capacity |   |  |   |  |
| Company-owned Chili's                       | 3.7  | % 1.8          | % 0.2     | % 1.7                  | % 0.8    | % |  | % |  |
| Maggiano's Chili's Franchise <sup>(2)</sup> | 4.0  | % 1.7          | % 0.6     | % 1.7                  | % 0.4    | % |  | % |  |
| U.S. International                          | 2.3  | % 2.4          | % (1.6)   | )% 1.5                 | % 8.7    | % |  | % |  |
| Chili's Domestic <sup>(3)</sup>             | 3.2  | %              |           |                        |          |   |  |   |  |
| System-wide <sup>(4)</sup>                  | 4.9  | %              |           |                        |          |   |  |   |  |
|   | (0.5)  | )%             |           |                        |          |   |  |   |  |
|   | 4.2  | %              |           |                        |          |   |  |   |  |
|   | 3.5  | %              |           |                        |          |   |  |   |  |

|   | Twenty-Six Week Period Ended December 23, 2015 |                |           |         |          |       |    |      |   |
|---|--|----------------|-----------|---------|----------|-------|----|------|---|
|   | Comparable Sales                               | Price Increase | Mix Shift | Traffic | Capacity |       |    |      |   |
| Company-owned Chili's <sup>(1)</sup>        | (2.1)  | )%             | 1.2       | % (0.4) | )%       | (2.9) | )% | 12.3 | % |
| Maggiano's Chili's Franchise <sup>(2)</sup> | (2.2)  | )%             | 1.0       | % (0.4) | )%       | (2.8) | )% | 12.8 | % |
| U.S. International                          | (1.7)  | )%             | 2.6       | % (1.1) | )%       | (3.2) | )% | 3.0  | % |
| Chili's Domestic <sup>(3)</sup>             | 1.5  | %              |           |         |          |       |    |      |   |
| System-wide <sup>(4)</sup>                  | 0.3  | %              |           |         |          |       |    |      |   |
|   | 3.7  | %              |           |         |          |       |    |      |   |
|   | (1.6)  | )%             |           |         |          |       |    |      |   |
|   | (1.1)  | )%             |           |         |          |       |    |      |   |



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|                       | Twenty-Six Week Period Ended December 24, 2014 |                |               |             |          |  |  |   |
|-----------------------|--|----------------|---------------|-------------|----------|--|--|---|
|                       | Comparable Sales                               | Price Increase | Mix Shift (5) | Traffic (5) | Capacity |  |  |   |
| Company-owned         | 3.0  | % 2.0          | % 0.1         | % 0.9       | % 0.7    |  |  | % |
| Chili's               | 3.3  | % 2.0          | % 0.6         | % 0.7       | % 0.4    |  |  | % |
| Maggiano's            | 1.6  | % 2.0          | % (1.5)       | )% 1.1      | % 7.9    |  |  | % |
| Chili's Franchise (2) | 2.1  | %              |               |             |          |  |  |   |
| U.S.                  | 3.3  | %              |               |             |          |  |  |   |
| International         | (0.6   | )%             |               |             |          |  |  |   |
| Chili's Domestic (3)  | 3.3  | %              |               |             |          |  |  |   |
| System-wide (4)       | 2.7  | %              |               |             |          |  |  |   |

(1) Chili's company-owned comparable restaurant sales includes 103 Chili's restaurants acquired from a franchisee in the first quarter of fiscal 2016.

Revenues generated by franchisees are not included in revenues on the consolidated statements of comprehensive income; however, we generate royalty revenue and advertising fees based on franchise sales, where applicable. We believe including franchise comparable restaurant sales provides investors information regarding brand performance that is relevant to current operations and may impact future restaurant development.

(2) Domestic comparable restaurant sales percentages are derived from sales generated by company-owned and franchise operated Chili's restaurants in the United States.

(3) System-wide comparable restaurant sales are derived from sales generated by company-owned Chili's and Maggiano's restaurants in addition to the sales generated at franchise operated restaurants.

(4) Reclassifications have been made between pricing impact, mix-shift and traffic in the prior year periods to conform with current year classification.

Chili's company sales increased 8.1% to \$651.0 million in the second quarter of fiscal 2016 from \$602.0 million in the same quarter of fiscal 2015. For the year-to-date period, Chili's company sales increased 8.5% to \$1,304.1 million in fiscal 2016 from \$1,202.0 million in fiscal 2015. The increases were primarily driven by higher restaurant capacity, partially offset by decreases in comparable restaurant sales. Chili's company-owned restaurant capacity increased 13.0% and 12.8% for the second quarter and year-to-date periods of fiscal 2016, respectively, (as measured by sales weeks) compared to the prior year periods due to the acquisition of 103 Chili's restaurants on June 25, 2015 from a franchisee and to six net restaurant openings since the second quarter of fiscal 2015. Comparable restaurant sales decreased 2.8% and 2.2% for the second quarter and year-to-date periods of fiscal 2016, respectively.

Maggiano's company sales decreased 0.9% to \$114.7 million in the second quarter of fiscal 2016 from \$115.8 million in the same quarter of fiscal 2015. For the year-to-date period, Maggiano's company sales decreased 0.2% to \$202.1 million in fiscal 2016 from \$202.6 million in fiscal 2015. The decreases were primarily driven by declines in comparable restaurant sales, partially offset by increased restaurant capacity. Maggiano's capacity increased 2.1% and 3.0% for the second quarter and year-to-date periods of fiscal 2016, respectively, (as measured by sales weeks) compared to the prior year periods due to two restaurant openings since the second quarter of fiscal 2015. Comparable restaurant sales decreased 1.8% and 1.7% for the second quarter and year-to-date periods of fiscal 2016, respectively. Franchise and other revenues decreased 8.8% to \$22.9 million in the second quarter of fiscal 2016 compared to \$25.1 million in the prior year. For the year-to-date period, franchise and other revenues decreased 8.7% to \$45.0 million in fiscal 2016 from \$49.3 million in fiscal 2015. The decreases were driven primarily by a decline in royalty revenues resulting from the acquisition of 103 Chili's restaurants from a former franchisee. Our franchisees generated approximately \$338 million and \$667 million in sales for the second quarter and year-to-date periods of fiscal 2016, respectively.

**COSTS AND EXPENSES**

Cost of sales, as a percent of company sales, decreased to 26.6% for the second quarter and year-to-date period of fiscal 2016 from 27.0% for the respective prior year periods. Cost of sales, as a percent of company sales, was

positively impacted by favorable menu pricing and commodity pricing related to burger meat, cheese, seafood, and avocados, partially offset by unfavorable menu item mix and commodity pricing primarily related to steak and chicken.

Restaurant labor, as a percent of company sales, increased to 32.4% for the second quarter and 32.8% for the year-to-date period of fiscal 2016 from 31.7% and 32.4% for the respective prior year periods primarily due to increased wage rates, partially offset by lower incentive bonus and productivity initiatives.

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Restaurant expenses, as a percent of company sales, remained flat at 24.9% for the second quarter and flat at 25.2% for the year-to-date period of fiscal 2016 compared to the respective prior year periods primarily due to higher repairs and maintenance and rent expenses offset by lower advertising, workers' compensation insurance expenses and operations supervision expenses.

Depreciation and amortization expense increased \$3.0 million for the second quarter and \$6.7 million for the year-to-date period primarily due to depreciation on acquired restaurants, asset replacements, new restaurant openings and previous investments in the Chili's reimage program, partially offset by an increase in fully depreciated assets.

General and administrative expense decreased approximately \$0.8 million for the second quarter and \$0.3 million for the year-to-date period of fiscal 2016 compared to the respective prior year periods primarily due to lower performance-based compensation, partially offset by the termination of accounting and information technology support fees received from Pepper Dining subsequent to the acquisition.

In the second quarter of fiscal 2016, other gains and charges totaled to a net gain of \$87,000. We were a plaintiff in a class action lawsuit against US Foods styled as *In re U.S. Foodservice, Inc. Pricing Litigation*. A settlement agreement was fully executed by all parties in September 2015 and we received approximately \$2.0 million during the second quarter of fiscal 2016 in settlement of this litigation. Additionally, we incurred expenses of \$1.2 million to reserve for royalties, rents and other outstanding amounts related to a bankrupt franchisee. We also recorded impairment charges of \$0.5 million primarily related to a capital lease asset that is subleased to a franchisee and an undeveloped parcel of land that we own for the excess of the carrying amounts over the fair values. In the first quarter of fiscal 2016, other gains and charges were \$1.7 million consisting primarily of severance charges and acquisition costs, partially offset by a gain on the sale of property.

In the second quarter of fiscal 2015, other gains and charges were \$8.3 million. The class action lawsuit styled as *Hohnbaum, et al. v. Brinker Restaurant Corp., et al.* was finalized resulting in an additional charge of approximately \$5.8 million to adjust our previous estimate of the final settlement amount. Additionally, we recorded restaurant impairment charges of \$0.7 million related to underperforming restaurants that either continue to operate or are scheduled to close and \$0.2 million for the excess of the carrying amount of a transferable liquor license over the fair value. We also recorded a \$1.1 million charge primarily related to the sale of two company owned restaurants located in Mexico and restaurant closure charges of \$0.5 million primarily related to lease termination charges. Restaurant closure charges for the first six months of 2015 were \$1.4 million and consisted primarily of lease termination charges.

Interest expense increased approximately \$0.6 million for the second quarter and \$1.3 million for the year-to-date period of fiscal 2016 compared to the respective prior year periods primarily due to higher borrowing balances, partially offset by lower interest rates.

### INCOME TAXES

The effective income tax rate increased to 30.1% and 30.9% for the second quarter and year-to-date periods of fiscal 2016 compared to 29.7% and 30.5% in the prior year comparable periods primarily due to increased earnings, partially offset by an increase in the FICA Tip Credit and the positive impact of the resolution of certain tax positions.

### LIQUIDITY AND CAPITAL RESOURCES

#### Cash Flows

#### Cash Flow from Operating Activities

During the first six months of fiscal 2016, net cash flow provided by operating activities was \$155.6 million compared to \$162.5 million in the prior year. The decrease was driven by changes in working capital during the first six months of fiscal 2016 primarily related to the settlement of liabilities assumed as part of the acquisition of Pepper Dining, the timing of tax payments, the pay-out of long-term incentive compensation and lower net gift card activity. The decrease was partially offset by the timing of operational payments as well as higher earnings in the current year.



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## Cash Flow used in Investing Activities

|  | Twenty-Six Week Periods<br>Ended |                      |
|--|----------------------------------|----------------------|
|  | December 23,<br>2015             | December 24,<br>2014 |
| Net cash used in investing activities (in thousands):  |                                  |                      |
| Payment for business acquisition, net of cash acquired | \$(105,577                       | ) \$0                |
| Payments for property and equipment                    | (52,199                          | ) (79,481            |
| Proceeds from sale of assets                           | 2,756                            | 1,950                |
|  | \$(155,020                       | ) \$(77,531          |

On June 25, 2015, we completed the acquisition of Pepper Dining, a franchisee of 103 Chili's Grill & Bar restaurants, for \$105.6 million.

Capital expenditures decreased to approximately \$52.2 million for the first six months of fiscal 2016 compared to \$79.5 million for the prior year primarily due to decreased spending on the Chili's reimage program in fiscal 2016 compared to the prior year, partially offset by increased normal asset replacement and new restaurant construction for Chili's. The reimage program was substantially completed in fiscal 2015; however, we began reimaging the restaurants acquired from Pepper Dining in fiscal 2016.

## Cash Flow Provided by (Used in) Financing Activities

|   | Twenty-Six Week Periods<br>Ended |                      |
|---|----------------------------------|----------------------|
|   | December 23,<br>2015             | December 24,<br>2014 |
| Net cash provided by (used in) financing activities (in thousands): |                                  |                      |
| Borrowings on revolving credit facility                             | \$207,500                        | \$83,000             |
| Purchases of treasury stock   | (140,089                         | ) (112,789           |
| Payments of dividends   | (37,363                          | ) (35,409            |
| Payments on revolving credit facility                               | (20,000                          | ) 0                  |
| Excess tax benefits from stock-based compensation                   | 4,907                            | 10,351               |
| Proceeds from issuances of treasury stock                           | 1,691                            | 3,975                |
| Payments on long-term debt  | (1,024                           | ) (13,338            |
|   | \$15,622                         | \$(64,210            |

Net cash provided by financing activities for the first six months of fiscal 2016 increased to \$15.6 million from net cash used in financing activities of \$64.2 million in the prior year primarily due to increased borrowings on the revolving credit facility and a decrease in payments on long-term debt, partially offset by increases in spending on share repurchases, payments on the revolving credit facility and decreases in excess tax benefits from stock-based compensation.

During the first six months of fiscal 2016, \$207.5 million was drawn from the \$750 million revolving credit facility primarily to fund the acquisition of Pepper Dining and share repurchases. We repaid \$20.0 million in the second quarter. Subsequent to the end of the quarter, an additional \$20.0 million was borrowed from the \$750 million revolving credit facility for general corporate purposes, including share repurchases.

The maturity date of the \$750 million revolving credit facility is March 2020. The revolving credit facility bears interest of LIBOR plus an applicable margin, which is a function of our credit rating and debt to cash flow ratio, but is subject to a maximum of LIBOR plus 2.00%. Based on our current credit rating, we are paying interest at a rate of LIBOR plus 1.38%. One month LIBOR at December 23, 2015 was approximately 0.42%. As of December 23, 2015, \$178.8 million of credit is available under the revolving credit facility. As of December 23, 2015, we were in compliance with all financial debt covenants.

As of December 23, 2015, our credit rating by both Standard and Poor's ("S&P") and Fitch Ratings ("Fitch") was BBB- (investment grade) with a stable outlook. On August 25, 2015, Moody's upgraded our senior unsecured notes from Ba2 (non-investment grade) to Baa3 (investment grade) with a stable outlook. In addition, Moody's withdrew our Ba1 (non-investment grade) corporate family rating. Our goal is to retain our investment grade rating from S&P, Fitch and Moody's.

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We repurchased approximately 2.8 million shares of our common stock for \$140.1 million in the first six months of fiscal 2016 including shares purchased as part of our share repurchase program and shares repurchased to satisfy team member tax withholding obligations on the vesting of restricted shares. Subsequent to the end of the quarter, we repurchased approximately 1.9 million shares for \$91.0 million.

We paid dividends of \$37.4 million to common stock shareholders in the first two quarters of fiscal 2016 compared to \$35.4 million in dividends paid in the same period of fiscal 2015. Additionally, our Board of Directors approved a 14% increase in the quarterly dividend from \$0.28 to \$0.32 per share effective with the dividend declared in August 2015. We also declared a quarterly dividend of \$18.7 million in October 2015 which was paid on December 24, 2015. We will continue to target a 40 percent dividend payout ratio to provide additional return to shareholders through dividend payments.

In August 2015, our Board of Directors authorized a \$250.0 million increase to our existing share repurchase program. As of December 23, 2015, approximately \$477.6 million was available under our share repurchase authorizations. Our stock repurchase plan has been and will be used to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. Repurchased common stock is reflected as an increase in treasury stock within shareholders' deficit.

During the first six months of fiscal 2016, approximately 65,000 stock options were exercised resulting in cash proceeds of \$1.7 million. We received an excess tax benefit from stock-based compensation of \$4.9 million during the first six months primarily as a result of the normally scheduled vesting and distribution of restricted stock grants and performance shares and stock option exercises. The excess tax benefit from stock-based compensation represents the additional income tax benefit received resulting from the increase in the fair value of awards from the time of grant to the exercise date.

### Cash Flow Outlook

We believe that our various sources of capital, including future cash flow from operating activities and availability under our existing credit facility are adequate to finance operations and the repayment of current debt obligations for the foreseeable future. We are not aware of any other event or trend that would potentially affect our liquidity. In the event such a trend develops, we believe that there are sufficient funds available under our credit facility and from our internal cash generating capabilities to adequately manage our ongoing business. We periodically evaluate ways to monetize the value of our owned real estate and should alternatives become available that are more cost effective than our financing options currently available, we will consider execution of those alternatives.

### RECENT ACCOUNTING PRONOUNCEMENTS

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). This update requires that entities with a classified balance sheet present all deferred tax assets and liabilities as noncurrent. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early adoption is permitted for financial statements that have not been previously issued. This update can be applied on either a prospective or retrospective basis. We do not expect the adoption of this update to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update requires that debt issuance costs be presented in the balance sheet as a direct deduction from the associated debt liability. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2015, which will require us to adopt these provisions in the first quarter of fiscal 2017. Early adoption is permitted for financial statements that have not been previously issued. This update will be applied on a retrospective basis. We do not expect the adoption of this update to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance to customers about whether a cloud computing arrangement includes a software license and the related accounting treatment. This update is effective for annual and interim periods for fiscal

years beginning after December 15, 2015, which will require us to adopt these provisions in the first quarter of fiscal 2017. Early adoption is permitted for financial statements that have not been previously issued. This update may be applied prospectively for all arrangements entered into or materially modified after the effective date or on a retrospective basis. We do not expect the adoption of this update to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services.

This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU 2015-14 delaying the effective date of adoption. This update is now effective for annual and interim periods beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2019. Early application in fiscal 2018 is permitted. This update permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect this update will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of this update on our ongoing financial reporting.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

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

There were no changes in our internal control over financial reporting during our second quarter ended December 23, 2015, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

We wish to caution you that our business and operations are subject to a number of risks and uncertainties. We have identified certain factors in Part I, Item IA "Risk Factors" in our Annual Report on Form 10-K for the year ended June 24, 2015 and below in Part II, Item 1A "Risk Factors" in this report on Form 10-Q, that could cause actual results to differ materially from our historical results and from those projected in forward-looking statements contained in this report, in our other filings with the SEC, in our news releases, written or electronic communications, and verbal statements by our representatives. We further caution that it is not possible to identify all such factors, and you should not consider the identified factors as a complete list of all risks and uncertainties.

You should be aware that forward-looking statements involve risks and uncertainties. These risks and uncertainties may cause our or our industry's actual results, performance or achievements to be materially different from any future results, performances or achievements contained in or implied by these forward-looking statements. Forward-looking statements are generally accompanied by words like "believes," "anticipates," "estimates," "predicts," "expects," and other similar expressions that convey uncertainty about future events or outcomes. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

The risks related to our business include:

- The effect of competition on our operations and financial results.
- The impact of the slow global economic growth on our business and financial results in fiscal 2016 and the material affect of a prolonged slow trend in growth on our future results.
- The risk inflation may increase our operating expenses.
- The effect of potential changes in governmental regulation on our ability to maintain our existing and future operations and to open new restaurants.
- Increased costs or reduced revenues from shortages or interruptions in the availability and delivery of food and other supplies.
- Increases in energy costs and the impact on our profitability.
- Our ability to consummate successful strategic transactions that are important to our future growth and profitability.
- Our inability to meet our business strategy plan and the impact on our profitability in the future.
- The impact of the current slow economic growth on our landlords or other tenants in retail centers in which we or our franchisees are located, which in turn could negatively affect our financial results.
- The success of our franchisees to our future growth.
- The general decrease in sales volumes during winter months.
- Unfavorable publicity relating to one or more of our restaurants in a particular brand that may taint public perception of the brand.
- Failure to respond to and effectively manage the accelerated impact of social media could adversely impact our business.
- Litigation could have a material adverse impact on our business and our financial performance.

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Dependence on information technology and any material failure in the operation or security of that technology or our ability to execute a comprehensive business continuity plan could impair our ability to efficiently operate our business.

Failure to protect the integrity and security of individually identifiable data of our guests and teammates could expose us to litigation and damage our reputation.

Failure to protect our service marks and intellectual property could harm our business.

Outsourcing of certain business processes to third-party vendors that subject us to risk, including disruptions in business and increased costs.

Continuing disruptions in the global financial markets on the availability and cost of credit and consumer spending patterns.

Declines in the market price of our common stock or changes in other circumstances that may indicate an impairment of goodwill possibly adversely affecting our financial position and results of operations.

Changes to estimates related to our property and equipment, intangible assets or operating results that are lower than our current estimates at certain restaurant locations, possibly causing us to incur impairment charges on certain long-lived assets.

Identification of a material weakness in internal control over financial reporting may adversely affect our stock price.

Other risk factors may adversely affect our financial performance, including pricing, consumer spending and consumer confidence, changes in economic conditions and financial and credit markets, credit availability, increased costs of food commodities, increased fuel costs and availability for our team members, customers and suppliers, increased health care costs, health epidemics or pandemics or the prospects of these events, consumer perceptions of food safety, changes in consumer tastes and behaviors, governmental monetary policies, changes in demographic trends, availability of employees, terrorist acts, energy shortages and rolling blackouts, and weather and other acts of God.

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## PART II. OTHER INFORMATION

## Item 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated by reference from Note 10 to our consolidated financial statements set forth in Part I of this report.

## Item 1A. RISK FACTORS

There has been no material change in the risk factors set forth in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended June 24, 2015.

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

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

Shares repurchased during the second quarter of fiscal 2016 are as follows (in thousands, except share and per share amounts):

|  | Total Number<br>of Shares<br>Purchased (a) | Average<br>Price<br>Paid per<br>Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Program | Approximate<br>Dollar Value<br>that May Yet<br>be Purchased<br>Under the<br>Program |
|--|--|---------------------------------------|--|---|
| September 24, 2015 through October 28, 2015    | 682,225                                    | \$49.86                               | 682,225  | \$532,522   |
| October 29, 2015 through November 25, 2015     | 975,294                                    | \$45.06                               | 975,294  | \$488,554   |
| November 26, 2015 through December 23,<br>2015 | 247,432                                    | \$44.62                               | 246,459  | \$477,554   |
|  | 1,904,951                                  | \$46.72                               | 1,903,978  |   |

(a) These amounts include shares purchased as part of our publicly announced programs and shares owned and tendered by team members to satisfy tax withholding obligations on the vesting of restricted share awards, which are not deducted from shares available to be purchased under publicly announced programs. Unless otherwise indicated, shares owned and tendered by team members to satisfy tax withholding obligations were purchased at the average of the high and low prices of the Company's shares on the date of vesting. During the second quarter of fiscal 2016, 973 shares were tendered by team members at an average price of \$45.82.

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Item 6. EXHIBITS

- 31(a) Certification by Wyman T. Roberts, Chief Executive Officer and President and President of Chili's Grill and Bar of the Registrant, pursuant to 17 CFR 240.13a – 14(a) or 17 CFR 240.15d – 14(a).
- 31(b) Certification by Thomas J. Edwards, Jr., Executive Vice President and Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a – 14(a) or 17 CFR 240.15d – 14(a).
- 32(a) Certification by Wyman T. Roberts, Chief Executive Officer and President and President of Chili's Grill and Bar of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32(b) Certification by Thomas J. Edwards, Jr., Executive Vice President and Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase

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SIGNATURES

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

BRINKER INTERNATIONAL, INC.

Date: February 1, 2016

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

Date: February 1, 2016

By: /s/ Thomas J. Edwards, Jr.  
Thomas J. Edwards, Jr.,  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)