

BRINKER INTERNATIONAL INC

Form 10-Q

October 31, 2008

[Table of Contents](#)

**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 September 24, 2008**

**Commission File Number 1-10275**

**BRINKER INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**75-1914582**  
(I.R.S. Employer  
Identification No.)

**6820 LBJ FREEWAY, DALLAS, TEXAS 75240**

(Address of principal executive offices)

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(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 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. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(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 October 29, 2008
Common Stock, \$0.10 par value	101,840,350 shares

Table of Contents

**BRINKER INTERNATIONAL, INC.**

**INDEX**



Part I -      Financial Information

**Item 1. Financial Statements**



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	<u>Consolidated Balance Sheets -</u>	3
	<u>September 24, 2008 (Unaudited) and June 25, 2008</u>	
	<u>Consolidated Statements of Income</u>	4
	<u>(Unaudited) Thirteen week periods ended</u>	
	<u>September 24, 2008 and September 26, 2007</u>	
	<u>Consolidated Statements of Cash Flows</u>	5
	<u>(Unaudited) Thirteen week periods ended</u>	
	<u>September 24, 2008 and September 26, 2007</u>	
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of</u>	9
	<u>Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures</u>	16
	<u>About Market Risk</u>	





**Item 4.**

**Controls and Procedures**

**16**



Part II - Other Information

**Item 1.**

**Legal Proceedings**

20



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<u>Item 1A.</u>	<u>Risk Factors</u>	20
<b><u>Item 2.</u></b>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<b>20</b>



**Item 6.**

**Exhibits**

**21**







Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****BRINKER INTERNATIONAL, INC.****Consolidated Balance Sheets****(In thousands, except share and per share amounts)**

	September 24, 2008 (Unaudited)	June 25, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 57,322	\$ 54,714
Accounts receivable	43,941	52,304
Inventories	32,505	35,377
Prepaid expenses and other	103,362	106,183
Deferred income taxes	69,962	71,595
Assets held for sale	138,256	135,850
Total current assets	445,348	456,023
Property and Equipment at Cost:		
Land	197,826	198,554
Buildings and leasehold improvements	1,597,882	1,571,601
Furniture and equipment	642,575	665,271
Construction-in-progress	18,847	35,104
	2,457,130	2,470,530
Less accumulated depreciation and amortization	(946,862)	(940,815)
Net property and equipment	1,510,268	1,529,715
Other Assets:		
Goodwill	139,831	140,371
Deferred income taxes	22,935	23,160
Other	43,618	43,853
Total other assets	206,384	207,384
Total assets	\$ 2,162,000	\$ 2,193,122
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Current installments of long-term debt	\$ 2,028	\$ 1,973
Accounts payable	136,415	168,619
Accrued liabilities	324,284	331,878
Income taxes payable	3,124	5,946
Liabilities associated with assets held for sale	19,502	18,408
Total current liabilities	485,353	526,824
Long-term debt, less current installments	894,095	901,604
Other liabilities	171,954	169,605

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Commitments and Contingencies (Note 7)

Shareholders' Equity:

Common stock	250,000,000 authorized shares; \$0.10 par value; 176,246,649 shares issued and 101,838,701 shares outstanding at September 24, 2008, and 176,246,649 shares issued and 101,316,461 shares outstanding at June 25, 2008	17,625	17,625
Additional paid-in capital		456,373	464,666
Accumulated other comprehensive loss		(769)	(168)
Retained earnings		1,812,885	1,800,300
		2,286,114	2,282,423
Less treasury stock, at cost (74,407,948 shares at September 24, 2008 and 74,930,188 shares at June 25, 2008)		(1,675,516)	(1,687,334)
Total shareholders' equity		610,598	595,089
Total liabilities and shareholders' equity		\$ 2,162,000	\$ 2,193,122

See accompanying notes to consolidated financial statements.

Table of Contents**BRINKER INTERNATIONAL, INC.****Consolidated Statements of Income****(In thousands, except per share amounts)****(Unaudited)**

	Thirteen Week Periods Ended			
	September 24,		September 26,	
	2008		2007	
Revenues	\$	984,407	\$	1,054,686
Operating Costs and Expenses:				
Cost of sales		278,967		291,738
Restaurant expenses		579,127		601,878
Depreciation and amortization		41,156		44,907
General and administrative		39,764		43,051
Other gains and charges		4,953		8,591
Total operating costs and expenses		943,967		990,165
Operating income		40,440		64,521
Interest expense		9,457		12,915
Other, net		(1,372)		(1,257)
Income before provision for income taxes		32,355		52,863
Provision for income taxes		8,574		15,263
Net income	\$	23,781	\$	37,600
Basic net income per share	\$	0.23	\$	0.35
Diluted net income per share	\$	0.23	\$	0.34
Basic weighted average shares outstanding		101,630		106,464
Diluted weighted average shares outstanding		102,762		109,155
Cash dividends per share	\$	0.11	\$	0.09

See accompanying notes to consolidated financial statements.



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

	<b>Thirteen Week Periods Ended</b>	
	<b>September 24, 2008</b>	<b>September 26, 2007</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 23,781	\$ 37,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,156	44,907
Restructure charges and other impairments	5,241	8,591
Stock-based compensation	5,088	2,593
Deferred income taxes	1,858	(5,799)
Changes in assets and liabilities, excluding effects of dispositions:		
Accounts receivable	8,363	7,856
Inventories	2,233	2,607
Prepaid expenses and other	2,942	3,394
Other assets	31	(1,118)
Accounts payable	(26,825)	1,650
Accrued liabilities	(10,368)	(11,061)
Income taxes payable	(2,970)	4,046
Other liabilities	2,851	(2,373)
Net cash provided by operating activities	53,381	92,893
<b>Cash Flows from Investing Activities:</b>		
Payments for property and equipment	(31,253)	(76,856)
Proceeds from sale of assets	934	
Increase in restricted cash	(121)	
Net cash used in investing activities	(30,440)	(76,856)
<b>Cash Flows from Financing Activities:</b>		
Net (payments) borrowings on credit facilities	(7,000)	126,500
Payments on long-term debt	(296)	(266)
Purchases of treasury stock	(3,625)	(140,489)
Proceeds from issuances of treasury stock	2,062	1,680
Payments of dividends	(11,701)	(9,509)
Excess tax benefits from stock-based compensation	227	167
Net cash used in financing activities	(20,333)	(21,917)
Net change in cash and cash equivalents	2,608	(5,880)
Cash and cash equivalents at beginning of period	54,714	84,823
Cash and cash equivalents at end of period	\$ 57,322	\$ 78,943

See accompanying notes to consolidated financial statements.



Table of Contents

**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 predecessor companies of Brinker International, Inc.

Our consolidated financial statements as of September 24, 2008 and June 25, 2008 and for the thirteen week periods ended September 24, 2008 and September 26, 2007 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 ), On The Border Mexican Grill & Cantina ( On The Border ), Maggiano's Little Italy ( Maggiano's ) and Romano's Macaroni Grill ( Macaroni Grill ) restaurant brands. In August 2008, we entered into an agreement with Mac Acquisition LLC, an affiliate of Golden Gate Capital, for the sale of a majority interest in Macaroni Grill. See Note 4 for additional disclosures.

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 25, 2008 Form 10-K. We believe the disclosures are sufficient for interim financial reporting purposes.

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.

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to fiscal 2009 presentation. These reclassifications have no effect on our net income or financial position as previously reported.

**2. EARNINGS PER SHARE**



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Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted share awards determined using the treasury stock method. We had approximately 7.6 million stock options and restricted share awards outstanding at September 24, 2008 and 1.1 million stock options and restricted share awards outstanding at September 26, 2007 that were not included in the dilutive earnings per share calculation because the effect would have been antidilutive.

Table of Contents

**3. OTHER GAINS AND CHARGES**

In the first quarter of fiscal 2009, we recorded \$5.0 million in charges including \$2.0 million in lease termination charges, a \$1.7 million charge related to uninsured hurricane damage and a \$1.3 million charge for expenses associated with the pending sale of Macaroni Grill.

In the first quarter of fiscal 2008, other gains and charges consists primarily of a \$9.2 million impairment charge to write-down the net assets of certain Macaroni Grill restaurants to their fair value less costs to sell to a franchisee.

**4. ASSETS HELD FOR SALE**

In August 2008, we entered into an agreement with Mac Acquisition LLC, an affiliate of Golden Gate Capital, for the sale of a majority interest in Macaroni Grill. Per terms of the agreement, we will receive proceeds of \$131.5 million in cash, of which \$6.0 million will be contributed to the new entity for a 19.9% continuing ownership interest in the brand. We will also provide corporate support services for the new entity for one year with an option for one additional year. In accordance with the reporting provisions of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, ( SFAS 144 ), we have classified the results of Macaroni Grill in continuing operations for fiscal 2009 and prior years as we will have significant continuing involvement in the operations of Macaroni Grill after the sale. The transaction is expected to close in the second quarter of fiscal 2009 subject to customary closing conditions. As of September 24, 2008, the assets to be sold totaled approximately \$136.4 million and consisted primarily of property and equipment of \$115.9 million. The associated liabilities totaled approximately \$18.8 million and consisted primarily of straight-line rent accruals of \$13.4 million.

**5. SHAREHOLDERS EQUITY**

The Board of Directors has authorized a total of \$2,060.0 million of share repurchases. As of September 24, 2008, approximately \$60 million was available under our share repurchase authorizations. We did not repurchase any common shares under our share repurchase plan during the first quarter of fiscal 2009. 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. In the future, we may consider additional share repurchases under our plan based on several factors, including our cash position, share price, operational liquidity, and planned investment and financing needs. During the first quarter of fiscal 2009, approximately 640,000 restricted share awards vested with a fair value of \$12.3 million. Approximately 190,000 of these shares were repurchased from employees upon vesting for \$3.6 million to satisfy minimum tax withholding obligations. Repurchased common stock is reflected as a reduction of shareholders equity. We paid dividends of \$11.7 million, or \$0.11 per share, to common stock shareholders in September 2008.

Table of Contents**6. SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for income taxes and interest for the first quarter of fiscal 2009 and 2008 are as follows (in thousands):

	<b>September 24, 2008</b>	<b>September 26, 2007</b>
Income taxes, net of refunds	\$ 9,340	\$ 15,479
Interest, net of amounts capitalized	5,152	10,487

Non-cash investing activities for the first quarter of fiscal 2009 and 2008 are as follows (in thousands):

	<b>September 24, 2008</b>	<b>September 26, 2007</b>
Retirement of fully depreciated assets	\$ 39,617	\$ 19,076

**7. CONTINGENCIES**

As of September 24, 2008, we guaranteed lease payments totaling \$154.5 million as a result of the sale of certain brands and the sale of restaurants to franchisees in previous periods. This amount represents the maximum potential liability of future payments under the guarantees. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from fiscal 2009 through fiscal 2023. We remain secondarily liable for the leases. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of September 24, 2008.

Certain current and former hourly restaurant employees filed a lawsuit against us in California Superior Court alleging violations of California labor laws with respect to meal and rest breaks. The lawsuit seeks penalties and attorney's fees and was certified as a class action in July 2006. On July 22, 2008, the California Court of Appeal decertified the class action on all claims with prejudice. On October 22, 2008 the California Supreme Court granted a writ to review the decision of the Court of Appeal. We intend to vigorously defend our position. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any.

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



Table of Contents**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 for the periods indicated. All information is derived from the accompanying consolidated statements of income.

	<b>Thirteen Week Periods Ended</b>	
	<b>September 24, 2008</b>	<b>September 26, 2007</b>
Revenues	100.0%	100.0%
Operating Costs and Expenses:		
Cost of sales	28.4%	27.7%
Restaurant expenses	58.8%	57.1%
Depreciation and amortization	4.2%	4.2%
General and administrative	4.0%	4.1%
Other gains and charges	0.5%	0.8%
Total operating costs and expenses	95.9%	93.9%
Operating income	4.1%	6.1%
Interest expense	0.9%	1.2%
Other, net	(0.1)%	(0.1)%
Income before provision for income taxes	3.3%	5.0%
Provision for income taxes	(0.9)%	(1.4)%
Net income	2.4%	3.6%

Table of Contents

The following table details the number of restaurant openings during the first quarter, total restaurants open at the end of the first quarter, and total projected openings in fiscal 2009.

	First Quarter Openings		Total Open at End Of First Quarter		Projected Openings Fiscal 2009
	Fiscal 2009	Fiscal 2008	Fiscal 2009	Fiscal 2008	
<b>Chili's:</b>					
Company-owned	7	13	894	930	9-10
Domestic Franchised	10	5	410	308	30-35
Total	17	18	1,304	1,238	39-45
<b>On The Border:</b>					
Company-owned		2	131	134	
Domestic Franchised	3	2	33	28	9-12
Total	3	4	164	162	9-12
<b>Maggiano's</b>					
			42	41	2
<b>Macaroni Grill:</b>					
Company-owned			192	216	
Domestic Franchised	1	1	20	14	3-4
Total	1	1	212	230	3-4
<b>International: (a)</b>					
Company-owned	1		7	5	2
Franchised	10	4	182	151	36-41
Total	11	4	189	156	38-43
<b>Grand Total</b>	<b>32</b>	<b>27</b>	<b>1,911</b>	<b>1,827</b>	<b>91-106</b>

(a) At the end of the first quarter of fiscal year 2009, international company-owned restaurants by brand included six Chili's and one Macaroni Grill. International franchise restaurants by brand included 164 Chili's, five On The Border's, and 13 Macaroni Grill's.

At September 24, 2008, we owned the land and buildings for 281 of the 1,266 company-owned restaurants. The net book values of the land and buildings associated with these restaurants totaled \$240.5 million and \$233.2 million, respectively.

Table of Contents

**GENERAL**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to help the reader understand Brinker International, our operations, and our current operating environment. For an understanding of the significant factors that influenced our performance during the quarters ended September 24, 2008 and September 26, 2007, 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 ), On The Border Mexican Grill & Cantina ( On The Border ), Maggiano's Little Italy ( Maggiano's ) and Romano's Macaroni Grill ( Macaroni Grill ) restaurant brands. At September 24, 2008, we owned, operated, or franchised 1,911 restaurants. In August 2008, we entered into an agreement with Mac Acquisition LLC, an affiliate of Golden Gate Capital, for the sale of a majority interest in Macaroni Grill. Per terms of the agreement, we will receive proceeds of \$131.5 million in cash, of which \$6.0 million will be contributed to the new entity for a 19.9% continuing ownership interest in the brand. We will also provide corporate support services for the new entity for one year with an option for one additional year. The transaction is expected to close in the second quarter of fiscal 2009 subject to customary closing conditions. Once the sale of the brand is complete, we will account for our interest in the ongoing operations through an equity method investment.

Our first quarter of fiscal 2009 proved to be even more challenging than anticipated with results reflecting disappointing sales and earnings. We continue to be negatively impacted by cost pressures for commodities, labor and utilities. Additionally, volatility in the financial markets and high fuel costs have caused consumers to be increasingly more conservative in their discretionary spending which has resulted in decreased traffic and lower average checks at our brands. This difficult operating environment highlights the need to be disciplined with our capital allocation and maintain the health of our balance sheet in order to provide a stable financial base to weather these uncertain times. As a result, we have reduced our planned capital expenditures by approximately \$40 million for fiscal 2009 and will continue to evaluate capital spending throughout the remainder of the year. Additionally, we will eliminate virtually all company-owned restaurant development in fiscal 2010.

Despite these challenging times, we are still committed to furthering the initiatives in our five areas of focus - hospitality; food and beverage excellence; restaurant atmosphere; pace and convenience; and international expansion. These strategic priorities are designed to build on the long-term health of the company and to grow our base business by engaging and delighting our guests, differentiating Brinker brands from the competition, reducing the costs associated with managing our restaurants and establishing a strong presence in key markets around the world. However, we will monitor the results closely as well as the current business environment in order to pace the implementation of our initiatives appropriately.

We strongly believe these five strategic priorities will strengthen our brands and allow us to emerge from these tough economic times in a better competitive position to deliver profitable growth over the long term for our shareholders. For example, with growing economic pressures in the United States, international expansion allows further diversification of our portfolio, enabling Brinker to build strength in a variety of markets and economic conditions. Our growth will be driven by cultivating relationships with equity investors, joint venture partners and franchisees. Our growing percentage of franchise operations both domestically and internationally enable us to improve margins as royalty payments flow through to the bottom line. Another top area of focus remains creating a culture of hospitality that will differentiate Brinker brands from all others in the industry. Through our investments in team member training and guest measurement programs, we are gaining traction in this area

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and providing guests a reason to make Brinker brands their preferred choice when dining out. We also believe that the unique and craveable food and beverages as well as the new flavors and offerings we continue to create at each of our brands, the warm, welcoming and revitalized atmospheres, and technologies and process improvements related to pace and convenience will give customers new reasons to dine with us more often.



Table of Contents

The casual dining industry is a highly competitive business which is sensitive to changes in economic conditions, trends in lifestyles and fluctuating costs. Our top priority remains increasing profitable traffic over time and we are encouraged by the progress and traction we have experienced with our five areas of focus. Despite a slower than expected start to fiscal 2009 and an uncertain outlook for the remainder of fiscal 2009, we remain confident in the financial health of our company, the long-term prospects of the industry as well as in our ability to perform effectively in an extremely competitive marketplace and a variety of economic environments.

**REVENUES**

Revenues for the first quarter of fiscal 2009 decreased to \$984.4 million, a 6.7% decrease from the \$1,054.7 million generated for the same quarter of fiscal 2008. The decrease in revenues was primarily attributable to a decrease in comparable restaurant sales as well as net declines in capacity at company-owned restaurants.

	<b>Thirteen Week Period Ended September 24, 2008</b>			
	<b>Comparable Sales</b>	<b>Price Increase</b>	<b>Mix Shift</b>	<b>Capacity</b>
Brinker International	(4.0)%	3.2%	(1.0)%	(4.1)%
Chili's	(3.0)%	3.3%	(0.8)%	(3.4)%
On The Border	(3.3)%	4.0%	(0.7)%	0.6%
Maggiano's	(3.3)%	2.4%	(2.3)%	2.4%
Macaroni Grill	(9.0)%	2.9%	(1.2)%	(11.2)%
	<b>Thirteen Week Period Ended September 26, 2007</b>			
	<b>Comparable Sales</b>	<b>Price Increase</b>	<b>Mix Shift</b>	<b>Capacity</b>
Brinker International	(0.9)%	2.0%	0.9%	1.7%
Chili's	0.7%	2.0%	1.5%	1.6%
On The Border	(5.3)%	1.2%	(0.9)%	7.7%
Maggiano's	0.5%	2.0%	(1.9)%	9.7%
Macaroni Grill	(4.8)%	2.1%	0.9%	(2.5)%

Comparable restaurant sales for the first quarter of fiscal 2009 decreased 4.0% compared to the same quarter of the prior year. The decrease in comparable restaurant sales resulted from a decline in customer traffic and unfavorable product mix shifts at all brands. These decreases were partially offset by an increase in menu prices at all brands.

Table of Contents

Our capacity decreased 4.1% for the first quarter of fiscal 2009 (as measured by average-weighted sales weeks) compared to the respective prior year period. The reduction in capacity is primarily due to the sale of 76 company-owned restaurants to a franchisee and 49 restaurant closures since the first quarter of fiscal 2008, partially offset by the development of new company-owned restaurants. Including the impact of restaurant sales to franchisees, we experienced a net decrease of 60 company-owned restaurants since September 26, 2007.

Royalty revenues from franchisees increased approximately 31% to \$16.6 million in the first quarter of fiscal 2009 compared to \$12.7 million in the prior year. The increase is primarily due to the net addition of 144 franchise restaurants since September 26, 2007. We recognized franchise and development fee revenue of approximately \$0.4 million for the first quarter of fiscal 2009 as compared to \$1.4 million in the prior year period.

**COSTS AND EXPENSES**

Cost of sales, as a percent of revenues, increased to 28.4% for the first quarter of fiscal 2009 from 27.7% in the prior year. Cost of sales was negatively impacted in the current year by unfavorable commodity prices, primarily beef, ribs, chicken, produce, oils and sauces. These increases were partially offset by favorable menu price changes.

Restaurant expenses, as a percent of revenues, increased to 58.8% for the first quarter of fiscal 2009 as compared to 57.1% in the same period of the prior year. The increase was primarily driven by sales deleverage on fixed costs, increased utility, repair and maintenance and labor costs, partially offset by lower pre-opening expenses since the same quarter of last year.

Depreciation and amortization decreased \$3.8 million for the first quarter of fiscal 2009 compared to the same quarter of the prior year primarily driven by the classification of Macaroni Grill assets as held for sale and restaurant closures. These decreases were partially offset by an increase in depreciation due to the addition of new restaurants and remodel investments.

General and administrative expenses decreased \$3.3 million, or 7.6%, for the first quarter of fiscal 2009 as compared to the same period of fiscal 2008. The decrease was primarily due to reduced salary and team member related expenses, including lower performance-based compensation expenses as compared to the prior year.

Other gains and charges in the first quarter of fiscal 2009 includes \$2.0 million of lease termination charges, a \$1.7 million charge for uninsured hurricane expenses and a \$1.3 million charge for expenses associated with the pending sale of Macaroni Grill. Other gains and charges in the first quarter of fiscal 2008 primarily includes a \$9.2 million impairment charge to write-down the net assets of certain Macaroni Grill restaurants to their fair value less costs to sell to a franchisee.

Interest expense was \$9.5 million for the first quarter of fiscal 2009 compared to \$12.9 million for the first quarter of the prior year. The decrease in interest expense is primarily due to lower interest rates and lower average borrowing balances in fiscal 2009.



Table of Contents

**INCOME TAXES**



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The effective income tax rate decreased to 26.5% for the first quarter of fiscal 2009 from 28.9% for the same period of the prior year. The decrease in the tax rate was primarily due to leverage from FICA tip credits and a decrease in required tax reserves.

### LIQUIDITY AND CAPITAL RESOURCES

Our primary source of liquidity is cash flows generated from our restaurant operations. We expect our ability to generate solid cash flows from operations to continue into the future. Net cash provided by operating activities for the first quarter of fiscal 2009 decreased to approximately \$53.4 million compared to \$92.9 million in the prior year primarily due to lower income (adjusted for non-cash items) driven by a reduction in revenues and incremental margin pressures as well as the timing of operational payments.

Capital expenditures consist of purchases of land for future restaurant sites, new restaurants under construction, purchases of new and replacement restaurant furniture and equipment, investments in information technology infrastructure and ongoing reimage programs. Capital expenditures were \$31.3 million for the first quarter of fiscal 2009 compared to \$76.9 million for the same period of fiscal 2008. The reduction in capital expenditures is primarily due to a decrease in company-owned restaurants developed in the first quarter of fiscal 2009 compared to the same period of prior year. We estimate that our capital expenditures during fiscal 2009 will be approximately \$135 to \$145 million and we will continue to evaluate capital spending throughout the remainder of the year. Capital expenditures will be funded entirely by cash from operations and existing credit facilities.

Excluding the impact of assets held for sale, the working capital deficit decreased to \$158.8 million at September 24, 2008 from \$188.2 million at June 25, 2008 primarily due to the timing of operational payments and receipts.

We paid dividends of \$11.7 million, or \$0.11 per share, to common stock shareholders in September 2008.

The Board of Directors has authorized a total of \$2,060.0 million of share repurchases, which has been and will be used to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. As of September 24, 2008, approximately \$60 million was available under our share repurchase authorizations. We did not repurchase any common shares under our share repurchase plan during the first quarter of fiscal 2009. In the future, we may consider additional share repurchases under our plan based on several factors, including our cash position, share price, operational liquidity, and planned investment and financing needs. During the first quarter of fiscal 2009, approximately 640,000 restricted share awards vested with a fair value of \$12.3 million. Approximately 190,000 of these shares were repurchased from employees upon vesting for \$3.6 million to satisfy minimum tax withholding obligations. The repurchased common stock is reflected as a reduction of shareholders' equity.

In September 2008, we extended the expiration date of our \$100.0 million uncommitted credit facility through September 2009.

In October 2008, Moody's placed Brinker's credit ratings under review for possible downgrade prompted by our revised earnings expectations for fiscal 2009. Moody's review will focus on our ability to improve operating performance and debt protection metrics over the intermediate term. As a result of this review, the availability under our \$150 million uncommitted credit facility decreased to approximately \$50 million. If our current rating is confirmed, the availability under this facility will return to \$150 million. However, if we are downgraded by the rating agency, our uncommitted credit facilities totaling \$250 million will no longer be available. The review and subsequent outcome of the review do not have any impact on the availability under our \$300 million revolving credit facility. In late October, Standard & Poor's reviewed Brinker's outlook also prompted by our revised earnings expectations. The credit rating remained unchanged at BBB- (investment grade) with a stable outlook. We are committed to maintaining our investment grade credit rating and are taking actions to ensure our current investment grade rating is reaffirmed. We expect to receive net cash proceeds of \$125.5 million, excluding fees and expenses associated with the closing of the

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transaction, from the sale of Macaroni Grill in the second quarter of fiscal 2009 and will use the proceeds to pay down debt. In addition, we are reducing planned capital expenditures for fiscal 2009, eliminating almost all company-owned restaurant development in fiscal 2010 and suspending all share repurchase activity to ensure we maintain our investment grade rating. We expect this review to be completed and a determination made before the end of the second quarter of fiscal 2009.

Table of Contents

We believe that our various sources of capital, including cash flows from operating activities, availability under existing credit facilities, and the ability to acquire financing, are adequate to finance operations as well as the repayment of current debt obligations. We are not aware of any other event or trend that would potentially affect our liquidity. In the event such a trend develops, we believe that there are sufficient funds available under our credit facilities and from our internal cash generating capabilities to adequately manage our ongoing business.

**RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

In June 2007, the Emerging Issues Task Force ( EITF ) reached a consensus on EITF 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards, ( EITF 06-11 ). The provisions indicate that the tax benefit received on dividends associated with share-based awards that are charged to retained earnings should be recorded in additional paid-in capital and included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 was effective for us beginning in the first quarter of fiscal 2009. The adoption of this standard did not have a material impact on our consolidated financial statements.

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



Table of Contents

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

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends that are paid or unpaid are participating securities and shall be included in the computation of earnings per share based on the two-class method. The two-class method is an earnings allocation method for computing earnings per share when an entity's capital structure includes either two or more classes of common stock or common stock and participating securities. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, which will require us to adopt these provisions in fiscal 2010. We do not expect that FSP EITF 03-6-1 will have a material impact on our financial statements.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Item 4. CONTROLS AND PROCEDURES**

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

There were no changes in our internal control over financial reporting during our first quarter ended September 24, 2008, 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. The factors listed below are important factors that could cause actual results to differ materially from our historical results and from those projected in forward-looking statements contained in this report, in our other filings with the SEC, in our news releases, written or electronic communications, and verbal statements by our representatives.

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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.

Table of Contents

*Risks Related to Our Business*

*Competition may adversely affect our operations and financial results.*

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

*Our sales volumes generally decrease in winter months.*

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

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

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

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

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

Table of Contents

*Inflation may increase our operating expenses.*

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

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

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

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

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

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

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

- the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates;
- our ability to achieve projected economic and operating synergies;

- unanticipated changes in business and economic conditions affecting an acquired business; and
- our ability to complete divestitures on acceptable terms and at or near the prices estimated as attainable by us.

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

Table of Contents

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

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

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

*Disruptions in the financial markets may adversely impact the availability and cost of credit and consumer spending patterns.*

The subprime mortgage crisis, subsequent disruptions to the financial markets, and continuing economic downturn may adversely impact the availability of credit already arranged and the availability and cost of credit in the future. The disruptions in the financial markets may also have an adverse effect on the U.S. and world economy, which may negatively impact consumer spending patterns. There can be no assurance that various U.S. and world government responses to the disruptions in the financial markets in the near future will restore consumer confidence, stabilize the markets, or increase liquidity or the availability of credit.

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

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

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

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



Table of Contents

*Other risk factors may adversely affect our financial performance.*

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

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

Information regarding legal proceedings is incorporated by reference from Note 7 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 25, 2008.

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

Shares repurchased during the first quarter of fiscal 2009 are as follows (in thousands, except share and per share amounts):

Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced	Approximate Dollar Value that May Yet be Purchased Under the Program
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				<b>Program</b>	
June 26, 2008 through July 30, 2008	196	\$	18.74		\$ 59,797
July 31, 2008 through August 27, 2008	183,186	\$	19.09		\$ 59,797
August 28, 2008 through September 24, 2008	6,492	\$	19.03		\$ 59,797
	189,874	\$	19.09		

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- (a) These amounts represent shares owned and tendered by employees to satisfy tax withholding obligations on the vesting of restricted share awards, which are not deducted from shares available to be purchased under publicly announced programs. Unless otherwise indicated, shares owned and tendered by employees to satisfy tax withholding obligations were purchased at the closing price of the Company's shares on the date of vesting.

Table of Contents

**Item 6. EXHIBITS**

- |       |   |
|-------|---|
| 31(a) | Certification by Douglas H. Brooks, Chairman of the Board, President and Chief Executive Officer of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).   |
| 31(b) | Certification by Charles M. Sonstebly, 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 Douglas H. Brooks, Chairman of the Board, President and Chief Executive Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32(b) | Certification by Charles M. Sonstebly, 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.      |

Table of Contents

**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: October 31, 2008

By: /s/ Douglas H. Brooks

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

Date: October 31, 2008

By: /s/ Charles M. Sonstebly

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