

BRINKER INTERNATIONAL INC  
Form 10-Q/A  
January 20, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-Q/A

[Amendment No.1]

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

For the Quarterly Period Ended September 29, 2004

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 is an accelerated filer (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.

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| Class                          | Outstanding at November 3, 2004 |
|--------------------------------|---------------------------------|
| Common Stock, \$0.10 par value | 86,443,414 shares               |

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### Explanatory Note

The purpose of this amendment on Form 10-Q/A to the Quarterly Report on Form 10-Q of Brinker International, Inc. for the quarterly period ended September 29, 2004 is to restate our consolidated financial statements for the thirteen weeks ended September 29, 2004 and September 24, 2003 and as of June 30, 2004, and related disclosures, as described in Note 2 to the Consolidated Financial Statements. Additional information about the decision to restate these financial statements can be found in our Current Report on Form 8-K, filed with the SEC on December 22, 2004.

No attempt has been made in this Form 10-Q/A to modify or update other disclosures presented in the original report on Form 10-Q, except as required to reflect the effects of the restatement. The Form 10-Q/A does not reflect events occurring after the filing of the Form 10-Q or modify or update those disclosures, including the exhibits to the Form 10-Q affected by subsequent events. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-Q on November 8, 2004. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q, including any amendments to those filings. The following items have been amended as a result of the restatement:

- Part I - Item 1 - Financial Statements
- Part I - Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

#### *Description of Restatement*

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

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

As a result of the above items, the cumulative effect of the restatement through the first quarter of fiscal 2005 was an increase in the deferred rent liability of approximately \$22.0 million and a decrease in intangible franchise rights of \$4.4 million. In addition, the deferred income tax liability at the end of the first quarter of fiscal 2005 decreased by approximately \$9.9 million, and retained earnings at the end of the first quarter of fiscal 2005 decreased by approximately \$16.5 million. Rent expense for the first quarter of fiscal 2005 and 2004 increased by approximately \$1.3 million and \$1.2 million, respectively.

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**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

| <b>BRINKER INTERNATIONAL, INC.</b>                        |                                      |                          |
|---|--------------------------------------|--------------------------|
| <b>Consolidated Balance Sheets</b>                        |                                      |                          |
| <b>(In thousands, except share and per share amounts)</b> |                                      |                          |
|   | <b>September 29,<br/>2004</b>        | <b>June 30,<br/>2004</b> |
|   | <b>(as restated)<br/>(Unaudited)</b> | <b>(as restated)</b>     |
| <b>ASSETS</b>   |                                      |                          |
| Current Assets:   |                                      |                          |
| Cash and cash equivalents                                 | \$ 50,718                            | \$ 226,762               |
| Accounts receivable                                       | 45,884                               | 37,934                   |
| Inventories   | 42,556                               | 38,113                   |
| Prepaid expenses and other                                | 73,092                               | 74,764                   |
| Deferred income taxes                                     | 19,592                               | 23,347                   |
| Total current assets                                      | <u>231,842</u>                       | <u>400,920</u>           |
| Property and Equipment, at cost:                          |                                      |                          |
| Land  | 286,635                              | 283,777                  |
| Buildings and leasehold improvements                      | 1,386,668                            | 1,354,671                |
| Furniture and equipment                                   | 686,403                              | 666,415                  |
| Construction-in-progress                                  | 75,498                               | 72,818                   |
|   | 2,435,204                            | 2,377,681                |
| Less accumulated depreciation and amortization            | (850,000)                            | (810,835)                |
| Net property and equipment                                | <u>1,585,204</u>                     | <u>1,566,846</u>         |
| Other Assets:   |                                      |                          |
| Goodwill  | 136,021                              | 158,068                  |
| Other   | 69,077                               | 81,552                   |
| Total other assets  | <u>205,098</u>                       | <u>239,620</u>           |
| Total assets  | <u>\$2,022,144</u>                   | <u>\$2,207,386</u>       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>               |                                      |                          |
| Current Liabilities:                                      |                                      |                          |
| Current installments of long-term debt                    | \$ 18,131                            | \$ 18,099                |
| Accounts payable  | 100,141                              | 96,795                   |
| Accrued liabilities                                       | 208,867                              | 227,225                  |
| Income taxes payable                                      | -                                    | 37,043                   |
| Total current liabilities                                 | <u>327,139</u>                       | <u>379,162</u>           |
| Long-term debt, less current installments                 | 640,319                              | 639,291                  |
| Deferred income taxes                                     | 73,150                               | 72,453                   |
| Other liabilities   | 114,459                              | 106,058                  |
| Contingencies (Note 8)                                    |                                      |                          |
| Shareholders' Equity:                                     |                                      |                          |
| Common stock - 250,000,000 authorized shares; \$0.10      |                                      |                          |
| par value; 117,499,541 shares issued and                  |                                      |                          |

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|  |                    |                    |
|--|--------------------|--------------------|
| 89,832,853 shares outstanding at September 29,               |                    |                    |
| 2004, and 117,499,541 shares issued and                      |                    |                    |
| 90,647,745 shares outstanding at June 30, 2004               | 11,750             | 11,750             |
| Additional paid-in capital                                   | 233,424            | 357,444            |
| Accumulated other comprehensive income                       | 658                | 737                |
| Retained earnings  | <u>1,275,556</u>   | <u>1,261,647</u>   |
|  | 1,521,388          | 1,631,578          |
| Less:  |                    |                    |
| Treasury stock, at cost (27,666,688 shares at September      |                    |                    |
| 29, 2004 and 26,851,796 shares at June 30, 2004)             | (652,409)          | (619,806)          |
| Unearned compensation  | <u>(1,902)</u>     | <u>(1,350)</u>     |
| Total shareholders' equity                                   | <u>867,077</u>     | <u>1,010,422</u>   |
| Total liabilities and shareholders' equity                   | <u>\$2,022,144</u> | <u>\$2,207,386</u> |
| See accompanying notes to consolidated financial statements. |                    |                    |

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

**Thirteen Week Periods Ended**

|  | <b>September 29,<br/><u>2004</u><br/>(as restated)</b> | <b>September 24,<br/><u>2003</u><br/>(as restated)</b> |
|--|--|--|
| Revenues   | <u>\$ 910,478</u>                                      | <u>\$ 870,898</u>                                      |
| Operating Costs and Expenses:                                |  |  |
| Cost of sales  | 253,089  | 239,902  |
| Restaurant expenses  | 510,693  | 487,521  |
| Depreciation and amortization                                | 45,939   | 42,409   |
| General and administrative                                   | 37,152   | 33,296   |
| Restructure charges and other impairments                    | <u>48,256</u>  | <u>-</u>   |
| Total operating costs and expenses                           | <u>895,129</u>   | <u>803,128</u>   |
| Operating income   | 15,349   | 67,770   |
| Interest expense   | 7,119  | 3,318  |
| Other, net   | <u>442</u>   | <u>(257)</u>   |
| Income before income tax benefit (expense)                   | 7,788  | 64,709   |
| Income tax benefit (expense)                                 | <u>6,121</u>   | <u>(20,836)</u>  |
| Net income   | <u>\$ 13,909</u>                                       | <u>\$ 43,873</u>                                       |
| Basic net income per share                                   | <u>\$ 0.15</u>   | <u>\$ 0.45</u>   |
| Diluted net income per share                                 | <u>\$ 0.15</u>   | <u>\$ 0.44</u>   |
| Basic weighted average<br>shares outstanding                 | <u>89,761</u>  | <u>97,404</u>  |
| Diluted weighted average<br>shares outstanding               | <u>90,930</u>  | <u>99,367</u>  |
| See accompanying notes to consolidated financial statements. |  |  |

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

|   | <u>Thirteen Week Periods Ended</u>                   |  |
|---|--|--|
|   | <u>September 29,</u><br><u>2004</u><br>(as restated) | <u>September 24,</u><br><u>2003</u><br>(as restated) |
| Cash Flows from Operating Activities:   |  |  |
| Net income  | \$ 13,909  | \$ 43,873  |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |
| Depreciation and amortization   | 45,939   | 42,409   |
| Restructure charges and other impairments   | 48,256   | -  |
| Deferred income taxes   | 4,495  | 243  |
| Gain on sale of assets  | (3,777)  | -  |
| Amortization of deferred costs  | 2,068  | 2,706  |
| Changes in assets and liabilities, excluding effects of dispositions:             |  |  |
| Receivables   | (8,067)  | 2,922  |
| Inventories   | (4,558)  | 143  |
| Prepaid expenses and other  | 2,471  | 2,739  |
| Other assets  | 351  | (2,317)  |
| Current income taxes  | (37,043)   | 19,836   |
| Accounts payable  | 3,346  | (8,693)  |
| Accrued liabilities   | (17,224)   | (11,374)   |
| Other liabilities   | <u>3,442</u>   | <u>4,822</u>   |
| Net cash provided by operating activities   | <u>53,608</u>  | <u>97,309</u>  |
| Cash Flows from Investing Activities:   |  |  |
| Payments for property and equipment   | (84,307)   | (67,966)   |
| Proceeds from sale of assets  | 13,482   | -  |
| Net repayments of advances to affiliates  | 116  | 552  |
| Issuance of loan to affiliate   | <u>-</u>   | <u>(1,300)</u>                                       |
| Net cash used in investing activities   | <u>(70,709)</u>                                      | <u>(68,714)</u>                                      |
| Cash Flows from Financing Activities:   |  |  |
| Purchases of shares under forward contracts                                       | (120,600)  | -  |
| Purchases of treasury stock   | (42,293)   | (51,904)   |
| Proceeds from issuances of treasury stock   | 4,632  | 4,657  |
| Payments of long-term debt  | (682)  | (677)  |
| Net borrowings on credit facilities   | <u>-</u>   | <u>400</u>   |
| Net cash used in financing activities   | <u>(158,943)</u>                                     | <u>(47,524)</u>                                      |
| Net change in cash and cash equivalents   | (176,044)  | (18,929)   |
| Cash and cash equivalents at beginning of period                                  | <u>226,762</u>                                       | <u>33,492</u>  |
| Cash and cash equivalents at end of period  | <u>\$ 50,718</u>                                     | <u>\$ 14,563</u>                                     |
| See accompanying notes to consolidated financial statements.                      |  |  |



**BRINKER INTERNATIONAL, INC.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

The consolidated financial statements of Brinker International, Inc. and its wholly-owned subsidiaries (collectively, the "Company") as of September 29, 2004 and June 30, 2004 and for the thirteen week periods ended September 29, 2004 and September 24, 2003, have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The Company owns, operates, or franchises various restaurant concepts under the names of Chili's Grill & Bar ("Chili's"), Romano's Macaroni Grill ("Macaroni Grill"), Maggiano's Little Italy ("Maggiano's"), On The Border Mexican Grill & Cantina ("On The Border"), Corner Bakery Cafe ("Corner Bakery"), and Big Bowl Asian Kitchen ("Big Bowl"). In addition, the Company owns an approximate 43% interest in the legal entities owning and developing Rockfish Seafood Grill ("Rockfish").

The information furnished herein reflects all adjustments (consisting only of normal recurring accruals and adjustments) which are, in the opinion of management, 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 30, 2004 Form 10-K/A. Management believes that the disclosures are sufficient for interim financial reporting purposes.

**2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

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

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

As a result of the above items, the cumulative effect of the restatement through the first quarter of fiscal 2005 was an increase in the deferred rent liability of approximately \$22.0 million and a decrease in intangible franchise rights of \$4.4 million. In addition, the deferred income tax liability at the end of the first quarter of fiscal 2005 decreased by approximately \$9.9 million, and retained earnings at the end of the first quarter of fiscal 2005 decreased by approximately \$16.5 million. Rent expense for the first quarter of fiscal 2005 and 2004 increased by approximately \$1.3 million and \$1.2 million, respectively.

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The restatement decreased diluted net earnings per share by approximately \$0.01 for both the first quarter of fiscal 2005 and 2004. The restatement does not have any impact on the Company's previously reported cash flows, sales or comparable store sales or compliance with any covenant under its credit facility or other debt instruments.

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

**CONSOLIDATED BALANCE SHEET**  
**SUMMARY OF RESTATEMENT IMPACTS**  
**AS OF SEPT 29, 2004**  
(In thousands)  
(Unaudited)

| ASSETS   | <u>AS REPORTED</u>  | <u>ADJUSTMENTS</u> | <u>AS RESTATED</u>  |
|--|---------------------|--------------------|---------------------|
| Current Assets:                                |                     |                    |                     |
| Cash and cash equivalents                      | \$ 50,718           | -                  | \$ 50,718           |
| Accounts receivable                            | 45,884              | -                  | 45,884              |
| Inventories                                    | 42,556              | -                  | 42,556              |
| Prepaid expenses and other                     | 73,092              | -                  | 73,092              |
| Deferred income taxes                          | <u>19,592</u>       | <u>-</u>           | <u>19,592</u>       |
| Total current assets                           | <u>231,842</u>      | <u>-</u>           | <u>231,842</u>      |
| Property and Equipment, at Cost:               |                     |                    |                     |
| Land   | 286,635             | -                  | 286,635             |
| Buildings and leasehold improvements           | 1,386,668           | -                  | 1,386,668           |
| Furniture and equipment                        | 686,403             | -                  | 686,403             |
| Construction-in-process                        | <u>75,498</u>       | <u>-</u>           | <u>75,498</u>       |
|  | 2,435,204           | -                  | 2,435,204           |
| Less accumulated depreciation and amortization | <u>(850,000)</u>    | <u>-</u>           | <u>(850,000)</u>    |
| Net property and equipment                     | 1,585,204           | -                  | 1,585,204           |
| Other Assets:                                  |                     |                    |                     |
| Goodwill                                       | 136,021             | -                  | 136,021             |
| Other  | <u>73,482</u>       | <u>(4,405)</u>     | <u>69,077</u>       |
| Total other assets                             | <u>209,503</u>      | <u>(4,405)</u>     | <u>205,098</u>      |
| Total assets                                   | <u>\$ 2,026,549</u> | <u>(4,405)</u>     | <u>\$ 2,022,144</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>    |                     |                    |                     |
| Current Liabilities:                           |                     |                    |                     |
| Current installments of long-term debt         | \$ 18,131           | -                  | \$ 18,131           |
| Accounts payable                               | 100,141             | -                  | 100,141             |
| Accrued liabilities                            | 208,867             | -                  | 208,867             |
| Income taxes payable                           | <u>-</u>            | <u>-</u>           | <u>-</u>            |
| Total current liabilities                      | <u>327,139</u>      | <u>-</u>           | <u>327,139</u>      |
| Long-term debt, less current installments      | 640,319             | -                  | 640,319             |
| Deferred income taxes                          | 83,081              | (9,931)            | 73,150              |
| Other liabilities                              | 92,472              | 21,987             | 114,459             |
| Shareholders' Equity:                          |                     |                    |                     |
| Common stock                                   | 11,750              | -                  | 11,750              |
| Additional paid-in capital                     | 233,424             | -                  | 233,424             |
| Accumulated other comprehensive income         | 658                 | -                  | 658                 |
| Retained earnings                              | <u>1,292,017</u>    | <u>(16,461)</u>    | <u>1,275,556</u>    |

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|  |                     |                 |                     |
|--|---------------------|-----------------|---------------------|
|  | 1,537,849           | (16,461)        | 1,521,388           |
| Less:                                      |                     |                 |                     |
| Treasury stock, at cost                    | (652,409)           | -               | (652,409)           |
| Unearned compensation                      | <u>(1,902)</u>      | <u>-</u>        | <u>(1,902)</u>      |
| Total shareholders' equity                 | <u>883,538</u>      | <u>(16,461)</u> | <u>867,077</u>      |
| Total liabilities and shareholders' equity | <u>\$ 2,026,549</u> | <u>(4,405)</u>  | <u>\$ 2,022,144</u> |

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

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

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|  |                     |                 |                     |
|--|---------------------|-----------------|---------------------|
| Retained earnings                          | <u>1,277,298</u>    | <u>(15,651)</u> | <u>1,261,647</u>    |
|  | 1,647,229           | (15,651)        | 1,631,578           |
| Less:                                      |                     |                 |                     |
| Treasury stock, at cost                    | (619,806)           | -               | (619,806)           |
| Unearned compensation                      | <u>(1,350)</u>      | <u>-</u>        | <u>(1,350)</u>      |
| Total shareholders' equity                 | <u>1,026,073</u>    | <u>(15,651)</u> | <u>1,010,422</u>    |
| Total liabilities and shareholders' equity | <u>\$ 2,211,791</u> | <u>(4,405)</u>  | <u>\$ 2,207,386</u> |

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**CONSOLIDATED STATEMENT OF INCOME**  
**SUMMARY OF RESTATEMENT IMPACTS**  
**THIRTEEN WEEK PERIOD ENDED SEPT 29, 2004**  
(In thousands, except per share amounts)  
(Unaudited)

|  | <u>AS REPORTED</u> | <u>ADJUSTMENTS</u> | <u>AS RESTATED</u> |
|--|--------------------|--------------------|--------------------|
| Revenues                                       | \$ 910,478         | -                  | \$ 910,478         |
| Operating Costs and Expenses:                  |                    |                    |                    |
| Cost of sales                                  | 253,089            | -                  | 253,089            |
| Restaurant expenses                            | 509,401            | 1,292              | 510,693            |
| Depreciation and amortization                  | 45,939             | -                  | 45,939             |
| General and administrative                     | 37,152             | -                  | 37,152             |
| Restructure charges and other<br>impairments   | <u>48,256</u>      | <u>-</u>           | <u>48,256</u>      |
| Total operating costs and expenses             | <u>893,837</u>     | <u>1,292</u>       | <u>895,129</u>     |
| Operating income                               | 16,641             | (1,292)            | 15,349             |
| Interest expense                               | 7,119              | -                  | 7,119              |
| Other, net                                     | <u>442</u>         | <u>-</u>           | <u>442</u>         |
| Income before tax benefit                      | 9,080              | (1,292)            | 7,788              |
| Income tax benefit                             | <u>5,639</u>       | <u>482</u>         | <u>6,121</u>       |
| Net income                                     | <u>\$ 14,719</u>   | <u>(810)</u>       | <u>\$ 13,909</u>   |
| Basic net income per share                     | <u>\$ 0.16</u>     | <u>(0.01)</u>      | <u>\$ 0.15</u>     |
| Diluted net income per share                   | <u>\$ 0.16</u>     | <u>(0.01)</u>      | <u>\$ 0.15</u>     |
| Basic weighted average<br>shares outstanding   | <u>89,761</u>      |                    | <u>89,761</u>      |
| Diluted weighted average<br>shares outstanding | <u>90,930</u>      |                    | <u>90,930</u>      |

**CONSOLIDATED STATEMENT OF INCOME**  
**SUMMARY OF RESTATEMENT IMPACTS**  
**THIRTEEN WEEK PERIOD ENDED SEPT 24, 2003**  
(In thousands, except per share amounts)  
(Unaudited)

|  | <u>AS REPORTED</u> | <u>ADJUSTMENTS</u> | <u>AS RESTATED</u> |
|--|--------------------|--------------------|--------------------|
| Revenues                                     | \$ 870,898         | -                  | \$ 870,898         |
| Operating Costs and Expenses:                |                    |                    |                    |
| Cost of sales                                | 239,902            | -                  | 239,902            |
| Restaurant expenses                          | 486,358            | 1,163              | 487,521            |
| Depreciation and amortization                | 42,409             | -                  | 42,409             |
| General and administrative                   | 33,296             | -                  | 33,296             |
| Restructure charges and other<br>impairments | <u>-</u>           | <u>-</u>           | <u>-</u>           |
| Total operating costs and expenses           | <u>801,965</u>     | <u>1,163</u>       | <u>803,128</u>     |

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|   |                  |               |                  |
|---|------------------|---------------|------------------|
| Operating income                            | 68,933           | (1,163)       | 67,770           |
| Interest expense                            | 3,318            | -             | 3,318            |
| Other, net                                  | <u>(257)</u>     | <u>-</u>      | <u>(257)</u>     |
| Income before provision for income taxes    | 65,872           | (1,163)       | 64,709           |
| Provision for income taxes                  | <u>(21,277)</u>  | <u>441</u>    | <u>(20,836)</u>  |
| Net income                                  | <u>\$ 44,595</u> | <u>(722)</u>  | <u>\$ 43,873</u> |
| Basic net income per share                  | <u>\$ 0.46</u>   | <u>(0.01)</u> | <u>\$ 0.45</u>   |
| Diluted net income per share                | <u>\$ 0.45</u>   | <u>(0.01)</u> | <u>\$ 0.44</u>   |
| Basic weighted average shares outstanding   | <u>97,404</u>    |               | <u>97,404</u>    |
| Diluted weighted average shares outstanding | <u>99,367</u>    |               | <u>99,367</u>    |

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Certain amounts in Note 3 have been restated to reflect the restatement adjustments described above. The restatement adjustments did not affect cash flows provided by or used in operating, investing or financing activities.

### 3. STOCK OPTION PLANS

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

|  | <b><u>Thirteen Week Periods Ended</u></b> |                               |
|--|---|-------------------------------|
|  | <b>September 29,<br/>2004</b>             | <b>September 24,<br/>2003</b> |
|  | (as restated)                             | (as restated)                 |
| Net income - as reported   | \$ 13,909                                 | \$ 43,873                     |
| Add: Reported stock-based<br>compensation expense,<br>net of taxes | 395                                       | 587                           |
| Deduct: Fair value based<br>compensation expense,<br>net of taxes  | <u>(4,724)</u>                            | <u>(4,590)</u>                |
| Net income - pro-forma   | <u>\$ 9,580</u>                           | <u>\$ 39,870</u>              |
| Earnings per share:  |   |                               |
| Basic - as reported  | <u>\$ 0.15</u>                            | <u>\$ 0.45</u>                |
| Basic - pro-forma  | <u>\$ 0.11</u>                            | <u>\$ 0.41</u>                |
| Diluted - as reported  | <u>\$ 0.15</u>                            | <u>\$ 0.44</u>                |
| Diluted - pro-forma  | <u>\$ 0.11</u>                            | <u>\$ 0.40</u>                |

### 4. RESTRUCTURE CHARGES AND OTHER IMPAIRMENTS

During the first quarter of fiscal 2005, the Company recorded a \$31.2 million impairment charge resulting from the decision to sell nine Big Bowl restaurants and to close the remaining five restaurants. The decision to dispose of Big Bowl was the result of recent research and testing of the brand's competitive positioning. The impairment charge consists of goodwill totaling \$21.6 million and buildings, furniture, and equipment totaling \$9.6 million. The carrying values of the remaining long-lived assets totaled approximately \$6.0 million as of September 29, 2004 and were based on an offer price obtained in connection with the sale of the brand. During the second quarter of fiscal 2005, the Company expects to record an additional charge of approximately \$3.0 million, primarily related to existing lease obligations associated with the disposition of Big Bowl.



During the first quarter of fiscal 2005, the Company recorded a \$16.9 million charge to fully impair the investment and notes receivable associated with Rockfish as a result of recent declines in operating performance and lower forecasted earnings.

During the first quarter of fiscal 2005, the Company recorded a \$1.4 million charge for long-lived asset impairments associated with the closure of one Corner Bakery commissary.

In fiscal 2004, the Company recorded a \$39.5 million impairment charge resulting from the decision to close thirty restaurants. The charge consisted primarily of buildings, furniture, and equipment totaling \$31.2 million, lease obligation charges totaling \$6.2 million, and the write-off of inventory and other supplies totaling \$2.1 million. The fair value of the long-lived assets was based on estimates from third party real estate brokers who examined comparable property sales values in the respective markets in which the restaurants were located and offer prices received from third parties in connection with the sale of the restaurants. During the first quarter of fiscal 2005, the Company recorded a \$1.2 million gain related to the thirty closed restaurants consisting of increases in the estimated sales value of previously impaired owned units and decreases in the estimated lease obligation. The carrying values of the remaining long-lived assets totaled approximately \$12.3 million at September 29, 2004. In addition, during the first quarter of fiscal 2005, the Company made payments totaling \$1.6 million primarily related to lease termination costs associated with the closed restaurants, reducing the lease obligation in accrued liabilities to \$3.2 million.

## **5. CONVERTIBLE DEBT**

In October 2001, the Company issued \$431.7 million of zero coupon convertible senior debentures (the "Debentures"), maturing on October 10, 2021, and received proceeds totaling approximately \$250.0 million prior to debt issuance costs. The Debentures require no interest payments and were issued at a discount representing a yield to maturity of 2.75% per annum. The Debentures are redeemable at the Company's option beginning on October 10, 2004. If redeemed by the Company, the holders of the Debentures may elect to receive payment in cash or common stock. The holders may require the Company to redeem the Debentures on October 10, 2005, 2011 or 2016, and in certain other circumstances. If the holders exercise their redemption rights, the Company may choose to pay in cash, common stock, or a combination of the two. In addition, each \$1,000 Debenture is convertible into 18.08 shares (7.8 million shares in total) of the Company's common stock if the stock's market price exceeds 120% of the accreted conversion price for at least 20 trading days during the first 30 trading days of each quarter, the Company exercises its option to redeem the Debentures, the credit rating of the Debentures is reduced below both Baa3 and BBB-, or upon the occurrence of certain specified corporate transactions. The market price of the Company's common stock has not exceeded 120% of the accreted conversion price for any quarter, including the second quarter of fiscal 2005, since the issuance of the Debentures. The conversion trigger price for the Company's third quarter of fiscal 2005 is \$42.10.

## **6. SHAREHOLDERS' EQUITY**

During the first quarter of fiscal 2005, the Company acquired approximately 3.5 million shares of its common stock for \$120.6 million under forward purchase contracts. The shares repurchased under the contracts are intended to be used to offset the dilutive impact of the convertible debt and are recorded as a reduction of

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additional paid-in capital in the accompanying consolidated balance sheet. The contracts were settled in October 2004.

Pursuant to the Company's stock repurchase plan, the Company repurchased approximately 1.2 million shares of its common stock for \$42.3 million during the first quarter of fiscal 2005. As of September 29, 2004, approximately \$132.4 million was available under the Company's share repurchase authorizations, net of the shares acquired under the forward purchase contracts. The Company's stock repurchase plan will be used to minimize the dilutive impact of the convertible debt and stock option exercises. The repurchased common stock is recorded in treasury stock in the accompanying consolidated balance sheets.

## 7. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes for the first quarter of fiscal 2005 is as follows (in thousands):

|                                      | <b>September 29,<br/><u>2004</u></b> | <b>September 24,<br/><u>2003</u></b> |
|--------------------------------------|--------------------------------------|--------------------------------------|
| Income taxes, net of refunds         | \$ 26,493                            | \$ 830                               |
| Interest, net of amounts capitalized | 816                                  | 861                                  |

Non-cash investing and financing activities for the first quarter of fiscal 2005 are as follows (in thousands):

|  | <b>September 29,<br/><u>2004</u></b> | <b>September 24,<br/><u>2003</u></b> |
|--|--------------------------------------|--------------------------------------|
| Retirement of fully depreciated assets                       | \$ 4,338                             | \$ 101                               |
| Net increase (decrease) in fair value of interest rate swaps | 5,006                                | (8,603)                              |
| Restricted common stock issued, net of forfeitures           | 1,638                                | 2,337                                |

## 8. CONTINGENCIES

In January 1996, the Company entered into a Tip Reporting Alternative Commitment agreement (the "Contract") with the Internal Revenue Service (the "IRS"). The Contract required the Company, among other things, to implement tip reporting educational programs for its hourly restaurant employees and to establish tip reporting procedures, although employees remain ultimately responsible for accurately reporting their tips. The IRS has alleged that the Company did not meet the requirements of the Contract and has retroactively and unilaterally revoked it. As a result of the revocation, the IRS commenced an examination during fiscal 2004 of the Company's 2000 through 2002 calendar years for payroll tax purposes, which involved interviews of a number of current and former employees for the purpose of assessing employer-only Federal Insurance Contributions Act ("FICA") taxes on estimated unreported cash tips. In connection with this examination, the IRS has also alleged that some portion of these unreported tips should have been treated as service charges subject to employment taxes. On September 29, 2004, the IRS issued a notice and demand under Section 3121(q) of the Internal Revenue Code for the employer's share of FICA taxes totaling \$31.4 million on asserted unreported tips during the examination period. The proposed assessment was based on the assumption that the cash tip reporting rate should have been approximately two percentage points less than the charge tip reporting rate. The Company believes that it has complied and continues to comply with all of the terms of the Contract and with the law pertaining to the employment tax treatment of service charges. The Company intends to

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vigorously assert that the Contract remains in force and precludes the proposed retroactive assessment of employer-only FICA taxes and to vigorously contest the accuracy of the proposed assessment related to unreported tips. The Company also intends to vigorously contest the accuracy of any assessment that may be proposed related to service charges. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any, with respect to either the tip or service charge issue.

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

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

|  | <b><u>13 Week Periods Ended</u></b> |                               |
|--|-------------------------------------|-------------------------------|
|  | <b>September 29,<br/>2004</b>       | <b>September 24,<br/>2003</b> |
|  | (as restated)                       | (as restated)                 |
| Revenues                                   | <u>100.0 %</u>                      | <u>100.0 %</u>                |
| Operating Costs and Expenses:              |                                     |                               |
| Cost of sales                              | 27.8 %                              | 27.5 %                        |
| Restaurant expenses                        | 56.1 %                              | 56.0 %                        |
| Depreciation and amortization              | 5.0 %                               | 4.9 %                         |
| General and administrative                 | 4.1 %                               | 3.8 %                         |
| Restructure charges and other impairments  | <u>5.3 %</u>                        | <u>0.0 %</u>                  |
| Total operating costs and expenses         | <u>98.3 %</u>                       | <u>92.2 %</u>                 |
| Operating income                           | 1.7 %                               | 7.8 %                         |
| Interest expense                           | 0.8 %                               | 0.4 %                         |
| Other, net                                 | <u>0.0 %</u>                        | <u>0.0 %</u>                  |
| Income before income tax benefit (expense) | 0.9 %                               | 7.4 %                         |
| Income tax benefit (expense)               | <u>0.6 %</u>                        | <u>(2.4 %)</u>                |
| Net income                                 | <u>1.5 %</u>                        | <u>5.0 %</u>                  |

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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 2005.

|                             | First Quarter |           | Total Open at End |              | Total          |
|-----------------------------|---------------|-----------|-------------------|--------------|----------------|
|                             | Openings      |           | Of First Quarter  |              | Projected      |
|                             | Fiscal        | Fiscal    | Fiscal            | Fiscal       | Fiscal         |
|                             | 2005          | 2004      | 2005              | 2004         | 2005           |
| <b>Chili's:</b>             |               |           |                   |              |                |
| Company-owned               | 14            | 18        | 757               | 711          | 77-80          |
| Franchised                  | <u>7</u>      | <u>5</u>  | <u>242</u>        | <u>210</u>   | <u>25-30</u>   |
| Total                       | 21            | 23        | 999               | 921          | 102-110        |
| <b>Macaroni Grill:</b>      |               |           |                   |              |                |
| Company-owned               | 5             | 4         | 211               | 198          | 15-18          |
| Franchised                  | <u>-</u>      | <u>1</u>  | <u>9</u>          | <u>9</u>     | <u>5-6</u>     |
| Total                       | 5             | 5         | 220               | 207          | 20-24          |
| <b>Maggiano's</b>           |               |           |                   |              |                |
|                             | 2             | 3         | 30                | 28           | 5              |
| <b>On The Border:</b>       |               |           |                   |              |                |
| Company-owned               | 1             | -         | 112               | 114          | 8-10           |
| Franchised                  | <u>-</u>      | <u>-</u>  | <u>18</u>         | <u>18</u>    | <u>0-1</u>     |
| Total                       | 1             | -         | 130               | 132          | 8-11           |
| <b>Corner Bakery:</b>       |               |           |                   |              |                |
| Company-owned               | 1             | 1         | 83                | 86           | 8-10           |
| Franchised                  | <u>-</u>      | <u>-</u>  | <u>3</u>          | <u>3</u>     | <u>0-1</u>     |
| Total                       | 1             | 1         | 86                | 89           | 8-11           |
| <b>Big Bowl</b>             |               |           |                   |              |                |
|                             | -             | 1         | 14                | 19           | -              |
| <b>Rockfish Partnership</b> |               |           |                   |              |                |
|                             | -             | 2         | 25                | 22           | -              |
| <b>Cozymel's</b>            |               |           |                   |              |                |
|                             | <u>-</u>      | <u>-</u>  | <u>-</u>          | <u>16</u>    | <u>-</u>       |
| <b>Grand Total</b>          |               |           |                   |              |                |
|                             | <u>30</u>     | <u>35</u> | <u>1,504</u>      | <u>1,434</u> | <u>143-161</u> |

## OVERVIEW

At September 29, 2004, the Company owned, operated, franchised, or was involved in the ownership of 1,504 restaurants. The Company's core concepts accounted for 83.0% of the total units and included 999 Chili's, 220 Macaroni Grill, and 30 Maggiano's restaurants.

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

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

Revenues for the second quarter of fiscal 2005 are estimated to increase by 5% to 7% compared to the same quarter in fiscal 2004, driven primarily by capacity gains of 5% to 6%. Cost of sales is estimated to be 0.5% to 0.6% higher than last year due to the impact of higher beef, chicken and dairy costs. Restaurant expenses are estimated to be 0.4% to 0.5% lower than last year as a result of potential refranchising gains and lower advertising costs. General and administrative expenses are estimated to be 0.1% lower due primarily to lower performance based expenses. Additionally, during the second quarter of fiscal 2005, the Company expects to record an additional charge of approximately \$3.0 million, primarily related to existing lease obligations associated with the disposition of Big Bowl. The effective tax rate during the second quarter is estimated to be 32.2%.

## REVENUES

Revenues for the first quarter of fiscal 2005 increased to \$910.5 million, 4.5% over the \$870.9 million generated for the same quarter of fiscal 2004. The increase was primarily attributable to a net increase of 35 company-owned restaurants since September 24, 2003. The Company increased its capacity for the first quarter of fiscal 2005 by approximately 3.5% compared to the respective prior year quarter. Comparable store sales increased 0.3% for the first quarter as compared to the same period of fiscal 2004. Menu prices in the aggregate increased 2.2% in the first quarter of fiscal 2005 as compared to the same period of fiscal 2004.

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## **COSTS AND EXPENSES**

Cost of sales, as a percent of revenues, increased 0.3% for the first quarter of fiscal 2005 as compared to the same period of fiscal 2004. The increase was due to a 1.0% increase in commodity prices for meat, seafood, poultry, dairy and cheese, and a 0.2% unfavorable product mix shift for meat and seafood, partially offset by a 0.7% increase in menu prices, and a 0.2% decrease in commodity prices for produce.

Restaurant expenses, as a percent of revenues, increased 0.1% for the first quarter of fiscal 2005 as compared to the same quarter of fiscal 2004. The increase was primarily due to increases in labor costs, payroll taxes, and health, workers compensation and general liability insurance. These increases were partially offset by a \$3.8 million gain recorded during the first quarter of fiscal 2005 as a result of the sale of nine Chili's restaurants to a new franchise partner, and decreases in manager bonuses and advertising costs.

Depreciation and amortization increased \$3.5 million for the first quarter of fiscal 2005 as compared to the same period of fiscal 2004. The increase in depreciation expense was due to new unit construction and ongoing remodel costs, partially offset by a decrease in depreciation related to store closures and a declining depreciable asset base for older units.

General and administrative expenses increased \$3.9 million for the first quarter of fiscal 2005 as compared to the same period of fiscal 2004. The increase was primarily due to increased costs related to consumer research and an increase in payroll costs resulting from an increase in headcount, partially offset by a decrease in incentive based compensation.

Restructure charges and other impairments recorded during the first quarter of fiscal 2005 include a \$31.2 million impairment charge resulting from the decision to sell nine Big Bowl restaurants and to close the remaining five restaurants, a \$16.9 million charge to fully impair the investment and notes receivable associated with Rockfish, a \$1.4 million charge associated with the closure of one Corner Bakery commissary, and a \$1.2 million gain associated with the thirty restaurants closed in fiscal 2004, consisting of increases in the estimated sales value of previously impaired owned units and decreases in the estimated lease obligation.

Interest expense increased \$3.8 million for the first quarter of fiscal 2005 as compared to the same period of fiscal 2004. The increase was primarily due to interest expense related to the 5.75% notes issued in May 2004 (the "Notes"), partially offset by debt issuance costs related to the convertible debt being fully amortized in the second quarter of fiscal 2004 and a lower average outstanding balance on the senior notes.

Other, net increased \$700,000 for the first quarter of fiscal 2005 as compared to the same period of fiscal 2004 due primarily to an increase in the Company's share of losses in an equity method investee, partially offset by an increase in interest income associated with the investment of proceeds received from the issuance of the Notes.

## **INCOME TAXES**

The effective income tax rate decreased to a benefit of 78.6% for the current quarter as compared to an expense of 32.2% for the same quarter last year. The decrease in the tax rate was primarily due to the disposition of Big Bowl, which allowed the Company to take tax deductions for goodwill impairment charges totaling \$48.6 million (\$21.6 million recorded during the first quarter of fiscal 2005 and \$27.0 million recorded in fiscal 2004).

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## LIQUIDITY AND CAPITAL RESOURCES

Working capital decreased to a deficit of \$95.3 million at September 29, 2004 from a working capital surplus of \$21.8 million at June 30, 2004, primarily due to payments made under the forward purchase contracts and purchases of treasury stock during the first quarter of fiscal 2005. Net cash provided by operating activities decreased to \$53.6 million for the first quarter of fiscal 2005 from \$97.3 million during the same period in fiscal 2004 due to decreased profitability and the timing of operational receipts and payments. The Company believes that its various sources of capital, including availability under existing credit facilities, ability to raise additional financing, and cash flow from operating activities, are adequate to finance operations as well as the repayment of current debt obligations.

Capital expenditures consist of purchases of land for future restaurant sites, new restaurants under construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures were \$84.3 million for the first quarter of fiscal 2005 compared to \$68.0 million for the same period of fiscal 2004. The Company estimates that its capital expenditures during the second quarter of fiscal 2005 will approximate \$102.0 million. These capital expenditures will be funded entirely from operations and existing credit facilities.

During the first quarter of fiscal 2005, the Company sold nine Chili's restaurants to a new franchise partner and received cash proceeds totaling \$12.4 million.

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

During the first quarter of fiscal 2005, the Company acquired approximately 3.5 million shares of its common stock for \$120.6 million under forward purchase contracts. The shares repurchased under the contracts are intended to be used to offset the dilutive impact of the convertible debt and are recorded as a reduction of additional paid-in capital in the accompanying consolidated balance sheet. The contracts were settled in October 2004.

Pursuant to the Company's stock repurchase plan, the Company repurchased approximately 1.2 million shares of its common stock for \$42.3 million during the first quarter of fiscal 2005. As of September 29, 2004, approximately \$132.4 million was available under the Company's share repurchase authorizations, net of the shares acquired under the forward purchase contracts. The Company's stock repurchase plan will be used to minimize the dilutive impact of the convertible debt and stock option exercises. The repurchased common stock is recorded in treasury stock in the accompanying consolidated balance sheets.

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

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**RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2004, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share," which requires shares associated with contingently convertible debt instruments with market price triggers to be included in the computation of diluted earnings per share ("EPS") regardless of whether the market price trigger has been met. EITF 04-8 also requires that prior period diluted EPS amounts presented for comparative purposes be restated. EITF 04-8 is effective for reporting periods ending after December 15, 2004. The impact of applying EITF 04-8 to the Company's convertible debt will result in reductions to previously reported diluted EPS as follows:

|   | <u>Fiscal Years</u><br>(as restated) |               |               | <u>Quarters Ended</u><br>(as restated) |                                 |
|---|--------------------------------------|---------------|---------------|--|---------------------------------|
|   | <u>2004</u>                          | <u>2003</u>   | <u>2002</u>   | <u>Sept. 29,</u><br><u>2004</u>        | <u>Sept. 24,</u><br><u>2003</u> |
| Diluted earnings per share -<br>as reported | <u>\$1.54</u>                        | <u>\$1.68</u> | <u>\$1.50</u> | <u>\$0.15</u>                          | <u>\$0.44</u>                   |
| Diluted earnings per share -<br>pro-forma   | <u>\$1.47</u>                        | <u>\$1.61</u> | <u>\$1.46</u> | <u>\$0.15</u>                          | <u>\$0.42</u>                   |

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

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

**Item 4. CONTROLS AND PROCEDURES**

An evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures [as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")], as of the end of the period covered by this report. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective in timely making known to them material information relating to the Company required to be disclosed in the Company's reports filed or submitted under the Exchange Act.

There were no changes in the Company's internal control over financial reporting or in other factors that could significantly affect this control during the quarter ended September 29, 2004, that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**FORWARD-LOOKING STATEMENTS**

The Company wishes to caution readers that the following important factors, among others, could cause the actual results of the Company to differ materially from those indicated by forward-looking statements made in this report and from time to time in news releases, reports, proxy statements, registration statements and other written communications, as well as verbal forward-looking statements made from time to time by representatives of the Company. Such forward-looking statements involve risks and uncertainties that may cause the Company's or the restaurant industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that might cause actual events or results to differ materially from those indicated by these forward-looking statements may include matters such as future economic performance, restaurant openings,

operating margins, the availability of acceptable real estate locations for new restaurants, the sufficiency of the Company's cash balances and cash generated from operating and financing activities for the Company's future liquidity and capital resource needs, and other matters, and are generally accompanied by words such as "believes," "anticipates," "estimates," "predicts," "expects" and similar expressions that convey the uncertainty of future events or outcomes. An expanded discussion of some of these risk factors follows.

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

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

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

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

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

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

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

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

*Inflation may increase the Company's operating expenses.*

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

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

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

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

The Company intends to evaluate potential mergers, acquisitions, joint venture investments, and divestitures as part of its strategic planning initiative. These transactions involve various inherent risks, including accurately assessing the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates; the Company's ability to achieve projected economic and operating synergies; unanticipated changes in business and economic conditions affecting an acquired business; and the ability of the Company to complete divestitures on acceptable terms and at or near the prices estimated as attainable by the Company.

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

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

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

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

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

Other risk factors that could cause the Company's actual results to differ materially from those indicated in the forward-looking statements include, without limitation, changes in economic conditions, consumer

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perceptions of food safety, changes in consumer tastes, governmental monetary policies, changes in demographic trends, availability of employees, terrorist acts, and weather and other acts of God.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated by reference from Note 8 to the Company's consolidated financial statements set forth in Part I of this report.

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

Shares repurchased during the first quarter of fiscal 2005 are as follows (in thousands, except share and per share amounts):

|   | <b>Total Number<br/>of Shares<br/>Purchased (a)</b> | <b>Average<br/>Price<br/>Paid per<br/>Share</b> | <b>Maximum Dollar<br/>Value that May<br/>Yet be Purchased<br/>Under the Program</b> |
|---|---|---|---|
| July 1, 2004 through<br>August 4, 2004          | 1,224,800   | \$34.49   | \$253,030(b)  |
| August 5, 2004 through<br>September 1, 2004     | -   | -   | \$253,030(c)  |
| September 2, 2004 through<br>September 29, 2004 | <u>-</u>  | <u>-</u>  | \$253,030   |
|   | <u>1,224,800</u>                                    | <u>\$34.49</u>                                  |   |

(a) All of the shares purchased during the first quarter of fiscal 2005 were purchased as part of the publicly announced program described in Part I of this report.

(b) The Company entered into forward purchase contracts to acquire 2,714,612 shares of common stock during the five-week period ended August 4, 2004 at an average share price of \$35.49, plus fees. Payment for these shares was made during the five-week period ended August 4, 2004, thereby reducing the remaining amount available for future repurchases to \$156.5 million. These contracts physically settled, and the shares were received, in October 2004.

(c) The Company entered into forward purchase contracts to acquire 800,000 shares of common stock during the four-week period ended September 1, 2004 at an average share price of \$30.03, plus fees. Payment for these shares was made during the four-week period ended September 1, 2004, thereby reducing the remaining amount available for future repurchases to \$132.4 million. These contracts physically settled, and the shares were received, in October 2004.

**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. Sonsteby, Executive Vice President and Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a - 14(a) or 17 CFR 240.15d - 14(a).

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. Sonsteby, Executive Vice President and Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this Amendment No. 1 on Form 10-Q/A to be signed on its behalf by the undersigned thereunto duly authorized.

Date: January 19, 2005

BRINKER INTERNATIONAL, INC.

By: /s/ Douglas H. Brooks

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

Date: January 19, 2005

By: /s/ Charles M. Sonsteby

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