



BRINKER
INTERNATIONAL®

Annual Report 2018

Dear Fellow Shareholders,

As I reflect on the past year and look ahead to Fiscal 2019, I feel a sense of accomplishment that our team continues to deliver on the challenge to turn the business around. We have confidence in the increasing effectiveness of our strategy, and anticipation and excitement for the possibilities ahead.

We've successfully simplified our operations and worked together to master the basics of our food, service and atmosphere. We believe narrowing our focus is resulting in a better experience to every guest and provides a platform for sustainable sales growth by driving traffic.

Our turnaround strategy is a growth strategy. Sales and traffic sequentially improved throughout Fiscal 2018, and guests tell us through their satisfaction scores that their experience is faster, the food is better, and the value is best in class.

Here are a few highlights from the year, and a look at what lies ahead for Brinker and its brands.

Fiscal 2018 Results – *Sequential improvement during a turnaround year*

Achieved adjusted EPS of \$3.50, up 9.4% vs. prior year¹

- Generated revenue of approximately \$3.1 billion
- Traffic at Chili's sequentially improved more than 900 bps from Q1 to Q4
- Comp sales sequentially improved each quarter, ending with positive sales in Q4
- Paid approximately \$70.0 million in dividends
- Repurchased 7.9 million shares representing 16% of outstanding shares

Fiscal 2019 Strategic Focus – *From turnaround to growth*

This year marks our opportunity to build on this momentum by elevating our ability to deliver quality, convenience and value to every guest. Here's a look at how we're taking our strategy to the next level to grow our business.

Chili's Grill and Bar – *Making every guest count*

In Fiscal 2019, we'll continue to remind every guest what they can count on us for – delicious burgers, ribs, fajitas and margaritas at a compelling value, in a relevant, welcoming atmosphere. This year, while maintaining our speed and quality, we plan to further improve our guest experience by:

- Improving how we leverage our industry-leading technology platform
- Increasing our direct marketing capability
- Optimizing our value proposition
- Targeting multiple occasions inside and outside the restaurant
- Reimagining restaurants to enhance our atmosphere

We believe these investments across critical aspects of our business will help us capture market share across the restaurant landscape.

Maggiano's Little Italy – *Reaching more guests, every day*

Maggiano's is a strong brand known for scratch-made, authentic Italian-American flavors in a warm, festive atmosphere. In 2018, with a goal to expand beyond special occasion and reach more guests

¹ Adjusted EPS represents a Non-GAAP measure. For a reconciliation to our GAAP results, see the Company's Press Release dated August 14, 2018 and furnished to the SEC on Form 8-K on August 14, 2018.

every day, we leveraged a new daypart with brunch and focused on growing our off-premise business. As a result, our weekend lunch traffic grew nearly three percent and off-premise sales increased 12%.

In 2019, the Maggiano's team will work to further increase traffic in our dining rooms – to strengthen the business, so we can prepare to grow the brand. Leading this charge is the brand's new president, Kelly C. Baltes, a veteran in the industry, with a proven track record for growing brands while enhancing the guest experience.

Global Business Development – *Expanding in Asia*

Chili's continues to satisfy growing appetites for the brand across the globe. Our international franchise partners opened 34 restaurants in Fiscal 2018, including new markets of Panama and Chile, and we're encouraged by our partners' continued enthusiasm to expand the brand.

Our Global team will continue working to develop successful partners and further expand our presence in Asia, especially China and Vietnam, where our partners plan to open the first Chili's restaurants in Fiscal 2019. We're excited to continue our trend of industry-leading international growth, as we anticipate this year being our fourth consecutive year of more than 30 restaurant openings.

Serving the World a Great Taste of Life – *As one team*

Focusing on what we do best. Giving guests reasons to fall in love with us again. Serving new guests in new places. This only happens with a strong and passionate leadership team, a best in class operations team, and 100,000 team members worldwide, coming together to make every guest feel special.

We love serving the world a great taste of life, and we thank you for the role you play in making that happen every day.

Sincerely,



Wyman T. Roberts
President and Chief Executive Officer

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549**

FORM 10-K

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

For the Fiscal Year Ended June 27, 2018

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)
6820 LBJ FREEWAY, DALLAS, TEXAS
(Address of principal executive offices)

75-1914582
(I.R.S. Employer
Identification No.)
75240
(Zip Code)

(972) 980-9917

(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.10 par value	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$1,615,388,473.

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

<u>Class</u>	<u>Outstanding at August 13, 2018</u>
Common Stock, \$0.10 par value	40,821,597 shares

DOCUMENTS INCORPORATED BY REFERENCE

We have incorporated portions of our Annual Report to Shareholders for the fiscal year ended June 27, 2018 into Part II hereof, to the extent indicated herein. We have also incorporated by reference portions of our Proxy Statement for our annual meeting of shareholders on November 15, 2018 into Part III hereof, to the extent indicated herein.

BRINKER INTERNATIONAL, INC.

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INTRODUCTION

Forward-Looking Statements

Information and statements contained in this Form 10-K, in our other filings with the SEC or in our written and verbal communications that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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. Forward-looking statements are based on our current plans and expectations and involve risks and uncertainties that could cause actual results to differ materially from our historical results or from those projected in forward-looking statements. These risks and uncertainties are, in many instances, beyond our control. We wish to caution you against placing undue reliance on forward-looking statements because of these risks and uncertainties. Except as required by law, we expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this report are subject to the risks and uncertainties described in Item 1A below under the heading “Risk Factors”, as well as the risks and uncertainties that generally apply to all businesses. We further caution that it is not possible to identify all risk and uncertainties, and you should not consider the identified factors as a complete list of all risks and uncertainties.

PART I

ITEM 1. BUSINESS

General

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

We own, develop, operate and franchise the Chili’s® Grill & Bar (“Chili’s”) and Maggiano’s Little Italy® (“Maggiano’s”) restaurant brands. The Company was organized under the laws of the State of Delaware in September 1983 to succeed to the business operated by Chili’s, Inc., a Texas corporation, which was organized in August 1977. We completed the acquisition of Maggiano’s in August 1995.

Restaurant Brands

Chili’s Grill & Bar

Chili’s, a recognized leader in the bar & grill category of casual dining, has been operating restaurants for over 40 years. Chili’s enjoys a global presence with locations in 31 countries and two territories outside of the United States. Whether domestic or international, company-owned or franchised, Chili’s is dedicated to delivering fresh, high-quality food with a unique point of view, as well as dining experiences that make people feel special. Historically, Chili’s menu has featured bold, kicked-up American favorites, and Chili’s has built a reputation for gourmet burgers, sizzling fajitas, baby back ribs and hand-shaken margaritas. We have refocused on and reinvested in these core equities, and we plan to continue to innovate our food offerings within these core menu platforms. We believe our focused menu, our “Chilihead” culture and our reputation for hospitality will allow Chili’s to differentiate our food and service from other restaurants.

We also believe that guests are evolving not only their standards of food quality but also their expectations of convenience. Chili’s To Go menu is available on-line, by calling the restaurant, or through our mobile app. In the summer of 2017, we began offering curbside service in all our company-owned restaurants for orders placed through our website or mobile app. Curbside service has now been expanded and is available at most franchise restaurants. In fiscal 2018, we relaunched our My Chili’s Rewards program and began offering a free chips and salsa or soft drink to members at every visit. Our database of guests in our My Chili’s Rewards program increased by approximately 20% in fiscal 2018.

During the fiscal year ended June 27, 2018, at our company-owned restaurants, entrée selections ranged in menu price from \$6.00 to \$19.49. The average revenue per meal, including alcoholic beverages, was approximately \$15.70 per person. Also during fiscal 2018, food and non-alcoholic beverage sales constituted approximately 85.9% of Chili's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 14.1%. Our average annual net sales volume per company-owned Chili's restaurant during fiscal 2018 was \$2.8 million.

Maggiano's Little Italy

Maggiano's is a full-service, national, casual dining Italian restaurant brand with a passion for making people feel special. The exterior of each Maggiano's restaurant varies to reflect local architecture; however, the interior of all locations transport our guests back to a classic Italian-American restaurant in the style of New York's Little Italy in the 1940s. Our Maggiano's restaurants feature individual and family-style menus, and most of our restaurants also have extensive banquet facilities designed to host large party business or social events. We have a full lunch and dinner menu offering chef-prepared, classic Italian-American fare in the form of appetizers and entrées with bountiful portions of pasta, chicken, seafood, veal, prime steaks and desserts. On Saturdays and Sundays, all Maggiano's restaurants offer a brunch menu alongside our lunch menu. Our Maggiano's restaurants also offer a full range of alcoholic beverages, including a selection of handcrafted classic cocktails and premium wines. In addition, Maggiano's offers a full carryout menu as well as local delivery services.

During the fiscal year ended June 27, 2018, entrée selections ranged in menu price from \$12.95 to \$47.95. The average revenue per meal, including alcoholic beverages, was approximately \$28.40 per person. Also during fiscal 2018, food and non-alcoholic beverage sales constituted approximately 84.6% of Maggiano's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 15.4%. Sales from events at our banquet facilities made up 17.8% of Maggiano's total restaurant revenues for the year. Our average annual sales volume per Maggiano's restaurant during fiscal 2018 was \$8.3 million.

Business Strategy

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

We believe the restaurant industry has been building restaurants at a pace that exceeds consumer demand. Growing sales and traffic continues to be a challenge with increasing competition and heavy discounting in the casual dining industry. We regularly evaluate our processes and menu at Chili's to identify opportunities where we can improve our service quality and food. During fiscal 2018, we cut our menu offerings by a third compared to the prior year, and focused on our core equities of burgers, ribs, fajitas and margaritas. This initiative improved kitchen efficiency and allowed our managers and cooks to deliver our food hotter and faster to our guests. We also invested in the quality of our food and brought bigger burgers, meatier ribs and fajitas to our guests. Additionally, we launched a margarita of the month platform that features a new margarita every month at an every-day value price of \$5.00. As fiscal 2018 ended, our average delivery time in the dining room has improved by approximately one minute compared to the year before, and our burger, fajita and margarita businesses are all growing.

We remain competitive with our value offerings at both lunch and dinner and are committed to offering consistent, quality products at a compelling every day value. During the latter half of fiscal 2018, we offered a promotional "3 for \$10" platform that allowed guests to combine a starter, a non-alcoholic drink and an entree for just \$10.00. We plan to leverage our scale and business model to continue this promotional platform in fiscal 2019, and we believe that few of our competitors can match this promotional value on a consistent basis. In the latter half of fiscal 2018, we also relaunched our My Chili's Rewards program and moved away from the points

system that is characteristic of most retail and restaurant loyalty programs. Our simple program currently provides customized offers to loyalty members, that includes free chips and salsa or soft drink on every visit. We will continue to seek opportunities to reinforce value and create interest for the Chili's brand with new and varied offerings to further enhance sales and drive incremental traffic.

The Chili's brand continues to leverage technology to improve convenience for our guests and to create a digital guest experience that we believe will help us engage our guests more effectively. Our database of guests in our My Chili's Rewards program increased by approximately 20% in fiscal 2018, and we are able to give our loyalty members customized offers tied to their purchase behavior. We anticipate that guest loyalty programs will be a significant part of our marketing strategy going forward. We also have put greater emphasis on advertising our To Go capabilities. In the fourth quarter of fiscal 2018, Chili's grew its To Go business by double digit sales increases every month compared to the prior year. To Go sales grew to be approximately 11.5% of total Chili's To Go and dine-in sales by the end of fiscal 2018. We believe that guests will continue to prefer more convenience and options that allow them to eat at home, and we plan to continue investments in our digital guest experience and To Go capabilities.

We believe that improvements at Chili's will have a significant impact on the business; however, our results will also benefit through additional contributions from Maggiano's and our global Chili's business. Maggiano's opened one restaurant in fiscal 2018, and Maggiano's is expected to open one franchise location in fiscal 2019. Guests are responding favorably to the addition of Saturday and Sunday brunch, together with our lunch menu, at all Maggiano's restaurants. Maggiano's is committed to delivering high quality food and a dining experience in line with this brand's heritage.

Our global Chili's business continues to grow with locations in 31 countries and two territories outside of the United States. Our international franchisees opened 34 new restaurants in fiscal 2018, including our first Chili's restaurants in the countries of Chile and Panama. We plan to strategically pursue expansion of Chili's internationally through development agreements with new and existing franchise partners.

Company Development

Over the past fiscal year, we continued the expansion of our restaurant brands domestically through a select number of new company-owned restaurants in strategically desirable markets. We concentrate on the development of certain identified markets that are most likely to improve our competitive position and achieve the desired level of marketing potential, profitability and return on invested capital. Our domestic expansion efforts focus not only on major metropolitan areas in the United States but also on smaller market areas and non-traditional locations (such as airports and universities) that can adequately support our restaurant brands. For smaller market areas, we have developed a newer smaller prototype building for both brands that allows us to expand into these markets and serve our guests while maintaining a focus on profitability and return on invested capital.

The restaurant site selection process is critical, and we devote significant effort to the investigation of new locations utilizing a variety of sophisticated analytical techniques. Our process evaluates a variety of factors, including: trade area demographics, such as target population density and household income levels; physical site characteristics, such as visibility, accessibility and traffic volume; relative proximity to activity centers, such as shopping centers, hotel and entertainment complexes and office buildings; and supply and demand trends, such as proposed infrastructure improvements, new developments and existing and potential competition. Members of each brand's executive team inspect, review and approve each restaurant site prior to its lease or acquisition for that brand.

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

The following table illustrates the system-wide restaurants opened in fiscal 2018 and the projected openings in fiscal 2019:

	Fiscal 2018 Openings	Fiscal 2019 Projected Openings
Chili's domestic:		
Company-owned	6	2-4
Franchise	5	4
Maggiano's:		
Company-owned	1	—
Franchise	—	1
Chili's international:		
Company-owned	—	—
Franchise	34	33-38
Total	<u>46</u>	<u>40-47</u>

We periodically re-evaluate company-owned restaurant sites to ensure attributes have not deteriorated below our minimum standards. In the event site deterioration occurs, each brand makes a concerted effort to improve the restaurant's performance by providing physical, operating and marketing enhancements unique to each restaurant's situation. In some cases the brand considers relocation to a proximate, more desirable site, or evaluates closing the restaurant if the brand's measurement criteria, such as return on investment and area demographic trends, do not support relocation. We closed thirteen company-owned restaurants in fiscal 2018 that were generally performing below our standards or were near or at the expiration of their lease terms. We relocated two company-owned restaurants in fiscal 2018. In fiscal 2019, we plan to relocate five company-owned restaurants. Relocations are not included in the above table. Our strategic plan is targeted to support our long-term growth objectives, with a focus on continued development of those restaurant locations that have the greatest return potential for the Company and our shareholders.

Franchise Development

In addition to our development of company-owned restaurants, our restaurant brands pursue expansion through our franchisees.

As part of our strategy to expand through our franchisees, our franchise operated locations increased in fiscal 2018. The following table illustrates the percentages of franchise operations as of June 27, 2018 for the Company and by restaurant brand, respectively:

	Percentage of Franchise Operated Restaurants		
	Domestic ⁽¹⁾	International ⁽²⁾	Overall ⁽³⁾
Brinker	24%	99%	41%
Chili's	25%	99%	42%
Maggiano's	—%	—%	—%

(1) The percentages in this column are based on number of domestic franchised restaurants versus total domestic restaurants.

(2) The percentages in this column are based on number of international franchised restaurants versus total international restaurants.

(3) The percentages in this column are based on the total number of franchised restaurants (domestic and international) versus total system-wide number of restaurants.

International

We continue our international growth through development agreements with new and existing franchise partners, introducing Chili's to new countries and expanding the brand within our existing markets. As of June 27, 2018, we had 20 total development arrangements. During fiscal 2018, our international franchisees opened 34 Chili's restaurants. We entered into new development agreements with new and existing franchisees for development in Saudi Arabia and China. During fiscal 2018, we sold our Dutch subsidiary that held our equity interest in our Chili's joint venture in Mexico to the franchise partner in the joint venture.

We plan to strategically pursue expansion of Chili's internationally in areas where we see the most growth opportunities. Our international agreements provide the vehicle for payment of development fees and initial franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. We expect future agreements to remain limited to enterprises that demonstrate a proven track record as a restaurant operator and showcase financial strength that can support a multi-unit development agreement.

Domestic

We remain committed to finding and working with new and existing domestic franchise partners to develop more restaurants. We plan to accomplish this through new or existing development and franchise agreements with new or existing franchisees. In addition, we have from time to time also sold and may sell company-owned restaurants to our franchisees (new or existing). As of June 27, 2018, three domestic development arrangements existed. Similar to our international agreements, a typical domestic agreement provides for payment of development and initial franchise fees in addition to subsequent royalty and advertising fees based on the gross sales of each restaurant. We expect future domestic agreements to remain limited to enterprises having significant experience as restaurant operators and proven financial ability to support and develop multi-unit operations.

During the fiscal year ended June 27, 2018, our domestic franchisees opened five Chili's restaurants.

Restaurant Management

Our Chili's and Maggiano's brands have separate designated teams who support each brand, including operations, finance, franchise, marketing, human resources and culinary. We believe these strategic, brand-focused teams foster the identities of the individual and uniquely positioned brands. To maximize efficiencies, brands continue to utilize common and shared infrastructure, including, among other services, accounting, information technology, purchasing, legal, and restaurant development.

At the restaurant level, management structure varies by brand. A typical restaurant is led by a management team including a general managing partner, two to six additional managers, and for Maggiano's, an additional three to four chefs. The level of restaurant supervision depends upon the operating complexity and sales volume of individual locations.

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

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

their operational training program. Depending on the brand, the training program typically includes a training period of two to three months for restaurant management trainees, as well as special training for high-potential managers. We also provide recurring management training for managers and supervisors to improve effectiveness or prepare them for more responsibility.

Supply Chain

Our ability to maintain consistent quality and continuity of supply throughout each restaurant brand depends upon acquiring products from reliable sources. Our approved suppliers and our restaurants are required to adhere to strict product and safety specifications established through our quality assurance and culinary programs. These requirements are intended to ensure high-quality products are served in each of our restaurants. We strategically negotiate directly with major suppliers to obtain competitive prices. We also use purchase commitment contracts when appropriate to stabilize the potentially volatile pricing associated with certain commodity items. All essential products are available from pre-qualified distributors to be delivered to our restaurant brands. Additionally, as a purchaser of a variety of food products, we require our suppliers to adhere to our supplier code of conduct, which sets forth our expectation on business integrity, food safety and food ingredients, animal welfare and sustainability. Due to the relatively rapid turnover of perishable food products, inventories in the restaurants, which consist primarily of food, beverages and supplies, have a modest aggregate dollar value in relation to revenues. Internationally, our franchisees may encounter cultural and regulatory differences resulting in variances with product specifications for international restaurant locations.

Advertising and Marketing

As a “polished casual” restaurant, with 52 locations, Maggiano’s primarily targets guests from affluent households who live and work around the higher-end malls where the majority of Maggiano’s restaurants are located. Maggiano’s relies on digital marketing, direct marketing, social media and word of mouth to advertise to new guests. As a large, nationally penetrated bar and grill brand, Chili’s appeals to a broader population. More than 50 million Americans visit Chili’s every three months, ranging across all income and ethnic groups. As casual-dining traffic has softened in recent years, we have worked hard to be more precise in defining the Chili’s target guest. Today our primary focus for developing menu innovation and targeting our TV and digital advertising are the Generation X and Millennial families who desire quality food, good value and a service experience that allows them to connect with family and friends. These young families represent a significant percentage of our guest base today and, we believe, will only grow in importance in the years ahead.

Our domestic Chili’s franchise agreements generally require advertising contributions to us by the franchisees. We use these contributions, in conjunction with company funds, for the purpose of retaining advertising agencies, obtaining consumer insights, developing and producing brand-specific creative materials and purchasing national or regional media to meet the brand’s strategy. Some franchisees also spend additional amounts on local advertising. Any such local advertising is required to be approved by us.

Team Members

As of June 27, 2018, we employed 58,478 team members, of which 577 were restaurant support center personnel in Dallas and 4,504 were restaurant regional and area directors, managers, or trainees. The remaining 53,397 were employed in non-management restaurant positions. Our executive officers have an average of 25 years of experience in the restaurant industry.

We have a positive team member relations outlook and have reached record-high internal engagement rates. In addition, our turnover rates are low for the industry. We have a variety of strong resources to help us recruit and retain the best talent to work in our restaurants and restaurant support center. This includes our comprehensive education program, Best You EDU, which launched in January 2018 and provides foundational learning, GED and associate degree programs at no cost to the participating team member. We have also

developed a new restaurant position, Certified Shift Leader, which gives our hourly team members a clear path into management and growing their long-term career with our company. This position is nationally accredited as an apprenticeship through the National Restaurant Association Education Foundation and U.S. Department of Labor. Additionally, we continue to invest in developing digital and on-the-job training programs to further engage restaurant team members and set them up to achieve results.

The majority of our team members, outside of restaurant management and restaurant support center personnel, are paid on an hourly basis. We stand firm in the belief that we provide competitive working conditions and wages favorable to other companies in our industry. Our team members are not covered by any collective bargaining agreements.

Cyber Security

During the fourth quarter of fiscal 2018, we issued a public statement that malware had been discovered at certain Chili's restaurants that resulted in unauthorized access or acquisition of customer payment card data. For further information about this cyber security incident, see Item 1A—Risk Factors and Note 13—Commitments and Contingencies presented within Item 8—Financial Statements and Supplementary Data provided within Exhibit 13 of this filing.

Trademarks

We have registered or have pending, among other marks, “Brinker International”, “Chili’s”, “Chili’s Too”, “Maggiano’s”, and “Maggiano’s Little Italy”, as trademarks with the United States Patent and Trademark Office.

Available Information

We maintain an internet website with the address of <http://www.brinker.com>. You may obtain, free of charge, at our website, copies of our reports filed with, or furnished to, the Securities and Exchange Commission (the “SEC”) on Forms 10-K, 10-Q and 8-K. Any amendments to such reports are also available for viewing and copying at our internet website. These reports will be available as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC. You may also view and copy such reports at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the SEC’s Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet website, the address of which is www.sec.gov, which contains reports, proxy and information statements, and other information filed electronically or furnished with the SEC. In addition, you may view and obtain, free of charge, at our website, copies of our corporate governance materials, including, Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Governance and Nominating Committee Charter, Code of Conduct and Ethical Business Policy, and Problem Resolution Procedure/Whistle Blower Policy. The information contained on our website is not a part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

We wish to caution you that our business, financial condition and results of operations are subject to a number of risks and uncertainties. The risk factors listed below could cause actual results to differ materially from our historical results or from those projected in forward-looking statements contained in this report, our other filings with the SEC, our news releases, or our other verbal or written communications. Additional risks and uncertainties that are currently not known or believed by us to be immaterial may also have a material negative impact on our business, financial condition and results of operations. In any such event, the trading price of our securities could decline and you could lose all or part of your investment.

Competition may adversely affect our operations and financial results.

The restaurant business is highly competitive as to price, service, restaurant location, convenience, and type and quality of food. We compete within each market with locally-owned restaurants as well as national and

regional restaurant chains. The casual dining segment of the restaurant industry has not seen significant growth in customer traffic in recent years. If this trend continues, our ability to grow customer traffic at our restaurants will depend on our ability to increase our market share within the casual dining segment. We also face competition from quick service and fast casual restaurants; the convergence in grocery, deli and restaurant services; and meal kit and food delivery providers. We compete primarily on the quality, variety and value perception of menu items, as well as the quality and efficiency of service, the attractiveness of facilities and the effectiveness of advertising and marketing programs. Although we may implement a number of business strategies, the success of new products, initiatives and overall strategies is highly difficult to predict. If we are unable to compete effectively, our gross sales and profitability may decline.

Changes in consumer preferences may decrease demand for food at our restaurants.

Changing health or dietary preferences may cause consumers to avoid our products in favor of alternative foods. The food service industry as a whole depends on consumer preferences at the local, regional, national and international levels. New information or changes in dietary, nutritional or health insurance guidelines, whether issued by government agencies, academic studies, advocacy organizations or similar groups, may cause consumers to select foods other than those that are offered by our restaurants. We may not be able to adequately adapt our menu offerings to keep pace with developments in current consumer preferences, which may result in reductions to the revenues generated by our company-owned restaurants and the payments we receive from franchisees.

Food safety incidents at our restaurants or in our industry or supply chain may adversely affect customer perception of our brands or industry and result in declines in sales and profits.

Regardless of the source or cause, any report of food-borne illnesses or other food safety issues at one of our restaurants or our franchisees' restaurants could irreparably damage our brand reputations and result in declines in customer traffic and sales at our restaurants. A food safety incident may subject us to regulatory actions and litigation, including criminal investigations, and we may be required to incur significant legal costs and other liabilities. Food safety incidents may occur in our supply chain and be out of our control. Health concerns or outbreaks of disease in a food product could also reduce demand for particular menu offerings. Even instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the restaurant industry generally and adversely affect our sales or cause us to incur additional costs to implement food safety protocols beyond industry standards. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

Global and domestic economic conditions may negatively impact consumer discretionary spending and could have a material negative effect on our financial performance.

The restaurant industry is dependent upon consumer discretionary spending, which may be negatively affected by global and domestic economic conditions, such as: slow or negative growth, unemployment, credit conditions and availability, volatility in financial markets, inflationary pressures, weakness in the housing market, tariffs and trade barriers, and changes in government and central bank monetary policies. If economic conditions negatively affect consumer incomes, then discretionary spending for restaurant visits will be challenged, our guest traffic may deteriorate and the average amount guests spend in our restaurants may be reduced. This will negatively impact our revenues and also result in lower royalties collected, spreading fixed costs across a lower level of sales, and in turn, cause downward pressure on our profitability. This could result in further reductions in staff levels, asset impairment charges and potential restaurant closures. There is no assurance that any governmental plan to restore fiscal responsibility or future plans to stimulate the economy will foster growth in consumer confidence, consumer incomes or consumer spending.

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, customer complaints, litigation, illness or health concerns or other issues stemming from one or a limited number of restaurants, regardless of whether such events have a factual basis. 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. The speed at which negative publicity (whether or not accurate) can be disseminated has increased dramatically with the capabilities of the internet. If we are unable to quickly and effectively respond to such reports, we may suffer declines in guest traffic which could materially impact our financial performance.

Employment and labor laws and regulations may increase the cost of labor for our restaurants.

We are subject to various federal, state and local employment and labor laws and regulations that govern employment and labor matters, including, employment discrimination, minimum wages, work scheduling, overtime, tip credits, tax reporting, working conditions, safety standards, family leave and immigration status. Compliance with these laws and regulations can be costly, and a failure or perceived failure to comply with these laws could result in negative publicity or litigation. Many states and localities are contemplating increases to their minimum wage and tip credit wage, and such increases can have a significant impact on our labor costs. In addition, new employment or labor laws may mandate additional benefits for employees or impose additional obligations that may adversely impact the costs of labor, the availability of labor and our business operations. In addition, our suppliers 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. There are no assurances that a combination of cost management and price increases can accommodate all of the costs associated with compliance.

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

We are subject to extensive federal, state, local and international laws and regulations, which vary from jurisdiction to jurisdiction and which increase our exposure to litigation and governmental proceedings. Among other laws and regulations, we are subject to laws and regulations relating to the design and operation of facilities, licensing and regulation by alcoholic beverage control, health, sanitation, safety and fire agencies, nutritional content and menu labeling, including the Affordable Care Act which requires restaurant companies such as ours to disclose calorie information on their menus. Compliance with these laws and regulations may lead to increased costs and operational complexity, changes in sales mix and profitability, and increased exposure to governmental investigations or litigation. We cannot reliably anticipate any changes in guest behavior resulting from implementation of these laws.

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 this will not occur in the future. In particular, the U.S. and other foreign governments have increased focus on environmental matters such as climate change, greenhouse gases and water conservation. These efforts could result in increased taxation or in future restrictions on or increases in costs associated with food and other restaurant supplies, transportation costs and utility costs, any of which could decrease our operating profits and/or necessitate future investments in our restaurant facilities and equipment to achieve compliance.

We are subject to federal and state laws and regulations which govern the offer and sale of franchises and which may supersede the terms of franchise agreements between us and our franchisees. Failure to comply with such laws and regulations or to obtain or retain licenses or approvals to sell franchises could adversely affect us and our franchisees. Due to our international franchising, we are also subject to governmental regulations throughout the world impacting the way we do business with our international franchisees. These include

antitrust and tax requirements, anti-boycott regulations, import/export/customs and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could adversely impact our business and financial performance.

The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations, or our inability to respond effectively to significant regulatory or public policy issues, could increase our compliance and other costs of doing business and therefore have an adverse effect on our results of operations. Failure to comply with the laws and regulatory requirements of federal, state, local, and international authorities could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability. Compliance with these laws and regulations can be costly and can increase our exposure to litigation or governmental investigations or proceedings.

Successful strategic transactions are important to our future growth and profitability.

We evaluate and may pursue opportunities for growth through new and existing franchise partners, joint venture investments, acquisition of restaurant concepts, expansion of our brands to other retail opportunities, and strategic mergers, acquisitions and divestitures. These strategic initiatives involve various inherent risks, including, without limitation:

- inaccurate assessment of the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of such strategic initiatives;
- damaging our reputation if the strategic initiatives result in products or services that are not of the same quality that our customers associate with our brands;
- diversion of management's attention and focus from existing operations to the strategic initiative;
- inability to achieve projected economic and operating synergies;
- challenges in successfully integrating an acquired business and instilling our company culture in new management and team members;
- potential loss of key personnel of any acquired business; and
- unanticipated changes in business and economic conditions affecting an acquired business or the completion of a divestiture.

If we are unable to successfully design and execute a business strategy plan, our gross sales and profitability may be adversely affected.

Our ability to increase revenues and profitability is dependent on designing and executing effective business strategies. If we are delayed or unsuccessful in executing our strategies or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer. Our ability to meet our business strategy plan is dependent upon, among other things, our and our franchisees' ability to:

- increase gross sales and operating profits at existing restaurants with food and beverage options desired by our guests;
- evolve our marketing and branding strategies in order to appeal to guests;
- innovate and implement technology initiatives that provide a unique digital guest experience;
- identify adequate sources of capital to fund and finance strategic initiatives, including reimaging of existing restaurants, new restaurant development and new restaurant equipment;

- grow and expand operations, including identifying available, suitable and economically viable locations for new restaurants; and
- improve the speed and quality of our service.

Loss of key management personnel could hurt our business and limit our ability to operate and grow successfully.

Our success depends, to a significant extent, on our leadership team and other key management personnel. These personnel serve to maintain a corporate vision for our Company, execute our business strategy, and maintain consistency in the operating standards of our restaurants. If we are unable to attract and retain sufficiently experienced and capable key management personnel, our business and financial results may suffer.

Failure to recruit, train and retain high-quality restaurant management and team members may result in lower guest satisfaction and lower sales and profitability.

Our restaurant-level management and team members are largely responsible for the quality of our service. Our guests may be dissatisfied and our sales may decline if we fail to recruit, train and retain managers and team members that effectively implement our business strategy and provide high quality guest service. There is active competition for quality management personnel and hourly team members. If we experience high turnover, we may experience higher labor costs and have a shortage of adequate management personnel required for future growth.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business.

There has been a marked increase in the use of social media and similar platforms which allow individuals access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their subscribers and participants' post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and may harm our performance, prospects or business, regardless of the information's accuracy.

As part of our marketing strategy, we rely on search engine marketing, social media and new technology platforms to attract and retain guests and maintain brand relevance. Our strategy and initiatives may not be successful, resulting in expenses incurred without improvement in guest traffic or brand relevance. In addition, a variety of risks are associated with the use of social media, including the improper disclosure of proprietary information, negative comments about us, exposure of personally identifiable information, fraud, or out-of-date information. The inappropriate use of social media vehicles by our guests or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

Failure to protect the integrity and security of payment card or individually identifiable information of our guests and teammates or confidential and proprietary information of the Company could damage our reputation and expose us to loss of revenues, increased costs and litigation.

A significant portion of our restaurant sales are by credit or debit cards. Our technology systems contain personal, financial and other information that is entrusted to us by our guests and team members, as well as financial, proprietary and other confidential information related to our business. If our technology systems, or those of third party services providers we rely upon, are compromised as a result of a cyber attack (including whether from circumvention of security systems, denial-of-service attacks, hacking, "phishing" attacks, computer viruses, ransomware, malware, or social engineering) or other external or internal method, it could result in an adverse and material impact on our reputation, operations, and financial condition. Such security breaches could also result in litigation or governmental investigation against us, as well as the imposition of penalties. These impacts could also occur if we are perceived either to have had an attack or to have failed to properly respond to an incident.

We are subject to a variety of continuously evolving and developing laws and regulations regarding privacy, data protection, and data security, including those related to the collection, storage, handling, use, disclosure, transfer, and security of personal data. As privacy and information security laws and regulations change or cyber risks evolve pertaining to data, we may incur significant additional costs in technology, third-party services and personnel to maintain systems designed to anticipate and prevent cyber attacks. As further described below, the Company experienced a cyber security incident at some Chili's locations. As a result of the incident, we have taken certain additional preventative measures to reduce cyber risks. However, we cannot provide assurance that our security frameworks and measures will be successful in preventing future cyber attacks or data loss. In addition, we expect the cost to maintain cyber liability insurance in the future will materially increase as a result of the incident.

We have incurred and in the future may incur costs and reputational harm resulting from the unauthorized access or acquisition of confidential consumer information related to our electronic processing of credit and debit card transactions.

On May 12, 2018, we issued a public statement notifying guests that we had discovered that credit and debit card numbers and related payment card information may have been acquired from Chili's locations without authorization as a result of a malware attack. The Company has engaged third-party forensic firms and cooperated with law enforcement to investigate the matter. Based on the investigation of our third-party forensic experts, we believe most Company-owned Chili's restaurants were impacted by the malware during time frames that vary by restaurant, but we believe in each case beginning no earlier than March 21, 2018 and ending no later than April 22, 2018. As a result of the incident, we may incur losses associated with anticipated claims by payment card companies for card issuer losses and card replacement costs, as well as fines, penalties and other charges issued by payment card companies. In addition, we are the defendant in purported class action lawsuits, alleging that we negligently failed to provide adequate security to protect the payment card information of the plaintiffs, causing those individuals to suffer financial losses. We may also be subject to fines and penalties imposed by state and federal regulators relating to or arising out of the incident. In the future we may become subject to additional claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we may also become subject to additional lawsuits or proceedings relating to the incident. While we do not acknowledge responsibility to pay any such amounts imposed or demanded, these proceedings and demands may result in related settlement costs. Although we maintain cyber liability insurance, we are not able to reliably forecast all of the losses that may occur as a result of the incident. It is possible that our losses will be in excess of our cyber liability insurance coverage applicable to the incident. If losses exceed our cyber liability insurance coverage such excess losses could have a material adverse effect on our financial condition or results of operations in future periods.

Further, the incident may have a negative impact on our reputation and cause guests to lose confidence in our ability to safeguard their information. We are unable to definitively determine the impact to our relationship with our guests and whether we will need to engage in significant promotional or other activities to rebuild our relationship with our guests. If the Company experiences another cyber security incident in the future, we believe it will be even more difficult to regain the trust of our guests and to rebuild our reputation.

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

Possible shortages or interruptions in the supply of food items and other products to our restaurants caused by inclement weather; natural disasters such as floods, drought and hurricanes; shortages in the availability of truck drivers; the inability of our suppliers to obtain credit in a tight credit market; food safety warnings or advisories or the prospect of such pronouncements; animal disease outbreaks; 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 or reduce revenues and limit the availability of products critical to our restaurant operations.

The large number of Company-owned restaurants concentrated in Texas, Florida and California makes us susceptible to changes in economic and other trends in those regions.

A high concentration of our company-owned restaurants are located in Texas, Florida and California comprising 21.7%, 13.8% and 11.7%, respectively, as of June 27, 2018. As a result, we are particularly susceptible to adverse trends and economic conditions in those states. Negative publicity, local economic conditions, local strikes, energy shortages or extreme fluctuations in energy prices, droughts, earthquakes, fires or other natural disasters in regions where our restaurants are highly concentrated could have a material adverse effect on our business and operations. For example, declines in oil prices may increase levels of unemployment and cause other economic pressures that result in lower sales and profits at our restaurants in oil market regions of Texas and surrounding areas.

Litigation could have a material adverse impact on our business and our financial performance.

We are subject to lawsuits, administrative proceedings and claims that arise in the regular course of business or out of special circumstances. These matters typically involve claims by guests, team members and others regarding issues such as food-borne illness, food safety, premises liability, compliance with wage and hour requirements, work-related injuries, discrimination, harassment, disability and other operational issues common to the foodservice industry, as well as contract disputes and intellectual property infringement matters. Our franchise activity also creates a risk of us being named as a joint employer of workers of franchisees for alleged violations of labor and wage laws. We could be adversely affected by negative publicity and litigation costs resulting from these claims, regardless of their validity. Significant legal fees and costs in complex class action litigation or an adverse judgment or settlement that is not insured or is in excess of insurance coverage could have a material adverse effect on our financial position and results of operations.

The success of our franchisees is important to our future growth.

We have a significant percentage of system-wide restaurants owned and operated by our franchisees. While our franchise agreements are designed to require our franchisees to maintain brand consistency, the franchise relationship reduces our direct day-to-day oversight of these restaurants and may expose us to risks not otherwise encountered if we maintained ownership and control. Our reputation and financial results may be negatively impacted by: franchisee defaults in their obligations to us; limitations on our ability to enforce franchise obligations due to bankruptcy proceedings; franchisee failures to participate in business strategy changes due to financial constraints; franchisee failures to meet obligations to pay employees; and franchisees' failure to comply with food quality and preparation requirements.

Additionally, our international franchisees are subject to risks not encountered by our domestic franchisees, and royalties paid to us may decrease if their businesses are negatively impacted. These risks include:

- difficulties in achieving consistency of product quality and service as compared to U.S. operations;
- changes to recipes and menu offerings to meet cultural norms;
- challenges to obtain adequate and reliable supplies necessary to provide menu items and maintain food quality; and
- differences, changes or uncertainties in economic, regulatory, legal, cultural, social and political conditions.

Downgrades in our credit ratings could impact our ability to access capital and materially adversely affect our business, financial condition and results of operations.

Credit rating agencies may change their credit rating for us, among other things, based on the performance of our business, our capital strategies or their overall view of our industry. There can be no assurance that any

rating assigned to our currently outstanding public debt securities will remain in effect for any given period of time or that any such ratings will not be further lowered, suspended or withdrawn entirely by a rating agency if, in that agency's judgment, circumstances so warrant.

A downgrade of our credit ratings could, among other things:

- increase our cost of borrowing;
- limit our ability to access capital;
- result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur, including restrictions on our ability to pay distributions or repurchase shares;
- require us to provide collateral for any future borrowings; and
- adversely affect the market price of our outstanding debt securities.

Inflation and fluctuations in energy costs may increase our operating expenses.

We have experienced impact from inflation and fluctuations in utility and energy costs. Inflation has caused added food, labor and benefits costs and increased our operating expenses. Fluctuations and increases in utility and energy costs have also increased our operating expenses on regional or national levels, including through suppliers putting pressure on margins by passing on higher prices for petroleum-based fuels. As operating expenses rise, we, to the extent permitted by competition, recover costs by raising menu prices, or by implementing alternative products, processes or cost reduction procedures. We cannot ensure, however, we will be able to continue to recover increases in operating expenses due to inflation in this manner.

Challenges to the retail industry may negatively affect guest traffic at our restaurants.

Other tenants at retail centers in which we are located or have executed leases may fail to open or may cease operations as a result of challenges specific to the retail industry, including competition from online retailers. Decreases in total tenant occupancy in retail centers and changes in guest visits to the retail centers in which we are located may negatively affect guest traffic at our restaurants.

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

We rely on information systems across our operations, including, for example, point-of-sale processing in our restaurants, management of our supply chain, collection of cash, payment of obligations, and various other processes and procedures. Our ability to efficiently manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with maintenance, upgrading or transitioning to replacement systems, or a breach in security of these systems could cause delays in customer service and reduce efficiency in our operations.

Additionally, our corporate systems and processes and corporate support for our restaurant operations are handled primarily at our restaurant support center. We have disaster recovery procedures and business continuity plans in place to address most events of a crisis nature, including tornadoes and other natural disasters, and back up and off-site locations for recovery of electronic and other forms of data and information. However, if we are unable to fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital corporate functions, tardiness in required reporting and compliance, failures to adequately support field operations and other breakdowns in normal communication and operating procedures that could have a material adverse effect on our financial condition, results of operation and exposure to administrative and other legal claims.

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

We regard our Chili's® and Maggiano's® service marks, and other service marks and trademarks related to our restaurant businesses, as having significant value and being important to our marketing efforts. We rely on a combination of protections provided by contracts, copyrights, patents, trademarks, service marks and other common law rights, such as trade secret and unfair competition laws, to protect our restaurants and services from infringement. We have registered certain trademarks and service marks in the United States and foreign jurisdictions. However, we are aware of names and marks identical or similar to our service marks being used from time to time by other entities. Although our policy is to oppose any such infringement, further or unknown unauthorized uses or other misappropriation of our trademarks or service marks could diminish the value of our brands and adversely affect our business. In addition, effective intellectual property protection may not be available in every country in which we have or intend to open or franchise a restaurant. Although we believe we have taken appropriate measures to protect our intellectual property, there can be no assurance that these protections will be adequate and defending or enforcing our service marks and other intellectual property could result in the expenditure of significant resources.

We outsource certain business processes to third-party vendors that subject us to risks, including disruptions in business and increased costs.

Some business processes are or may in the future be outsourced to third parties. Such processes include certain information technology processes, gift card tracking and authorization, credit card authorization and processing, insurance claims processing, certain payroll processing, tax filings and other accounting processes. We also continue to evaluate our other business processes to determine if additional outsourcing is a viable option to accomplish our goals. We make a diligent effort to ensure that all providers of outsourced services are observing proper internal control practices, such as redundant processing facilities and adequate security frameworks to guard against breaches or data loss; however, there are no guarantees that failures will not occur. Failure of third parties to provide adequate services could have an adverse effect on our results of operations, financial condition or ability to accomplish our financial and management reporting.

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

We perform our annual goodwill impairment tests in the second quarter of each fiscal year. Interim goodwill impairment tests are also required when events or circumstances change between annual tests that would more likely than not reduce the fair value of our reporting units below their carrying value. It is possible that a change in circumstances such as the decline in the market price of our common stock or changes in consumer spending levels, or in the numerous variables associated with the judgments, assumptions and estimates made in assessing the appropriate valuation of our goodwill, could negatively impact the valuation of our brands and create the potential for a non-cash charge to recognize impairment losses on some or all of our goodwill. If we were required to write down a portion of our goodwill and record related non-cash impairment charges, our financial position and results of operations would be adversely affected.

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

We make certain estimates and projections with respect to individual restaurant operations, as well as our overall performance in connection with our impairment analyses for long-lived assets. An impairment charge is required when the carrying value of the asset exceeds the estimated fair value. The projection of future cash flows used in the analyses requires the use of judgment and a number of estimates and projections of future operating results. If actual results differ from our estimates, additional charges for asset impairments may be required in the future. If impairment charges are significant, our financial position and results of operations could be adversely affected.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

We are subject to the internal control requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which require management to assess the effectiveness of our internal control over financial reporting and our independent auditors to attest to the effectiveness of our internal control over financial reporting. Our processes for designing and implementing effective internal controls involve continuous effort that requires us to anticipate and react to changes in our business as well as in the economic and regulatory environments. As a result, we expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We cannot assure you that the measures we will take as part of this effort will be sufficient to maintain effective internal control over our financial reporting. Failure to maintain effective internal controls could result in consolidated financial statements that do not accurately reflect our financial condition, cause investors to lose confidence in our reported financial information, or result in regulatory scrutiny, penalties or shareholder litigation, all of which could have a negative effect on the trading price of our common stock.

Our business and operation could be negatively affected if we become subject to any securities litigation or shareholder activism, which could cause us to incur significant expense, hinder execution of investment strategy and impact our stock price.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing in publicly traded companies recently. Due to the potential volatility of our stock price and for a variety of other reasons, we may become the target of securities litigation or shareholder activism. Securities litigation and shareholder activism, including potential proxy contests, could result in substantial costs and legal fees and divert management's and our board of directors' attention and resources from our business. Additionally, such securities litigation and shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with service providers and make it more difficult to attract and retain qualified personnel. Further, our stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any securities litigation and shareholder activism.

From time to time we may implement measures that make it more difficult for an activist investor or potential acquirer to purchase a large portion of our securities, to initiate a tender offer or a proxy contest, or to acquire the Company through a merger or similar transaction. These measures may discourage investment in our common stock and may delay or discourage acquisitions that would result in our stockholders receiving a premium for their shares over the then-current market price.

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 forward-looking statements, include, without limitation, changes in financial and credit markets (including rising interest rates); increased fuel costs and availability for our team members, customers and suppliers; increased health care costs; health epidemics or pandemics or the prospects of these events; changes in consumer behaviors; changes in demographic trends; labor shortages and availability of employees; union organization; strikes; terrorist acts; energy shortages and rolling blackouts; and weather (including, major hurricanes and regional winter storms); inadequate insurance coverage; and limitations imposed by our credit agreements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Restaurant Locations

As of June 27, 2018, our system of company-owned and franchised restaurants included 1,686 restaurants located in 49 states and Washington, D.C. We and our franchisees also have restaurants in the U.S. territories of Guam and Puerto Rico and the countries of Bahrain, Canada, Chile, Costa Rica, Dominican Republic, Ecuador, Egypt, El Salvador, Germany, Guatemala, Honduras, India, Indonesia, Japan, Jordan, Kuwait, Lebanon, Malaysia, Mexico, Morocco, Oman, Panama, Peru, Philippines, Qatar, Saudi Arabia, Singapore, South Korea, Taiwan, Tunisia and United Arab Emirates. We have provided you a breakdown of our portfolio of restaurants in the two tables below:

Company-owned versus franchise (by brand) as of June 27, 2018:

	<u>June 27, 2018</u>
Chili's	
Company-owned (domestic)	940
Company-owned (international)	5
Franchise	689
Maggiano's	
Company-owned	52
Total	<u>1,686</u>

Domestic versus foreign locations (by brand) as of June 27, 2018 (company-owned and franchised):

	<u>Domestic</u>	<u>No. of States</u>	<u>Foreign</u>	<u>No. of countries and U.S. territories</u>
Chili's	1,251	49	383	34
Maggiano's	52	23 & D.C.	—	1

Restaurant Property Information

The following table illustrates the approximate dining capacity for a prototypical restaurant of each of our brands:

	<u>Chili's</u>	<u>Maggiano's</u>
Square feet	4,300-6,000	8,500-24,000
Dining seats	150-252	240-700
Dining tables	35-54	35-150

As of June 27, 2018, we owned the land and building for 194 of our 997 company-owned restaurant locations (domestic and international). For these 194 restaurant locations, the net book value for the land was \$147.1 million and for the buildings was \$88.2 million. In the first quarter of fiscal 2019, we entered into three purchase agreements to sell and leaseback 143 restaurant properties located throughout the United States. Subsequently under these purchase agreements, we have completed sale leaseback transactions of 137 of these restaurant locations, please refer to Note 16—Subsequent Events of the Consolidated Financial Statements attached as part of Exhibit 13 to this document for further details.

As of June 27, 2018, 803 restaurant locations were leased by us and the net book value of the buildings and leasehold improvements was \$502.6 million. The 803 leased restaurant locations can be categorized as follows:

662 are ground leases (where we lease land only, but own the building) and 141 are retail leases (where we lease the land/retail space and building). We believe that our properties are suitable, adequate, well-maintained and sufficient for the operations contemplated. Our leased restaurants are leased for an initial lease term which is typically ten to twenty years, with one or more renewal terms typically ranging from two to 10 years. The leases typically provide for a fixed rental or a fixed rental plus percentage rentals based on sales volume.

Other Properties

During fiscal 2018, we sold an office building containing approximately 108,000 square feet which we continue to use pursuant to a sublease agreement as part of our corporate headquarters and menu development activities. We lease an additional office complex containing approximately 198,000 square feet for the remainder of our corporate headquarters. We entered into a lease for a new corporate headquarters office building to consist of approximately 216,300 square feet. Construction of our new corporate headquarters will not be complete until mid-fiscal year 2019.

ITEM 3. LEGAL PROCEEDINGS

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

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

Cyber Security Incident

The Company was named as a defendant in putative class action lawsuits in the United States District Court for the Middle District of Florida, the United States District Court for the District of Nevada, and two in the United States District Court for the Central District of California, filed on May 24, 2018, May 30, 2018, June 14, 2018, and June 28, 2018, respectively (collectively, the "Litigation") relating to the cyber security incident described in Item 1A—Risk Factors. In the Litigation, plaintiffs assert various claims stemming from the cyber security incident at the Company's Chili's restaurants involving customer payment card information and seek monetary damages in excess of \$5.0 million, injunctive and declaratory relief and attorney's fees and costs. We believe we have defenses and intend to defend the Litigation. Several government agencies, including State Attorneys General, are inquiring about or investigating events related to the cyber security incident, including how it occurred, its consequences and our responses (the "Inquiries"). We are cooperating with the Inquiries, and we may be subject to fines or other obligations. At this point, we are unable to predict the developments in, outcome of, and economic and other consequences of pending or future litigation or regulatory investigations related to, and other costs associated with this matter. As such, as of June 27, 2018, we have concluded that a loss from these matters is not determinable, therefore, we have not recorded an accrual for Litigation or Inquiries, although the ultimate amount paid on claims and settlement costs could be material. We will continue to evaluate these matters based on subsequent events, new information and future circumstances.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

	Fiscal Year Ending			
	June 27, 2018		June 28, 2017	
	High	Low	High	Low
First Quarter	\$ 38.51	\$ 29.89	\$ 54.74	\$ 45.03
Second Quarter	\$ 40.15	\$ 30.47	\$ 55.19	\$ 47.64
Third Quarter	\$ 40.12	\$ 32.67	\$ 50.03	\$ 41.14
Fourth Quarter	\$ 52.12	\$ 35.90	\$ 45.46	\$ 36.93

As of August 13, 2018, there were 457 holders of record of our common stock.

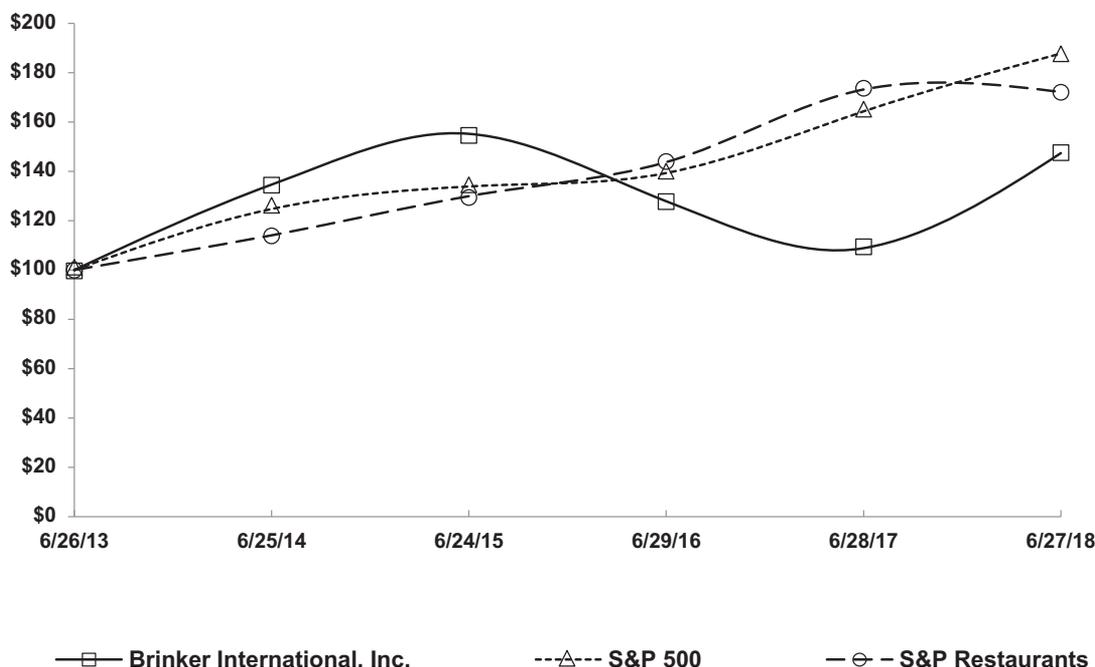
During the fiscal year ended June 27, 2018, we declared quarterly cash dividends for our shareholders. We have set forth the dividends declared for the fiscal year in the following table on the specified dates:

Dividend Per Share of Common Stock	Declaration Date	Record Date	Payment Date
\$0.38	August 10, 2017	September 8, 2017	September 28, 2017
\$0.38	November 16, 2017	December 8, 2017	December 28, 2017
\$0.38	February 6, 2018	March 9, 2018	March 29, 2018
\$0.38	April 30, 2018	June 8, 2018	June 28, 2018

The graph below matches Brinker International, Inc.'s cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the S&P 500 index and the S&P Restaurants index.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Brinker International, Inc., the S&P 500 Index
and the S&P Restaurants Index



*\$100 invested on 6/26/13 in stock or 6/30/13 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

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The graph above assumes a \$100 initial investment and the reinvestment of dividends in our stock and each of the indexes on June 26, 2013 and June 30, 2013, respectively, and its relative performance is tracked through June 27, 2018. The values shown are neither indicative nor determinative of future performance.

	2013	2014	2015	2016	2017	2018
Brinker International	\$100.00	\$134.46	\$155.19	\$127.84	\$108.73	\$147.41
S&P 500	\$100.00	\$124.61	\$133.86	\$139.20	\$164.11	\$187.70
S&P Restaurants ⁽¹⁾	\$100.00	\$114.00	\$129.85	\$143.56	\$172.99	\$171.94

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

We continue to maintain our share repurchase program. Subsequent to fiscal 2018, on August 13, 2018, our Board of Directors authorized an additional \$300.0 million in share repurchases, bringing the total authorization to \$4.9 billion.

During the fourth quarter of fiscal 2018, we repurchased shares as follows (in thousands, except share and per share amounts):

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value that May Yet be Purchased Under the Program ⁽²⁾
March 29, 2018 through May 2, 2018	1,776	\$ 37.55	—	\$ 204,741
May 3, 2018 through May 30, 2018	2,440,351	\$ 44.68	2,439,276	\$ 95,746
May 31, 2018 through June 27, 2018	672,801	\$ 47.73	670,091	\$ 63,758
Total	<u>3,114,928</u>	\$ 45.34	<u>3,109,367</u>	

(1) These amounts include shares purchased as part of our publicly announced programs and shares owned and tendered by team members to satisfy tax withholding obligations on the vesting of restricted share awards, which are not deducted from shares available to be purchased under publicly announced programs. Unless otherwise indicated, shares owned and tendered by team members to satisfy tax withholding obligations were purchased at the average of the high and low prices of the Company's shares on the date of vesting. During the fourth quarter of fiscal 2018, 5,561 shares were tendered by team members at an average price of \$45.20.

(2) The final amount shown is as of June 27, 2018.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth in that section entitled "Selected Financial Data" in our 2018 Annual Report to Shareholders is presented within Exhibit 13 to this document. We incorporate that information in this document by reference.

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

The information set forth in that section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2018 Annual Report to Shareholders is presented within Exhibit 13 to this document. We incorporate that information in this document by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth in that section entitled "Quantitative and Qualitative Disclosures About Market Risk" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" is in our 2018 Annual Report to Shareholders presented within Exhibit 13 to this document. We incorporate that information in this document by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

We refer you to the Consolidated Financial Statements attached as part of Exhibit 13 to this document. We incorporate those financial statements in this document by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer and, as appropriate, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Form 10-K, we carried out an evaluation under the supervision of and with the participation of management, including the principal executive officer and principal financial officer, as of June 27, 2018, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, the principal executive officer and principal financial officer concluded that as of June 27, 2018, our disclosure controls and procedures were effective.

Management’s Annual Report on Internal Control over Financial Reporting

“Management’s Report on Internal Control over Financial Reporting” and the attestation report of the independent registered public accounting firm of KPMG LLP on internal control over financial reporting are in our 2018 Annual Report to Shareholders and are presented within Exhibit 13 to this document. Our report describes the fiscal 2018 control effectiveness, including the remediation of the material weakness identified and reported in our fiscal 2017 Annual Report. We incorporate that remediation information in this document by reference, and we incorporate our report in this document by reference.

Changes in Internal Control over Financial Reporting

Except for our new internal controls implemented to remediate the material weakness described within “Management’s Report on Internal Control over Financial Reporting” in our 2018 Annual Report to Shareholders and which new internal controls are presented within Exhibit 13 to this document, there were no changes in our internal control over financial reporting during the fiscal year 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

If you would like information about our executive officers, Board of Directors, including its committees, and Section 16(a) reporting compliance, you should read the sections entitled “Election of Directors—Information About Nominees”, “Committees of the Board of Directors”, “Executive Officers”, and “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement for the 2018 annual meeting of shareholders. We incorporate that information in this document by reference.

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

or waiver from, our code of ethics will be posted on our website within four business days of such amendment or waiver. The information contained on our website is not a part of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

If you would like information about our executive compensation, you should read the section entitled “Executive Compensation—Compensation Discussion and Analysis” in our Proxy Statement for the 2018 annual meeting of shareholders. We incorporate that information in this document by reference.

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

If you would like information about our security ownership of certain beneficial owners and management and related stockholder matters, you should read the sections entitled “Directors’ Compensation”, “Compensation Discussion and Analysis”, and “Stock Ownership of Certain Persons” in our Proxy Statement for the 2018 annual meeting of shareholders. We incorporate that information in this document by reference.

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

If you would like information about certain relationships and related transactions, you should read the section entitled “Compensation Committee Interlocks and Insider Participation” in our Proxy Statement for the 2018 annual meeting of shareholders. We incorporate that information in this document by reference.

If you would like information about the independence of our non-management directors and the composition of the Audit Committee, Compensation Committee and Governance and Nominating Committee, you should read the sections entitled “Director Independence” and “Committees of the Board of Directors” in our Proxy Statement for the 2018 annual meeting of shareholders. We incorporate that information in this document by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

If you would like information about principal accountant fees and services, you should read the section entitled “Ratification of Independent Registered Public Accounting Firm” in our Proxy Statement for the 2018 annual meeting of shareholders. We incorporate that information in this document by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

We make reference to the Index to Consolidated Financial Statements attached to this document on page F-1 of Exhibit 13 for a listing of all financial statements attached as Exhibit 13 to this document.

(a)(2) Financial Statement Schedules

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

(a)(3) Exhibits

We make reference to the exhibits listed under Part (b) below.

(b) Exhibits

Exhibit	Description
3(a)	Certificate of Incorporation of the Registrant, as amended ⁽¹⁾
3(b)	Bylaws of the Registrant ⁽²⁾
4(a)	Form of 3.875% Note due 2023 ⁽³⁾
4(b)	Indenture between the Registrant and Wilmington Trust, National Association, as Trustee ⁽⁴⁾
4(c)	Second Supplemental Indenture between Registrant and Wilmington Trust, National Association ⁽³⁾
4(d)	Form of 5.000% Senior Note due 2024 ⁽⁵⁾
4(e)	Indenture dated as of September 23, 2016, by and among the Company, the Guarantors named therein and U.S. Bank National Association, as trustee ⁽⁵⁾
10(a)	Registrant's Stock Option and Incentive Plan ⁽⁶⁾
10(b)	Registrant's 1999 Stock Option and Incentive Plan for Non-Employee Directors and Consultants ⁽⁷⁾
10(c)	Registrant's Performance Share Description ⁽⁸⁾
10(d)	Credit Agreement dated as of March 12, 2015, by and among Registrant, Brinker Restaurant Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities, LLC, Regions Capital Markets, a Division of Regions Bank, Wells Fargo Securities, LLC, J.P. Morgan Chase Bank, N.A., Regions Bank, Compass Bank, Wells Fargo Bank, National Association, The Bank of Tokyo—Mitsubishi UFJ, Ltd., U.S. Bank National Association and Greenstone Farm Credit Services ⁽⁹⁾
10(e)	Second Amendment to Credit Agreement dated September 13, 2016, by and among Registrant and its wholly-owned subsidiaries, Brinker Restaurant Corporation, Brinker Florida, Inc., Brinker Texas, Inc., Bank of America, N.A., JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., U.S. Bank National Association, Regions Bank, Compass Bank, Greenstone Farm Credit Services ACA, SunTrust Bank, and Barclays Bank PLC ⁽¹⁰⁾
10(f)	Third Amendment to Credit Agreement dated April 30, 2018, by and among the Company and its wholly-owned subsidiaries, Brinker Restaurant Corporation, Brinker Florida, Inc., Brinker Texas, Inc., Bank of America, N.A., JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A., MUFG Bank, Ltd., SunTrust Bank, U.S. Bank National Association, Barclays Bank PLC, Regions Bank, Compass Bank, and Associated Bank National Association. ⁽¹¹⁾
10(g)	Registrant's 2017 Performance Share Plan Description ⁽¹²⁾
10(h)	Severance and Change in Control Agreement ⁽¹³⁾
10(i)	Executive Severance Benefits Plan and Summary Plan Description ⁽¹³⁾
10(j)	Change in Control Severance Agreement ⁽¹³⁾
10(k)	Registrant's 2018 Performance Share Plan ⁽¹⁴⁾
10(l)	Registrant's Terms of F2018 Stock Option Award ⁽¹⁵⁾
10(m)	Registrant's Terms of F2018 Retention Stock Unit Award ⁽¹⁵⁾
10(n)	Registrant's Terms of F2018 Restricted Stock Unit Award ⁽¹⁵⁾
10(o)	Registrant's Terms of Special Equity Award ⁽¹⁵⁾
13	2018 Annual Report to Shareholders ⁽¹⁶⁾
21	Subsidiaries of the Registrant ⁽¹⁴⁾
23	Consent of Independent Registered Public Accounting Firm ⁽¹⁴⁾
31(a)	Certification by Wyman T. Roberts, President and Chief Executive Officer of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a) ⁽¹⁴⁾

Exhibit	Description
31(b)	Certification by Joseph G. Taylor, Senior Vice President and Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a) ⁽¹⁴⁾
32(a)	Certification by Wyman T. Roberts, 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 ⁽¹⁴⁾
32(b)	Certification by Joseph G. Taylor, Senior 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 ⁽¹⁴⁾
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase

- (1) Filed as an exhibit to annual report on Form 10-K for year ended June 28, 1995 and incorporated herein by reference.
- (2) Filed herewith.
- (3) Filed as an exhibit to current report on Form 8-K dated May 15, 2013 and incorporated herein by reference.
- (4) Filed as an exhibit to registration statement on Form S-3 filed April 30, 2013, SEC File No. 333-188252, and incorporated herein by reference.
- (5) Filed as an exhibit to current report on Form 8-K dated September 23, 2016 and incorporated herein by reference.
- (6) Filed as an Appendix A to Proxy Statement of Registrant filed on September 17, 2013 and incorporated herein by reference.
- (7) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended December 28, 2005 and incorporated herein by reference.
- (8) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended March 29, 2006 and incorporated herein by reference.
- (9) Filed as an exhibit to current report on Form 8-K dated March 12, 2015 and incorporated herein by reference.
- (10) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended September 28, 2016 and incorporated herein by reference.
- (11) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended March 28, 2018 and incorporated herein by reference.
- (12) Filed as an exhibit to current report on Form 8-K dated August 18, 2016 and incorporated herein by reference.
- (13) Filed as an exhibit to quarterly report on Form 10-Q for quarter ended March 29, 2017 and incorporated herein by reference.
- (14) Filed herewith.
- (15) Filed as an exhibit to annual report on Form 10-K for year ended June 28, 2017 and incorporated herein by reference.
- (16) Portions filed herewith, to the extent indicated herein.

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following are attached hereto as part of Exhibit 13:

	<u>Page</u>
Selected Financial Data	F-2
Management's Discussion and Analysis of Financial Condition and Results of Operations	F-3
Consolidated Balance Sheets—June 27, 2018 and June 28, 2017	F-25
Consolidated Statements of Comprehensive Income—Fiscal Years Ended June 27, 2018, June 28, 2017 and June 29, 2016	F-26
Consolidated Statements of Shareholders' Deficit—Fiscal Years Ended June 27, 2018, June 28, 2017 and June 29, 2016	F-27
Consolidated Statements of Cash Flows—Fiscal Years Ended June 27, 2018, June 28, 2017 and June 29, 2016	F-28
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Reports of Independent Registered Public Accounting Firm	F-59
Management's Report on Internal Control over Financial Reporting	F-62

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

	Fiscal Years Ended				
	6/27/2018	6/28/2017	6/29/2016 ⁽¹⁾	6/24/2015	6/25/2014
Income Statement Data:					
Revenues:					
Company sales	\$3,041,516	\$3,062,579	\$3,166,659	\$2,904,746	\$2,823,069
Franchise and other revenues	93,901	88,258	90,830	97,532	86,426
Total revenues	<u>3,135,417</u>	<u>3,150,837</u>	<u>3,257,489</u>	<u>3,002,278</u>	<u>2,909,495</u>
Operating costs and expenses:					
Company restaurants (excluding depreciation and amortization)					
Cost of sales	796,007	791,321	840,204	775,063	758,028
Restaurant labor	1,033,853	1,017,945	1,036,005	929,206	905,589
Restaurant expenses	757,547	773,510	762,663	703,334	686,314
Company restaurant expenses	2,587,407	2,582,776	2,638,872	2,407,603	2,349,931
Depreciation and amortization	151,392	156,409	156,368	145,242	136,081
General and administrative	136,012	132,819	127,593	133,467	132,094
Other gains and charges	34,500	22,655	17,180	4,764	49,224
Total operating costs and expenses	<u>2,909,311</u>	<u>2,894,659</u>	<u>2,940,013</u>	<u>2,691,076</u>	<u>2,667,330</u>
Operating income	226,106	256,178	317,476	311,202	242,165
Interest expense	58,986	49,547	32,574	29,006	28,091
Other, net	(3,102)	(1,877)	(1,485)	(2,081)	(2,214)
Income before provision for income taxes	170,222	208,508	286,387	284,277	216,288
Provision for income taxes	44,340	57,685	85,767	89,618	62,249
Net income	<u>\$ 125,882</u>	<u>\$ 150,823</u>	<u>\$ 200,620</u>	<u>\$ 194,659</u>	<u>\$ 154,039</u>
Basic net income per share	<u>\$ 2.75</u>	<u>\$ 2.98</u>	<u>\$ 3.47</u>	<u>\$ 3.09</u>	<u>\$ 2.33</u>
Diluted net income per share	<u>\$ 2.72</u>	<u>\$ 2.94</u>	<u>\$ 3.42</u>	<u>\$ 3.02</u>	<u>\$ 2.26</u>
Basic weighted average shares outstanding	<u>45,702</u>	<u>50,638</u>	<u>57,895</u>	<u>63,072</u>	<u>66,251</u>
Diluted weighted average shares outstanding	<u>46,264</u>	<u>51,250</u>	<u>58,684</u>	<u>64,404</u>	<u>68,152</u>
Balance Sheet Data:					
Working capital	\$ (278,056)	\$ (292,036)	\$ (257,209)	\$ (233,304)	\$ (271,426)
Total assets ⁽²⁾	1,347,340	1,403,633	1,458,450	1,421,450	1,485,612
Long-term obligations ⁽²⁾	1,631,309	1,460,953	1,248,375	1,091,734	956,408
Shareholders' (deficit) equity	(718,309)	(493,681)	(225,576)	(90,812)	63,094
Dividends per share	\$ 1.52	\$ 1.36	\$ 1.28	\$ 1.12	\$ 0.96
Number of Restaurants Open (End of Year):					
Company-owned	997	1,003	1,001	888	884
Franchise	689	671	659	741	731
Total	<u>1,686</u>	<u>1,674</u>	<u>1,660</u>	<u>1,629</u>	<u>1,615</u>
Revenues of franchisees ⁽³⁾	<u>\$1,309,379</u>	<u>\$1,331,908</u>	<u>\$1,348,616</u>	<u>\$1,644,015</u>	<u>\$1,616,747</u>

⁽¹⁾ Fiscal year 2016 consisted of 53 weeks while all other periods presented consisted of 52 weeks.

⁽²⁾ Debt issuance costs are presented in the Consolidated Balance Sheets as a direct deduction from the associated debt liability. Amounts presented for fiscal years prior to fiscal 2017 were reclassified from other assets to long-term debt to conform to the current year's presentation.

⁽³⁾ Royalty revenues are recognized based on the sales generated and reported to the Company by franchisees.

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

GENERAL

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help you understand our company, our operations, and our current operating environment. For an understanding of the significant factors that influenced our performance during the past three fiscal years, the MD&A should be read in conjunction with the Consolidated Financial Statements and related notes included in this annual report. Our MD&A consists of the following sections:

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

The following discussion should be read together with Part II, Item 6—Selected Financial Data presented for the fiscal year ended June 27, 2018 and Part II, Item 8—Financial Statements and Supplementary Data of our Annual Report. Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States, and include the accounts of Brinker International, Inc. and our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. We have a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal years 2018 and 2017, which ended on June 27, 2018 and June 28, 2017, respectively, each contained 52 weeks. Fiscal year 2016 ended on June 29, 2016 and contained 53 weeks. The estimated impact of the 53rd week in fiscal 2016 was an increase in revenue of approximately \$58.3 million. While certain expenses increased in direct relationship to additional revenue from the 53rd week, other expenses, such as fixed costs, are incurred on a calendar month basis. All amounts within the MD&A are presented in millions unless otherwise specified.

OVERVIEW

We are principally engaged in the ownership, operation, development, and franchising of the Chili's Grill & Bar ("Chili's") and Maggiano's Little Italy ("Maggiano's") restaurant brands. At June 27, 2018, we owned, operated, or franchised 1,686 restaurants, consisting of 997 company-owned restaurants and 689 franchised restaurants. Our two restaurant brands, Chili's and Maggiano's, are both operating segments and reporting units.

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

We believe the restaurant industry has been building restaurants at a pace that exceeds consumer demand. Growing sales and traffic continues to be a challenge with increasing competition and heavy discounting in the casual dining industry. We regularly evaluate our processes and menu at Chili's to identify opportunities where we can improve our service quality and food. During fiscal 2018, we cut our menu offerings by a third compared to the prior year, and focused on our core equities of burgers, ribs, fajitas and margaritas. This initiative improved kitchen efficiency and allowed our managers and cooks to deliver our food hotter and faster to our guests. We

also invested in the quality of our food and brought bigger burgers, meatier ribs and fajitas to our guests. Additionally, we launched a margarita of the month platform that features a new margarita every month at an every-day value price of \$5.00. As fiscal 2018 ended, our average delivery time in the dining room has improved by approximately one minute compared to the year before, and our burger, fajita and margarita businesses are all growing.

We remain competitive with our value offerings at both lunch and dinner and are committed to offering consistent, quality products at a compelling every day value. During the latter half of fiscal 2018, we offered a promotional “3 for \$10” platform that allowed guests to combine a starter, a non-alcoholic drink and an entree for just \$10.00. We plan to leverage our scale and business model to continue this promotional platform in fiscal 2019, and we believe that few of our competitors can match this promotional value on a consistent basis. In the latter half of fiscal 2018, we also relaunched our My Chili’s Rewards program and moved away from the points system that is characteristic of most retail and restaurant loyalty programs. Our simple program currently provides customized offers to loyalty members, that includes free chips and salsa or soft drink on every visit. We will continue to seek opportunities to reinforce value and create interest for the Chili’s brand with new and varied offerings to further enhance sales and drive incremental traffic.

The Chili’s brand continues to leverage technology to improve convenience for our guests and to create a digital guest experience that we believe will help us engage our guests more effectively. Our database of guests in our My Chili’s Rewards program increased by approximately 20% in fiscal 2018, and we are able to give our loyalty members customized offers tied to their purchase behavior. We anticipate that guest loyalty programs will be a significant part of our marketing strategy going forward. We also have put greater emphasis on advertising our To Go capabilities. In the fourth quarter of fiscal 2018, Chili’s grew its To Go business by double digit sales increases every month compared to the prior year. To Go sales grew to be approximately 11.5% of total Chili’s To Go and dine-in sales by the end of fiscal 2018. We believe that guests will continue to prefer more convenience and options that allow them to eat at home, and we plan to continue investments in our digital guest experience and To Go capabilities.

We believe that improvements at Chili’s will have a significant impact on the business; however, our results will also benefit through additional contributions from Maggiano’s and our global Chili’s business. Maggiano’s opened one restaurant in fiscal 2018, and Maggiano’s is expected to open one franchise location in fiscal 2019. Guests are responding favorably to the addition of Saturday and Sunday brunch, together with our lunch menu, at all Maggiano’s restaurants. Maggiano’s is committed to delivering high quality food and a dining experience in line with this brand’s heritage.

Our global Chili’s business continues to grow with locations in 31 countries and two territories outside of the United States. Our international franchisees opened 34 new restaurants in fiscal 2018, including our first Chili’s restaurants in the countries of Chile and Panama. We plan to strategically pursue expansion of Chili’s internationally through development agreements with new and existing franchise partners.

RESULTS OF OPERATIONS

The following table sets forth selected operating data as a percentage of total revenues (unless otherwise noted) for the periods indicated. All information is derived from the accompanying Consolidated Statements of Comprehensive Income:

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Revenues:			
Company sales	97.0%	97.2%	97.2%
Franchise and other revenues	3.0%	2.8%	2.8%
Total revenues	100.0%	100.0%	100.0%
Operating Costs and Expenses:			
Company restaurants (excluding depreciation and amortization)			
Cost of sales ⁽¹⁾	26.2%	25.8%	26.5%
Restaurant labor ⁽¹⁾	34.0%	33.2%	32.7%
Restaurant expenses ⁽¹⁾	24.9%	25.3%	24.1%
Company restaurant expenses ⁽¹⁾	85.1%	84.3%	83.3%
Depreciation and amortization	4.8%	5.0%	4.8%
General and administrative	4.3%	4.2%	3.9%
Other gains and charges	1.1%	0.7%	0.5%
Total operating costs and expenses	92.8%	91.9%	90.3%
Operating income	7.2%	8.1%	9.7%
Interest expense	1.9%	1.6%	0.9%
Other, net	(0.1)%	(0.1)%	—%
Income before provision for income taxes	5.4%	6.6%	8.8%
Provision for income taxes	1.4%	1.8%	2.6%
Net income	4.0%	4.8%	6.2%

⁽¹⁾ As a percentage of company sales

REVENUES

Revenues are presented in two separate captions in the Consolidated Statements of Comprehensive Income to provide more clarity around company-owned restaurant revenue and operating expense trends. Company sales include revenues generated by the operation of company-owned restaurants including gift card redemptions. Franchise and other revenues includes royalties, development fees, franchise fees, Maggiano's banquet service charge income, gift card breakage and discounts, digital entertainment revenue, Chili's retail food product royalties, merchandise and delivery fee income.

Fiscal 2018 versus Fiscal 2017

The following is a summary of the change in Total revenues:

	<u>Revenues</u>
Fiscal Year Ended June 28, 2017	\$ 3,150.8
Change from:	
Restaurant closings	(18.8)
Restaurant openings	26.5
Comparable restaurant sales	(23.3)
Hurricanes Harvey and Irma impact	(5.4)
Company sales	(21.0)
Franchise and other revenues	5.6
Fiscal Year Ended June 27, 2018	<u>\$ 3,135.4</u>

Total revenues for fiscal 2018 decreased to \$3,135.4 million, a 0.5% decrease from the \$3,150.8 million generated for fiscal 2017 driven primarily by a 0.7% decrease in Company sales. The decrease in Company sales for fiscal 2018 was primarily due to a decline of \$23.3 million in comparable restaurant sales, \$18.8 million due to the closure of underperforming restaurants and \$5.4 million related to temporary restaurant closures associated with Hurricanes Harvey and Irma in the first quarter of fiscal 2018, partially offset by an increase in Company sales of \$26.5 million due to sales generated at Chili's and Maggiano's restaurants opened during fiscal 2018. Franchise and other revenues increased 6.3% to \$93.9 million in fiscal 2018 compared to \$88.3 million in fiscal 2017 primarily driven by an increase of \$8.7 million in gift card-related revenues, partially offset by a \$1.6 million decrease in digital entertainment revenues. Our franchisees generated approximately \$1,309.4 million in sales in fiscal 2018.

The table below presents the percent change in comparable restaurant sales for the fiscal year ended June 27, 2018:

	<u>Fiscal Year Ended June 27, 2018</u>				
	<u>Comparable Sales</u> ⁽¹⁾	<u>Price Increase</u>	<u>Mix Shift</u> ⁽²⁾	<u>Traffic</u>	<u>Restaurant Capacity</u> ⁽³⁾
Company-owned	(1.0)%	1.3%	1.1%	(3.4)%	(0.2)%
Chili's	(1.1)%	1.3%	1.2%	(3.6)%	(0.3)%
Maggiano's	0.1%	1.1%	0.6%	(1.6)%	1.2%
Chili's Franchise ⁽⁴⁾	(2.1)%				
U.S.	(1.8)%				
International	(2.7)%				
Chili's Domestic ⁽⁵⁾	(1.3)%				
System-wide ⁽⁶⁾	(1.3)%				

(1) Comparable restaurant sales include all restaurants that have been in operation for more than 18 months. Amounts are calculated based on comparable 52 weeks in each fiscal year.

(2) Mix shift is calculated as the year-over-year percentage change in company sales resulting from the change in menu items ordered by guests.

(3) Restaurant capacity is measured by sales weeks. Amounts are calculated based on comparable 52 weeks in each fiscal year.

(4) Revenues generated by franchisees are not included in revenues in the Consolidated Statements of Comprehensive Income; however, we generate royalty revenue and advertising fees based on franchisee

revenues, where applicable. We believe including franchise comparable restaurant sales provides investors information regarding brand performance that is relevant to current operations and may impact future restaurant development.

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

Chili's company sales decreased 0.9% to \$2,628.3 million in fiscal 2018 from \$2,653.3 million in fiscal 2017. The decrease was primarily due to a decline in comparable restaurant sales of \$29.3 million, or 1.1%, which includes \$4.1 million related to temporary restaurant closures associated with Hurricanes Harvey and Irma in the first quarter of fiscal 2018, and restaurant closures of \$14.9 million, partially offset by an increase of \$18.8 million due to sales generated at new Chili's restaurants opened during fiscal 2018. Chili's company-owned restaurant capacity (as measured in sales weeks) decreased 0.3% compared to the prior year due to six net restaurant closures during fiscal 2018.

Maggiano's company sales increased 1.0% to \$413.3 million in fiscal 2018 from \$409.3 million in fiscal 2017. The increase was primarily due to an increase in restaurant capacity of \$3.7 million and comparable restaurant sales of \$0.6 million, or 0.1%, which includes the negative impact of \$1.3 million related to temporary restaurant closures associated with Hurricanes Harvey and Irma in the first quarter of fiscal 2018. Maggiano's company-owned restaurant capacity (as measured in sales weeks) increased 1.2% compared to fiscal 2017 due to the timing of one restaurant opening and one restaurant closure during fiscal 2018.

Fiscal 2017 versus Fiscal 2016

Total revenues for fiscal 2017 decreased to \$3,150.8 million, a 3.3% decrease from the \$3,257.5 million generated for fiscal 2016 driven primarily by a 3.3% decrease in Company sales. The decrease in Company sales for fiscal 2017 was primarily due to a decline in comparable restaurant sales, partially offset by an increase in restaurant capacity (see table below). The 53rd week in fiscal 2016 contributed additional revenue of approximately \$58.3 million.

	Fiscal Year Ended June 28, 2017				
	Comparable Sales ⁽¹⁾	Price Increase	Mix Shift ⁽²⁾	Traffic	Restaurant Capacity ⁽³⁾
Company-owned	(2.1)%	1.8%	1.6%	(5.5)%	0.4%
Chili's	(2.3)%	1.8%	1.7%	(5.8)%	0.3%
Maggiano's	(0.6)%	2.1%	0.3%	(3.0)%	2.7%
Chili's Franchise ⁽⁴⁾	(2.1)%				
U.S.	(1.1)%				
International	(3.7)%				
Chili's Domestic ⁽⁵⁾	(2.0)%				
System-wide ⁽⁶⁾	(2.1)%				

(1) Comparable restaurant sales include all restaurants that have been in operation for more than 18 months. Amounts are calculated based on comparable 52 weeks in each fiscal year.

(2) Mix shift is calculated as the year-over-year percentage change in company sales resulting from the change in menu items ordered by guests.

(3) Restaurant capacity is measured by sales weeks. Amounts are calculated based on comparable 52 weeks in each fiscal year.

(4) Revenues generated by franchisees are not included in revenues in the Consolidated Statements of Comprehensive Income; however, we generate royalty revenue and advertising fees based on franchisee

revenues, where applicable. We believe including franchise comparable restaurant sales provides investors information regarding brand performance that is relevant to current operations and may impact future restaurant development.

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

Chili's company sales decreased 3.7% to \$2,653.3 million in fiscal 2017 from \$2,754.9 million in fiscal 2016. The decrease was primarily due to a decline in comparable restaurant sales as well as one less operating week in fiscal 2017, partially offset by an increase in restaurant capacity. Chili's comparable restaurant sales decreased 2.3% for fiscal 2017 compared to the prior year. Chili's company-owned restaurant capacity increased 0.3% compared to prior year due to one net restaurant opening during fiscal 2017.

Maggiano's company sales decreased 0.6% to \$409.3 million in fiscal 2017 from \$411.8 million in fiscal 2016. The decrease was primarily driven by a decline in comparable restaurant sales as well as one less operating week in fiscal 2017, partially offset by an increase in restaurant capacity. Maggiano's comparable restaurant sales decreased 0.6% for fiscal 2017 compared to the prior year. Maggiano's company-owned restaurant capacity increased 2.7% compared to prior year due to one net restaurant opening during fiscal 2017.

Franchise and other revenues decreased 2.8% to \$88.3 million in fiscal 2017 compared to \$90.8 million in fiscal 2016 primarily driven by a decrease in royalty revenues due to a decline in domestic and international franchise comparable restaurant sales, partially offset by an increase in gift card related revenues. Our franchisees generated approximately \$1,331.9 million in sales in fiscal 2017.

COSTS AND EXPENSES

Fiscal 2018 versus Fiscal 2017

	Fiscal Years Ended				(Favorable) Unfavorable Variance	
	June 27, 2018		June 28, 2017		Dollars	% of Company Sales
	Dollars	% of Company Sales	Dollars	% of Company Sales		
Cost of sales	\$ 796.0	26.2%	\$ 791.3	25.8%	\$ 4.7	0.4%
Restaurant labor	1,033.9	34.0%	1,017.9	33.2%	16.0	0.8%
Restaurant expenses	757.5	24.9%	773.5	25.3%	(16.0)	(0.4)%
Depreciation and amortization	151.4		156.4		(5.0)	
General and administrative	136.0		132.8		3.2	
Other gains and charges	34.5		22.7		11.8	
Interest expense	59.0		49.5		9.5	
Other, net	(3.1)		(1.9)		(1.2)	

Cost of sales as a percentage of Company sales increased 0.4%, or \$10.1 million, due to \$18.0 million of unfavorable menu item mix primarily related to beef and chicken and \$1.2 million of other unfavorable items, partially offset by \$9.1 million increased menu pricing.

Restaurant labor as a percentage of Company sales increased 0.8%, or \$22.9 million, due to \$19.1 million of higher wage rates as well as a \$1.9 million increase in employee health insurance expenses and \$1.9 million of

other unfavorable management and employee-related expenses. These changes include the impact of \$6.9 million of sales deleverage due to a decrease in Company sales.

Restaurant expenses as a percentage of Company sales decreased 0.4%, or \$10.6 million, due to \$6.4 million of reduced operating lease expenses related to the change in classification of a technology-related lease, \$6.1 million of lower advertising and marketing related expenses, \$2.7 million of lower supervision related expenses related to the impact from organizational changes implemented in the third quarter of fiscal 2017, and \$1.3 million of reduced workers' compensation and general liability expenses. These reductions were partially offset by \$2.3 million of higher supplies expense, \$1.5 million of increased rent expense, \$1.2 million of higher repairs and maintenance, and \$0.8 million related to other various restaurant expenses. These changes include the impact of \$5.4 million of sales deleverage due to a decrease in Company sales.

Depreciation and amortization decreased \$5.0 million in fiscal 2018 as compared to fiscal 2017 due to an increase in fully depreciated assets and restaurant closures of \$21.1 million and \$2.3 million in various depreciation expense, partially offset by depreciation on asset replacements of \$12.2 million, an increase in technology-related capital lease depreciation of \$3.6 million and new restaurant openings of \$2.5 million.

General and administrative expenses increased \$3.2 million in fiscal 2018 as compared to fiscal 2017 as follows:

	General and administrative
Fiscal Year Ended June 28, 2017	\$ 132.8
Change from:	
Incentive compensation	3.8
Stock-based compensation	0.5
Legal and professional fees	0.2
Payroll related expenses	(0.6)
Other	(0.7)
Fiscal Year Ended June 27, 2018	<u>\$ 136.0</u>

Other gains and charges increased \$11.8 million in fiscal 2018 as compared to fiscal 2017 which included additional Restaurant impairment charges of \$5.7 million related to nine underperforming Chili's restaurants located in Alberta, Canada which were closed in fiscal 2018, as well as certain underperforming Chili's and Maggiano's which will continue to operate.

Hurricane-related costs, net of recoveries includes \$5.1 million associated with Hurricanes Harvey and Irma during fiscal 2018 primarily related to employee relief payments and inventory spoilage.

Restaurant closure charges in fiscal 2018 as compared with fiscal 2017 increased \$3.4 million primarily related to lease termination charges and other costs associated with the closure of the nine underperforming Chili's restaurants located in Canada.

Gain on the sale of assets, net for fiscal 2018 as compared with fiscal 2017 was lower, primarily due to the lower overall gains in fiscal 2018. In fiscal 2018, Gain on the sale of assets, net of \$0.2 million was related to the sale of our equity interest in our Mexico joint venture, for further details please see Note 2—Equity Method Investment.

Cyber security incident charges in fiscal 2018 included \$2.0 million related to professional services due to legal and other costs associated with our response to the incident. We first reported the incident during the fourth

quarter of fiscal 2018. For further details refer to Item 1A—Risk Factors and Note 13—Commitments and Contingencies presented within Item 8—Financial Statements and Supplementary Data provided within Exhibit 13 of this filing.

Sale-leaseback transaction charges of \$2.0 million were recorded in fiscal 2018 which include professional fees for brokers, legal, due diligence, and other professional service firms in connection with the sale-leaseback transaction that marketed certain company-owned restaurant properties during the fourth quarter of fiscal 2018. For further details, please see Note 16—Subsequent Events.

Remodel-related costs during fiscal 2018 of \$1.5 million were recorded related to existing fixed asset write-offs associated with the Chili's reimagining project.

During fiscal 2018, we sold our equity interest in our Mexico joint venture and received a note as consideration denominated in Mexican pesos which is re-measured to U.S. dollars at the end of each period resulting in a gain or loss from foreign currency exchange rate changes. Foreign currency transaction loss (gain) for fiscal 2018 included a net loss of \$1.2 million because the value of the Mexican peso decreased as compared to the U.S. dollar during the fiscal year.

Lease guarantee charges for fiscal 2018 as compared with fiscal 2017 increased \$0.9 million related to additional leases that were assigned to a divested brand that is currently in bankruptcy proceedings, for which we are secondarily liable.

The above mentioned increases in Other gains and charges were offset partially by a decrease in Severance and other benefits for fiscal 2018 as compared with fiscal 2017 of \$6.3 million due to organizational changes that occurred in fiscal 2017. Other for fiscal 2018 as compared with fiscal 2017 decreased primarily related to professional consulting charges related to the organization changes in fiscal 2017. Information technology restructuring for fiscal 2018 as compared with fiscal 2017 decreased \$2.7 million related to professional fees and severance incurred in fiscal 2017.

Interest expense increased \$9.5 million in fiscal 2018 as compared to fiscal 2017 due to higher average borrowing balances and higher interest rates.

Other, net was favorable \$1.2 million in fiscal 2018 as compared to fiscal 2017 due to higher interest and dividends of \$0.9 million that includes \$0.6 million in interest income related to the CMR note receivable, and \$0.3 million increase in sub-lease income. Other, net during fiscal 2018 includes \$1.9 million of sublease income primarily from franchisees as part of their respective lease agreements, as well as other subtenants.

Fiscal 2017 versus Fiscal 2016

Cost of sales, as a percent of Company sales, decreased 0.7% in fiscal 2017 due to increased menu pricing, favorable commodity pricing primarily related to beef and poultry and favorable menu item mix, partially offset by unfavorable commodity pricing related to avocados.

Restaurant labor, as a percent of Company sales, increased 0.5% in fiscal 2017 primarily due to higher wage rates and sales deleverage.

Restaurant expenses, as a percent of Company sales, increased 1.2% in fiscal 2017 primarily due to higher advertising and marketing related expenses, sales deleverage due to a decline in comparable restaurant sales as well as one less operating week compared to the prior year, and increased workers' compensation insurance expenses.

Depreciation and amortization was flat in fiscal 2017 compared to fiscal 2016. Depreciation on asset replacements and new restaurant openings were offset by an increase in fully-depreciated assets and restaurant closures.

General and administrative increased \$5.2 million in fiscal 2017 primarily due to higher performance-based compensation and professional fees, partially offset by lower payroll due to reduced headcount and lower stock-based compensation expenses.

Other gains and charges were \$22.7 million in fiscal 2017. We incurred \$6.6 million in severance and other benefits related to organizational changes to better align our staffing with the current management strategy and resource needs. Additionally, we recorded restaurant impairment charges of \$5.2 million primarily related to long-lived assets and reacquired franchise rights of ten underperforming Chili's restaurants which will continue to operate. We also recorded restaurant closure charges of \$4.1 million primarily related to lease charges and other costs associated with closed restaurants. Furthermore, we incurred \$2.7 million of professional fees and severance associated with our information technology restructuring offset by a \$2.7 million gain on the sale of property. We also recorded accelerated depreciation charges of \$2.0 million related to long-lived assets to be disposed of and lease guarantee charges of \$1.1 million related to leases that were assigned to a divested brand. Other charges primarily include \$2.4 million of expenses for consulting fees related to a special project.

Other gains and charges were \$17.2 million in fiscal 2016. We recorded impairment charges of \$10.7 million primarily related to seven underperforming restaurants that either continue to operate or closed in fiscal 2017 and \$1.0 million related to a cost method investment. We recorded restaurant closure charges of \$3.8 million that primarily consisted of additional lease and other costs associated with closed restaurants. We also incurred \$3.3 million in severance and other benefits related to organizational changes. We were a plaintiff in a class action lawsuit against US Foods styled as *In re U.S. Foodservice, Inc. Pricing Litigation*. A settlement agreement was fully executed by all parties in September 2015, and we received approximately \$2.0 million during the second quarter of fiscal 2016 in settlement of this litigation. We also received net proceeds of \$1.2 million from British Petroleum in the fourth quarter of fiscal 2016 related to the 2010 Gulf of Mexico oil spill judgment. Additionally, we recorded a \$2.9 million gain on the sale of several properties and \$0.7 million of transaction costs related to the acquisition of Pepper Dining. Other charges primarily included \$1.4 million of expenses to reserve for royalties, rents and other outstanding amounts related to a bankrupt franchisee and \$1.2 million of professional service fees associated with organizational changes.

Interest expense increased \$17.0 million in fiscal 2017 resulting from higher borrowing balances.

Other, net decreased \$0.4 million in fiscal 2017 primarily due to increase in sublease income. Other, net includes \$1.6 million of sublease income primarily from franchisees as part of their respective lease agreements, as well as other subtenants.

SEGMENT RESULTS

Fiscal 2018 versus Fiscal 2017

Chili's Segment	Fiscal Years Ended		Favorable (Unfavorable) Variance
	June 27, 2018	June 28, 2017	
Company sales	\$ 2,628.3	\$ 2,653.3	\$ (25.0)
Franchise and other revenues	71.9	66.7	5.2
Total revenues	2,700.2	2,720.0	(19.8)
Company restaurant expenses ⁽¹⁾	2,224.0	2,220.6	(3.4)
Depreciation and amortization	125.0	129.4	4.4
General and administrative	39.6	37.0	(2.6)
Other gains and charges	24.5	13.2	(11.3)
Total operating costs and expenses	2,413.1	2,400.2	(12.9)
Operating income	\$ 287.1	\$ 319.8	\$ (32.7)

⁽¹⁾ Company restaurant expenses includes Cost of sales, Restaurant labor, and Restaurant expenses, including advertising.

Chili's revenues decreased 0.7% to \$2,700.2 million in fiscal 2018 from \$2,720.0 million in fiscal 2017, please refer to the REVENUES section above for further details on Chili's revenue. Chili's operating income, as a percent of Total revenues, was 10.6% in fiscal 2018 compared to 11.8% in fiscal 2017, this decrease was primarily driven by the decreased Company sales in addition to increased Total operating costs and expenses.

Other gains and charges for Chili's increased \$11.3 million in fiscal 2018 as compared to fiscal 2017 due to an increase in impairment charges of \$4.8 million. During fiscal 2018 we also incurred additional lease termination and other related closure costs of \$4.6 million due to the decision to close nine Chili's restaurants located in Alberta, Canada. Additionally during fiscal 2018 we incurred \$4.5 million of additional hurricane-related expenses net of insurance proceeds, and \$2.0 million in sale-leaseback transaction fees, partially offset by the impact of \$4.6 million for severance and other benefits related to organizational changes incurred during fiscal 2017.

Company restaurant expenses for Chili's as a percentage of Company sales decreased 0.9%, or \$24.3 million, in fiscal 2018 as compared to fiscal 2017 primarily due to \$19.4 million of higher wage expense driven by increased restaurant labor wage rates, \$17.1 million of unfavorable menu item mix, \$3.6 million of higher health insurance and other employee expenses, \$2.1 million of higher supplies, \$1.5 million of unfavorable commodity pricing and other, \$1.4 million of higher property taxes, \$1.2 million of higher repairs and maintenance expenses and \$1.2 million of other unfavorable restaurant expenses. These were partially offset by \$8.5 million of increased menu pricing, \$6.3 million of reduced operating lease expenses related to the change in classification of a technology-related lease, \$5.7 million of lower advertising and marketing related expenses, and \$2.7 million of lower supervision related expenses related to the impact from organizational changes implemented in the third quarter of fiscal 2017. These changes include the impact of \$20.9 million of sales deleverage due to a decrease in Chili's Company sales.

General and administrative expenses for Chili's increased \$2.6 million in fiscal 2018 as compared to fiscal 2017 due primarily to higher fiscal 2018 performance-based and stock-based compensation expenses.

Depreciation and amortization for Chili's decreased \$4.4 million in fiscal 2018 as compared to fiscal 2017 due primarily to \$15.7 million related to fully-depreciated assets in fiscal 2018, and a \$2.0 million decrease related to restaurant closures and restaurant remodels in fiscal 2018, partially offset by \$8.8 million related to

asset replacements, \$8.8 million related to a technology-related capital lease and \$2.0 million related to new restaurant openings.

Maggiano's Segment	Fiscal Years Ended		Favorable (Unfavorable) Variance
	June 27, 2018	June 28, 2017	
Company sales	\$ 413.3	\$ 409.3	\$ 4.0
Franchise and other revenues	21.9	21.5	0.4
Total revenues	435.2	430.8	4.4
Company restaurant expenses ⁽¹⁾	362.8	361.7	(1.1)
Depreciation and amortization	15.9	16.1	0.2
General and administrative	5.6	6.2	0.6
Other gains and charges	1.1	0.8	(0.3)
Total operating costs and expenses	385.4	384.8	(0.6)
Operating income	\$ 49.8	\$ 46.0	\$ 3.8

⁽¹⁾ Company restaurant expenses includes Cost of sales, Restaurant labor, and Restaurant expenses, including advertising.

Maggiano's revenues increased 1.0% to \$435.2 million in fiscal 2018 from \$430.8 million in fiscal 2017, please refer to the REVENUES section above for further details on Maggiano's revenue. Maggiano's operating income, as a percent of Total revenues, was 11.4% in fiscal 2018 compared to 10.7% in fiscal 2017, this increase was primarily driven by the increased Total revenues, partially offset by increased Total operating costs and expenses consisting primarily of Company restaurant expenses partially offset by lower General and administrative expenses.

Company restaurant expenses as a percentage of Company sales increased 0.6%, or \$2.4 million, for Maggiano's in fiscal 2018 as compared to fiscal 2017 primarily driven by favorable menu item mix of \$1.2 million, \$0.9 million of increased menu pricing, \$0.8 million of favorable workers compensation and general liability insurance claims, \$0.7 million of favorable pre-opening related supplies, \$0.7 million of other restaurant expenses, \$0.6 million of favorable wage expense, \$0.5 million of favorable property taxes, and \$0.4 million of favorable banquet and delivery expenses, partially offset by \$2.2 million of unfavorable commodity pricing and other, \$0.8 million of increased rent expense, and \$0.4 million of unfavorable hourly employee-related expenses. These changes include the impact of \$3.5 million of sales leverage due to an increase in Maggiano's Company sales.

General and administrative expenses for Maggiano's decreased in fiscal 2018 as compared to fiscal 2017 by \$0.6 million due primarily to lower stock-based compensation expenses of \$0.5 million.

Fiscal 2017 versus Fiscal 2016

Chili's revenues decreased 3.7% to \$2,720.0 million in fiscal 2017 from \$2,823.4 million in fiscal 2016. The decrease was primarily due to a decline in comparable restaurant sales as well as one less operating week in fiscal 2017, partially offset by an increase in restaurant capacity. Chili's operating income, as a percent of total revenues, was 11.8% in fiscal 2017 compared to 13.3% in fiscal 2016. The decrease was primarily driven by sales deleverage, higher restaurant labor wage rates and higher advertising and marketing related expenses, partially offset by increased menu pricing and favorable commodity pricing. The decrease in Chili's operating income was also due to costs incurred for severance and other benefits related to organizational changes and restaurant closure charges.

Maggiano’s revenues decreased 0.8% to \$430.8 million in fiscal 2017 from \$434.1 million in fiscal 2016. The decrease was primarily driven by a decline in comparable restaurant sales as well as one less operating week in fiscal 2017, partially offset by an increase in restaurant capacity. Maggiano’s operating income, as a percent of total revenues, was 10.7% in fiscal 2017 compared to 10.3% in fiscal 2016. The increase was primarily due to favorable commodity pricing and increased menu pricing, partially offset by sales deleverage, higher workers’ compensation insurance expenses, advertising expenses and unfavorable menu item mix. The increase in Maggiano’s operating income was also due to an impairment charge in fiscal 2016 for an underperforming restaurant.

INCOME TAXES

The effective income tax rate for fiscal 2018 decreased to 26.0% compared to 27.7% in fiscal 2017 due primarily to the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) that was enacted on December 22, 2017 with an effective date of January 1, 2018. The enactment date occurred prior to the end of the second quarter of fiscal 2018 and therefore the federal statutory tax rate changes stipulated by the Tax Act were reflected in the second quarter. The Tax Act lowered the federal statutory tax rate from 35.0% to 21.0% effective January 1, 2018. Our federal statutory tax rate for fiscal 2018 is now 28.1%, representing a blended tax rate for the current fiscal year based on the number of days in the fiscal year before and after the effective date. For subsequent years, our federal statutory tax rate will be 21.0%. In accordance with ASC 740, we re-measured our deferred tax accounts as of the enactment date using the new federal statutory tax rate and recognized the change as a discrete item in the Provision for income taxes. For the fiscal year ended June 27, 2018, the adjustment was \$8.2 million, and changed slightly from the prior quarter due to revised full year estimates for changes in our net deferred tax balance.

The effective income tax rate for fiscal 2017 decreased to 27.7% compared to 29.9% in fiscal 2016 due to the decline in profit in fiscal 2017 compared to fiscal 2016 coupled with no significant change in realized tax credits, most notably the FICA tip credit. The FICA tip credit in fiscal 2017 was consistent with fiscal 2016 and therefore the decline in profit before taxes resulted in a decrease in the effective tax rate in comparison to fiscal 2016. The resolution of uncertain tax positions resulted in a net reduction in tax expense for fiscal 2017 but to a lesser extent than in fiscal 2016.

In connection with the preparation of the Consolidated Financial Statements for the year ended June 28, 2017, we identified and assessed a material weakness related to the measurement and presentation of deferred income taxes as a result of immaterial errors in prior years. During fiscal 2018, new controls were added and operated successfully prior to filing this Form 10-K, remediating the material weakness. Please see Item 9A—Controls and Procedures for further details.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash Flows from Operating Activities

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Net cash provided by operating activities (in millions):	\$ 284.5	\$ 315.1	\$ 400.2

Fiscal 2018 vs Fiscal 2017—During fiscal 2018, net cash flow provided by operating activities decreased \$30.6 million from fiscal 2017 primarily due to a \$24.9 million decrease in earnings in fiscal 2018 and more cash used compared to fiscal 2017 related to Other liabilities of \$12.5 million, Gift card liability of \$11.5 million, Current income taxes of \$7.2 million and Accounts receivable, net of \$6.8 million, partially offset by a

\$26.1 million increase in deferred income taxes, net and less cash used compared to fiscal 2017 for Accrued payroll of \$4.9 million.

Fiscal 2017 vs Fiscal 2016—During fiscal 2017, net cash flow provided by operating activities was \$315.1 million compared to \$400.2 million in fiscal 2016. Cash flow from operations decreased due to the impact of adopting the final IRS tangible property regulations in fiscal 2016 and decreased earnings in the current year, partially offset by an increase due to the prior year impact of the acquisition of Pepper Dining in addition to lower payments related to performance-based compensation liabilities.

Cash Flows from Investing Activities

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Net cash used in investing activities (in millions):			
Payments for property and equipment	\$ (101.3)	\$ (102.6)	\$ (112.8)
Proceeds from sale of assets	19.9	3.2	4.3
Proceeds from note receivable	1.9	—	—
Insurance recoveries	1.7	—	—
Payment for business acquisition, net of cash acquired	—	—	(105.6)
	<u>\$ (77.8)</u>	<u>\$ (99.4)</u>	<u>\$ (214.1)</u>

Fiscal 2018 vs Fiscal 2017—Net cash used in investing activities for fiscal 2018 decreased \$21.6 million from fiscal 2017. Proceeds from sale of assets for the fiscal year ended June 27, 2018 includes \$13.7 million of net cash proceeds related to the sale of the portion of our current corporate headquarters property that we owned. We will continue to occupy the current headquarters until our new corporate headquarters is available during fiscal 2019 or until March 31, 2019. Proceeds from note receivable of \$1.9 million during fiscal 2018 relates to payments received on the note receivable obtained as consideration from the sale of our equity interest in our Mexico joint venture. Insurance recoveries for the fiscal year ended June 27, 2018 includes \$1.0 million of insurance proceeds received related to Hurricane Harvey property claims and an additional \$0.7 million received related to insurance claims on property damages from natural disaster flooding in Louisiana. Payments for property and equipment decreased primarily due to the fiscal 2017 increase in purchases for new beer taps for the line of craft beers launched, partially offset by the fiscal 2018 Chili’s reimages.

Fiscal 2017 vs Fiscal 2016—Net cash used in investing activities for fiscal 2017 decreased to \$99.4 million compared to \$214.1 million in fiscal 2016 primarily due to the acquisition of Pepper Dining for \$105.6 million in fiscal 2016. Capital expenditures decreased to \$102.6 million for fiscal 2017 compared to \$112.8 million for fiscal 2016 primarily due to decrease in Chili’s new restaurant construction, partially offset by the purchase of new beer taps for the new line of craft beers at Chili’s.

Cash Flows from Financing Activities

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Net cash used in financing activities (in millions):			
Borrowings on revolving credit facility	\$ 1,016.0	\$ 250.0	\$ 256.5
Payments on revolving credit facility	(588.0)	(388.0)	(110.0)
Purchases of treasury stock	(303.2)	(370.9)	(284.9)
Payments on long-term debt	(260.3)	(3.8)	(3.4)
Payments of dividends	(70.0)	(70.8)	(74.1)
Proceeds from issuances of treasury stock	2.3	5.6	6.2
Payments for debt issuance costs	(1.6)	(10.2)	—
Proceeds from issuance of long-term debt	—	350.0	—
	<u>\$ (204.8)</u>	<u>\$ (238.1)</u>	<u>\$ (209.7)</u>

Fiscal 2018 vs Fiscal 2017—Net cash used in financing activities for fiscal 2018 decreased \$33.3 million from fiscal 2017 primarily due to \$566.0 million in net borrowing proceeds on our revolver and \$67.7 million decrease in spending on share repurchases, partially offset by the impact of \$350.0 million received from the issuance of our 5.00% notes in fiscal 2017 and \$250.0 million used in fiscal 2018 for the repayment of our matured 2.60% notes.

Net borrowings of \$428.0 million were drawn on the \$1.0 billion revolving credit facility primarily to fund fiscal 2018 share repurchases and repay the \$250.0 million 2.60% notes that matured in May 2018. As of June 27, 2018, \$820.3 million was outstanding under the revolving credit facility. Subsequent to the end of the fiscal year, net payments of \$381.0 million were made on the revolving credit facility. During the fourth quarter of fiscal 2018, we amended the revolving credit facility, this amendment was executed to provide the ability to execute certain sale-leaseback transactions and to increase the restricted payment capacity. The related debt issuance costs of \$1.6 million are included in Other assets in the Consolidated Balance Sheets as of June 27, 2018. Under the revolving credit facility, the maturity date for \$890.0 million of the facility is September 12, 2021, and the remaining \$110.0 million is due on March 12, 2020. The amended revolving credit facility generally bears interest of LIBOR plus an applicable margin, which is a function of our credit rating and debt to cash flow ratio, but is subject to a maximum of LIBOR plus 2.00%. For a period of 180 days following the third amendment to the revolving credit facility, we are paying interest at a rate of LIBOR plus 1.70% for a total of 3.79%. One month LIBOR at June 27, 2018 was approximately 2.09%. As of June 27, 2018, \$179.8 million of credit is available under the revolving credit facility. As of June 27, 2018, we were in compliance with all financial debt covenants.

During fiscal 2018 we repurchased approximately 7.9 million shares of our common stock for \$303.2 million. The repurchased shares included shares purchased as part of our share repurchase program and shares repurchased to satisfy team member tax withholding obligations on the vesting of restricted shares. In August 2017, our Board of Directors authorized a \$250.0 million increase to our existing share repurchase program resulting in total authorizations of \$4.6 billion. As of June 27, 2018, approximately \$63.8 million was available under our share repurchase authorizations. Our stock repurchase plan has been and will be used to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. Repurchased common stock is reflected as an increase in Treasury stock within Shareholders' deficit. Additionally, during fiscal 2018, approximately 0.1 million stock options were exercised resulting in cash proceeds of approximately \$2.3 million. Subsequent to the end of the fiscal year, our Board of Directors authorized a \$300.0 million increase to our existing share repurchase program, bringing the total amount

available for repurchases to \$363.8 million. We subsequently repurchased and settled approximately 0.5 million shares of our common stock for \$24.0 million.

During the fourth quarter of fiscal 2018, an amendment to the revolving credit facility was executed to provide the ability to complete certain sale-leaseback transactions. In the first quarter of fiscal 2019, we entered into three purchase agreements to sell and leaseback 143 restaurant properties located throughout the United States. Subsequently under these purchase agreements, we have completed sale leaseback transactions of 137 of these restaurants for aggregate consideration of \$443.1 million, resulting in a gain of \$281.1 million. The net proceeds from these sale leaseback transactions were used to repay borrowings on our revolving credit facility. The initial term of the leases are for 15 years, and the leases were determined to be operating leases. As part of this transaction, in the first quarter of fiscal 2019, the restaurant assets will be removed from our Consolidated Balance Sheets. The majority of the gain will be deferred and amortized over the operating lease term in proportion to the gross rental charges. As of June 27, 2018, the Consolidated Balance Sheets includes Land of \$100.9 million, Building and LHI of \$210.3 million, certain fixtures included in Furniture and equipment of \$9.0 million and Accumulated depreciation of \$157.9 million related to these properties.

As of June 27, 2018, our credit rating by Standard and Poor's ("S&P") was BB+ and our Corporate Family Rating by Moody's was Ba1, all with a stable outlook. Our goal is to maintain strong free cash flow to support leverage that we believe is appropriate to allow ongoing investment in the business and return of capital to shareholders.

During fiscal 2018 we paid dividends of \$70.0 million to common stock shareholders, compared to \$70.8 million in the same period of fiscal 2017. Additionally, effective with the August 2017 declared dividend, our Board of Directors approved a 12% increase in the quarterly dividend from \$0.34 to \$0.38 per share. We also declared a quarterly dividend in April 2018, which was paid subsequent to fiscal 2018 on June 28, 2018 in the amount of \$15.7 million. The dividend accrual was included in Other accrued liabilities in our Consolidated Balance Sheets as of June 27, 2018. Also subsequent to the end of the fiscal year, our Board of Directors declared a quarterly dividend of \$0.38 per share to be paid on September 27, 2018 to shareholders of record as of September 7, 2018.

Fiscal 2017 vs Fiscal 2016—Net cash used in financing activities for fiscal 2017 increased to \$238.1 million compared to \$209.7 million in the prior year. During fiscal 2017, we changed our capital structure by increasing leverage through the issuance of long-term debt and using the majority of the proceeds to return capital to shareholders in the form of share repurchases.

In September 2016, we entered into a \$300.0 million accelerated share repurchase agreement ("ASR Agreement") with Bank of America, N.A. ("BoFA"). The ASR Agreement settled in January 2017. Pursuant to the terms of the ASR Agreement, we paid BoFA \$300.0 million in cash and received 5.9 million shares of our common stock. We also repurchased approximately 1.6 million additional shares of common stock for a total of 7.5 million shares during fiscal 2017 for a total of \$370.9 million. The repurchased shares included shares purchased as part of our share repurchase program and shares repurchased to satisfy team member tax withholding obligations on the vesting of restricted shares.

On September 23, 2016, we completed the private offering of \$350.0 million of our 5.00% senior notes due October 2024 (the "2024 Notes"). We received proceeds of \$350.0 million prior to debt issuance costs of \$6.2 million and utilized the proceeds to fund a \$300.0 million accelerated share repurchase agreement and to repay \$50.0 million on the amended \$1.0 billion revolving credit facility. The notes require semi-annual interest payments which began on April 1, 2017.

The indenture for the 2024 Notes contains certain covenants, including, but not limited to, limitations and restrictions on the ability of the Company and its Restricted Subsidiaries (as defined in the indenture) to (i) create liens on Principal Property (as defined in the Indenture) and (ii) merge, consolidate or amalgamate with or into

any other person or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all of their property. These covenants are subject to a number of important conditions, qualifications, exceptions and limitations.

On September 13, 2016, we amended the revolving credit facility to increase the borrowing capacity from \$750.0 million to \$1.0 billion. We capitalized debt issuance costs of \$4.0 million associated with the amendment of the revolving credit facility, which is included in Other assets in the Consolidated Balance Sheets as of June 27, 2018. During fiscal 2017, net payments of \$138.0 million were made on the revolving credit facility. As of June 28, 2017, \$392.3 million was outstanding under the revolving credit facility.

Under the amended \$1 billion revolving credit facility, the maturity date for \$890.0 million of the facility was extended from March 12, 2020 to September 12, 2021 and the remaining \$110.0 million remains due on March 12, 2020. The amended revolving credit facility calculated interest as a function of LIBOR plus an applicable margin, which was a function of our credit rating and debt to cash flow ratio, but was subject to a maximum of LIBOR plus 2.00%. Based on our credit rating, we paid interest at a rate of LIBOR plus 1.38% for a total of 2.60%. One month LIBOR at June 28, 2017 was approximately 1.22%. As of June 28, 2017, \$607.8 million of credit was available under the revolving credit facility.

We paid dividends of \$70.8 million to common stock shareholders in fiscal 2017 compared to \$74.1 million in dividends paid in fiscal 2016. Our Board of Directors approved a 6.3% increase in the quarterly dividend from \$0.32 to \$0.34 per share effective with the dividend declared in August 2016. We also declared a quarterly dividend of \$0.34 per share in May 2017 which was paid subsequent to the end of the fiscal year on June 29, 2017 in the amount of \$16.6 million.

In August 2016, our Board of Directors authorized a \$150.0 million increase to our existing share repurchase program resulting in total authorizations of \$4.3 billion. As of June 28, 2017, approximately \$115.8 million was available under our share repurchase authorizations. Repurchased common stock is reflected as an increase in treasury stock within shareholders' deficit. During fiscal 2017, approximately 225,000 stock options were exercised resulting in cash proceeds of approximately \$5.6 million.

Cash Flow Outlook

We believe that our various sources of capital, including future cash flow from operating activities and availability under our existing credit facility are adequate to finance operations 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 facility and from our internal cash generating capabilities to adequately manage our ongoing business. During the fourth quarter of fiscal 2018, an amendment to the revolving credit facility was executed to provide the ability to complete certain sale-leaseback transactions. During the first quarter of fiscal 2019, we completed sale leaseback transactions for 137 of the 194 company-owned real estate restaurants at June 27, 2018. We will continue to periodically evaluate ways to monetize the value of our remaining owned real estate and should alternatives become available that are more cost effective than our financing options currently available, we will consider execution of those alternatives.

Payments due under our contractual obligations for outstanding indebtedness, leases, purchase obligations as defined by the Securities and Exchange Commission (“SEC”), and the expiration of the credit facility as of June 27, 2018 are as follows (in millions):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt ⁽¹⁾	\$ 1,470.3	\$ —	\$ —	\$ 1,120.3	\$ 350.0
Interest ⁽²⁾	228.3	51.9	103.7	63.9	8.8
Capital leases	55.9	9.8	16.2	9.6	20.3
Operating leases	570.0	119.6	207.2	131.0	112.2
Purchase obligations ⁽³⁾	118.5	26.8	38.5	21.3	31.9

⁽¹⁾ Long-term debt consists of principal amounts owed on the revolver, 3.88% notes, and 5.00% notes. As of June 27, 2018, \$179.8 million of credit is available under the revolving credit facility.

⁽²⁾ Interest consists of remaining interest payments on the 3.88% and 5.00% notes totaling \$154.4 million and remaining interest payments on the revolver totaling \$73.9 million. The interest rates on the notes are fixed whereas the interest rate on the revolver is variable. We have assumed that the revolver balance carried will be \$600.0 million until the maturity date of September 12, 2021 using the interest rate as of June 27, 2018 which was approximately 3.79%.

⁽³⁾ A “purchase obligation” is defined as an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase obligations primarily consist of long-term obligations for the purchase of fountain beverages and professional services contracts and exclude agreements that are cancelable without significant penalty.

	Amount of Revolving Credit Facility Expiration by Period (in millions)				
	Total Commitment	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Revolving credit facility	\$ 1,000.0	\$ —	\$ 110.0	\$ 890.0	\$ —

In addition to the amounts shown in the table above, \$2.9 million of unrecognized tax benefits have been recorded as liabilities. The timing and amounts of future cash payments related to these liabilities are uncertain.

IMPACT OF INFLATION

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

OFF-BALANCE SHEET ARRANGEMENTS

We have obligations for guarantees on certain lease agreements and letters of credit as disclosed in Note 13—Commitments and Contingencies, in our Consolidated Financial Statements included in this report. Other than these items, we do not have any off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are disclosed in Note 1—Nature of Operations and Summary of Significant Accounting Policies to our Consolidated Financial Statements. The following discussion addresses our most critical accounting estimates, which are those that are most important to the portrayal of our financial condition and results, and that require significant judgment.

Stock-Based Compensation

We measure and recognize compensation expense for our performance awards granted in fiscal 2017 and 2018 that contain a company-specific performance condition at the grant date fair value of the awards that are expected to vest based on management's periodic estimates. Management's estimates require highly judgmental assumptions regarding our future operating performance and could result in estimates of compensation expense that vary significantly over the vesting period. Changes in estimates of compensation expense are recognized as an adjustment in the period of the change, as appropriate.

Our performance shares granted before fiscal 2017 contain a market condition. We measure and recognize compensation expense for these shares at fair value using a Monte Carlo simulation model. The Monte Carlo method is a statistical modeling technique that requires highly judgmental assumptions regarding our future operating performance compared to our plan designated peer group in the future. The simulation is based on a probability model and market-based inputs that are used to predict future stock returns. We use the historical operating performance and correlation of stock performance to the S&P 500 composite index of us and our peer group as inputs to the simulation model. These historical returns could differ significantly in the future and as a result, the fair value assigned to the performance shares could vary significantly to the final payout. We believe the Monte Carlo simulation model provides the best evidence of fair value at the grant date and is an appropriate technique for valuing share-based awards.

We determine the fair value of our stock option awards using the Black-Scholes option valuation model. The Black-Scholes model requires judgmental assumptions including expected life and stock price volatility. We base our expected life assumptions on historical experience regarding option life. Stock price volatility is calculated based on historical prices and the expected life of the options.

We recognize compensation expense for only the portion of share-based awards that are expected to vest. Therefore, we apply estimated forfeiture rates that are derived from our historical forfeitures of similar awards.

Income Taxes

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

We have recorded deferred tax assets reflecting the benefit of income tax credits and state loss carryforwards, which expire in varying amounts. Realization is dependent on generating sufficient taxable income in the relevant jurisdiction prior to expiration of the income tax credits and state loss carryforwards. Although realization is not assured, management believes it is more likely than not that the recognized deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

We record a liability for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return. We recognize any interest and penalties related to unrecognized tax benefits in income tax expense. Significant judgment is required in assessing, among other things, the timing and amounts of deductible and taxable items. Tax reserves are evaluated and adjusted as appropriate, while taking into account the progress of audits of various taxing jurisdictions.

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

Impairment of Long-Lived Assets

We review the carrying amount of property and equipment semi-annually or when events or circumstances indicate that the carrying amount may not be recoverable. The impairment test is a two-step process. Step one includes comparing the operating cash flows of the restaurants over their remaining service life to the carrying value of the asset group. If the cash flows exceed the carrying value, then the asset group is not impaired and no further evaluation is required. If the carrying value of the asset group exceeds its cash flows, impairment may exist and performing step two is necessary to determine the impairment loss. If the carrying amount is not recoverable, we record an impairment charge for the excess of the carrying amount over the fair value of the asset group. We determine fair value based on discounted projected future operating cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the inherent risk. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment.

Impairment of Goodwill

We assess the recoverability of goodwill related to our restaurant brands on an annual basis or more often if circumstances or events indicate impairment may exist. We consider our restaurant brands, Chili's and Maggiano's, to be both our operating segments and reporting units. The impairment test is a two-step process. Step one includes comparing the fair value of our reporting units to their carrying value. If the fair value of the reporting unit exceeds the carrying value, then the goodwill balance is not impaired and no further evaluation is required. If the carrying value of the reporting unit exceeds its fair value, impairment may exist and performing step two is necessary to determine the impairment loss. The amount of impairment would be determined by performing a hypothetical analysis resulting in an implied goodwill value by performing a fair value allocation as if the unit were being acquired in a business combination. This implied value would be compared to the carrying value to determine the amount of impairment loss, if any.

We determine fair value based on a combination of market-based values and discounted projected future operating cash flows of the reporting units using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model. We make assumptions regarding future profits and cash flows, expected growth rates, terminal values and other factors which could significantly impact the fair value calculations. In the event that these assumptions change in the future, we may be required to record impairment charges related to goodwill. The fair values of our reporting units were substantially in excess of the carrying values as of our fiscal 2018 goodwill impairment tests that were performed at the end of the second quarter. No indicators of impairment were identified from the date of our impairment test through the end of fiscal year 2018.

Self-Insurance

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

Gift Card Revenues

Proceeds from the sale of gift cards are recorded as deferred revenue and recognized as revenue when the gift card is redeemed by the holder. Breakage income represents the value associated with the portion of gift cards sold that will most likely never be redeemed. Based on our historical gift card redemption patterns and considering our gift cards have no expiration dates or dormancy fees, we can reasonably estimate the amount of gift card balances for which redemption is remote and record breakage income based on this estimate. We recognize breakage income within the franchise and other revenues caption in the consolidated statements of

comprehensive income. We update our breakage rate estimate periodically and, if necessary, adjust the deferred revenue balance accordingly. If actual redemption patterns vary from our estimate, actual gift card breakage income may differ from the amounts recorded. Changing our breakage-rate assumption on unredeemed gift cards by 25 basis points would result in an impact to our consolidated statement of comprehensive income of approximately \$7.8 million. Effective for the first quarter of fiscal 2019, we will adopt the *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, please see Note 17—Effect of New Accounting Standards for further details on this adoption and the impact related to gift card breakage revenues.

Effect of New Accounting Standards

ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment—In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This update eliminates step two of the goodwill impairment analysis. Companies will no longer be required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, they will measure impairment as the difference between the carrying amount and the fair value of the reporting unit. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2019, which will require us to adopt these provisions in the first quarter of fiscal 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed with measurement dates after January 1, 2017. The update will be applied on a prospective basis. We do not expect the adoption of this guidance to have any impact to our consolidated financial statements as the fair value of our reporting units is substantially in excess of the carrying values.

ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230)—In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230). This update provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2019. Early adoption is permitted for financial statements that have not been previously issued. The update will be applied on a retrospective basis. We do not expect the adoption of this guidance to have a material impact to our consolidated financial statements or debt covenants.

ASU 2016-02, Leases (Topic 842)—In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB has subsequently amended this update by issuing additional ASU's that provide clarification and further guidance around areas identified as potential implementation issues. These updates requires a lessee to recognize in the balance sheet a liability to make lease payments and a corresponding right-of-use asset for virtually all leases, other than leases with a term of 12 months or less. The update also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. In February 2018, the FASB issued ASU 2018-01 that provided a practical expedient for existing or expired land easements that were not previously accounted for in accordance with ASC 840. The practical expedient would allow entities to elect not to assess whether those land easements are, or contain, leases in accordance with ASC 842 when transitioning to the new leasing standard. The ASU clarifies that land easements entered into (or existing land easements modified) on or after the effective date of the new leasing standard must be assessed under ASC 842.

The updates are effective for annual and interim periods for fiscal years beginning after December 15, 2018, which will require us to adopt these provisions in the first quarter of fiscal 2020. Early adoption is permitted for financial statements that have not been previously issued. In July 2018, the FASB issued ASU 2018-11 that provided either a modified retrospective transition approach with application in all comparative periods presented, or an alternative transition method, which permits a company to use its effective date as the date of initial application without restating comparative period financial statements. We anticipate implementing the standard by taking advantage of the practical expedient options. The discounted minimum remaining rental payments will be the starting point for determining the right-of-use asset and lease liability. We had operating

leases with remaining rental payments of approximately \$569.9 million at the end of fiscal 2018. We expect that adoption of the new guidance will have a material impact to our consolidated balance sheets due to recognition of the right-of-use asset and lease liability related to our current operating leases. The process of evaluating the full impact of the new guidance to our consolidated financial statements and disclosures is ongoing, but we anticipate the initial evaluation of the impact will be completed in the first half of fiscal 2019.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)—In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The FASB has subsequently amended this update by issuing additional ASU's that provide clarification and further guidance around areas identified as potential implementation issues. These updates provide a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. These updates also require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU 2015-14 delaying the effective date of adoption. These updates are now effective for annual and interim periods for fiscal years beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2019. Early application in fiscal 2018 is permitted, however we have elected to implement the new guidance effective first quarter of fiscal 2019. These updates permit the use of either the retrospective or cumulative effect transition method. We have selected the cumulative effect transition method.

We performed an analysis of the impact of the new revenue recognition guidance and developed a comprehensive plan for the implementation. The implementation plan included analyzing the impact to our current revenue streams, comparing our historical accounting policies to the new guidance, and identifying potential differences from applying the requirements of the new guidance to our contracts. Based on our evaluation of our revenue streams, we do not believe these updates will impact our recognition of revenue from sales generated at company-owned restaurants or recognition of royalty fees from our franchisees, which are our primary sources of revenue. Our evaluation found that accounting for initial franchise and development fees, advertising contributions from franchisees, and gift card breakage would be impacted for the adoption of ASC 606. Under the new guidance, we will defer the initial development and franchise fees and recognize revenue over the term of the related franchise agreement. This is different from our current accounting policy which is to recognize initial development and franchise fees when we have performed all material obligations and services, which generally occurs when the franchised restaurant opens.

The new guidance will also change our reporting of advertising fund contributions from franchisees and the related advertising expenditures, which are currently reported on a net basis in our Consolidated Statements of Comprehensive Income within Restaurant expenses. Under the new guidance, advertising fund contributions from franchisees will be reported on a gross basis within Franchise and other revenues in the Consolidated Statements of Comprehensive Income, and the related advertising expenses will continue to be reported within Restaurant expenses.

Additionally, under the new standard, estimated breakage income on gift cards will be recognized in proportion to the related gift card redemption patterns over the estimated life of the gift cards. Our current accounting policy is to estimate the amount of gift card balances for which redemption is remote, and record breakage income based on this estimate.

We expect upon adoption that we will record an increase to Total shareholders' deficit in the Consolidated Balance Sheets of approximately \$7.3 million which includes the impact of deferred taxes from adopting the standard. The recognition of unamortized franchise and development fees is expected to increase Total liabilities in the Consolidated Balance Sheets by approximately \$18.0 million. Advertising contributions will increase both Total revenues and Total operating costs and expenses in fiscal 2019, with no impact to Net income. For the fiscal year ended June 27, 2018, advertising contributions included within Restaurant expenses in the Consolidated Statements of Comprehensive Income totaled \$22.6 million. The reduction of gift card liability to

adjust to the new redemption pattern is expected to decrease Total liabilities in the Consolidated Balance Sheets by approximately \$8.2 million. We are currently in the process of implementing internal controls related to these revenue recognition updates and related disclosures under the new standards.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. The variable rate financial instruments consist of the outstanding borrowings on our revolving credit facility. At June 27, 2018, \$820.3 million was outstanding under the revolving credit facility. The impact on our annual results of operations of a one-point interest rate change on the outstanding balance of these variable rate financial instruments as of June 27, 2018 would be approximately \$8.2 million.

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

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

BRINKER INTERNATIONAL, INC.
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	June 27, 2018	June 28, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 10,872	\$ 9,064
Accounts receivable, net	53,659	44,658
Inventories	24,242	24,997
Restaurant supplies	46,724	46,380
Prepaid expenses	20,787	19,226
Total current assets	<u>156,284</u>	<u>144,325</u>
Property and Equipment, at Cost:		
Land	153,953	149,098
Buildings and leasehold improvements	1,673,310	1,655,227
Furniture and equipment	722,041	713,228
Construction-in-progress	22,161	21,767
	2,571,465	2,539,320
Less accumulated depreciation and amortization	<u>(1,632,536)</u>	<u>(1,538,706)</u>
Net property and equipment	<u>938,929</u>	<u>1,000,614</u>
Other Assets:		
Goodwill	163,808	163,953
Deferred income taxes, net	33,613	37,029
Intangibles, net	23,977	27,512
Other	30,729	30,200
Total other assets	<u>252,127</u>	<u>258,694</u>
Total assets	<u>\$ 1,347,340</u>	<u>\$ 1,403,633</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities:		
Current installments of long-term debt	\$ 7,088	\$ 9,649
Accounts payable	104,662	104,231
Gift card liability	119,147	126,482
Accrued payroll	74,505	70,281
Other accrued liabilities	127,200	111,515
Income taxes payable	1,738	14,203
Total current liabilities	434,340	436,361
Long-term debt, less current installments	1,499,624	1,319,829
Other liabilities	131,685	141,124
Commitments & Contingencies (Note 8 and Note 13)		
Shareholders' Deficit:		
Common stock—250,000,000 authorized shares; \$0.10 par value; 176,246,649 shares issued and 40,797,919 shares outstanding at June 27, 2018, and 176,246,649 shares issued and 48,440,721 shares outstanding at June 28, 2017	17,625	17,625
Additional paid-in capital	511,604	502,074
Accumulated other comprehensive loss	(5,836)	(11,921)
Retained earnings	<u>2,683,033</u>	<u>2,627,073</u>
	3,206,426	3,134,851
Less treasury stock, at cost (135,448,730 shares at June 27, 2018 and 127,805,928 shares at June 28, 2017)	<u>(3,924,735)</u>	<u>(3,628,532)</u>
Total shareholders' deficit	<u>(718,309)</u>	<u>(493,681)</u>
Total liabilities and shareholders' deficit	<u>\$ 1,347,340</u>	<u>\$ 1,403,633</u>

See accompanying Notes to the Consolidated Financial Statements.

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

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Revenues:			
Company sales	\$ 3,041,516	\$ 3,062,579	\$ 3,166,659
Franchise and other revenues	93,901	88,258	90,830
Total revenues	3,135,417	3,150,837	3,257,489
Operating costs and expenses:			
Company restaurants (excluding depreciation and amortization)			
Cost of sales	796,007	791,321	840,204
Restaurant labor	1,033,853	1,017,945	1,036,005
Restaurant expenses	757,547	773,510	762,663
Company restaurant expenses	2,587,407	2,582,776	2,638,872
Depreciation and amortization	151,392	156,409	156,368
General and administrative	136,012	132,819	127,593
Other gains and charges	34,500	22,655	17,180
Total operating costs and expenses	2,909,311	2,894,659	2,940,013
Operating income	226,106	256,178	317,476
Interest expense	58,986	49,547	32,574
Other, net	(3,102)	(1,877)	(1,485)
Income before provision for income taxes	170,222	208,508	286,387
Provision for income taxes	44,340	57,685	85,767
Net income	\$ 125,882	\$ 150,823	\$ 200,620
Basic net income per share	\$ 2.75	\$ 2.98	\$ 3.47
Diluted net income per share	\$ 2.72	\$ 2.94	\$ 3.42
Basic weighted average shares outstanding	45,702	50,638	57,895
Diluted weighted average shares outstanding	46,264	51,250	58,684
Other comprehensive income (loss):			
Foreign currency translation adjustment	\$ 186	\$ (327)	\$ (2,964)
Other comprehensive income (loss)	186	(327)	(2,964)
Comprehensive income	\$ 126,068	\$ 150,496	\$ 197,656
Dividends per share	\$ 1.52	\$ 1.36	\$ 1.28

See accompanying Notes to the Consolidated Financial Statements.

BRINKER INTERNATIONAL, INC.
Consolidated Statements of Shareholders' Deficit
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balances at June 24, 2015	60,586	\$ 17,625	\$ 490,111	\$ 2,419,331	\$ (3,009,249)	\$ (8,630)	\$ (90,812)
Net income	—	—	—	200,620	—	—	200,620
Other comprehensive loss	—	—	—	—	—	(2,964)	(2,964)
Dividends (\$1.28 per share)	—	—	—	(74,235)	—	—	(74,235)
Stock-based compensation	—	—	15,207	—	—	—	15,207
Purchases of treasury stock	(5,842)	—	(3,796)	—	(281,109)	—	(284,905)
Issuances of common stock	677	—	(11,778)	—	17,925	—	6,147
Excess tax benefit from stock-based compensation	—	—	5,366	—	—	—	5,366
Balances at June 29, 2016	55,421	17,625	495,110	2,545,716	(3,272,433)	(11,594)	(225,576)
Net income	—	—	—	150,823	—	—	150,823
Other comprehensive loss	—	—	—	—	—	(327)	(327)
Dividends (\$1.36 per share)	—	—	—	(69,466)	—	—	(69,466)
Stock-based compensation	—	—	14,453	—	—	—	14,453
Purchases of treasury stock	(7,451)	—	(1,753)	—	(369,124)	—	(370,877)
Issuances of common stock	471	—	(7,404)	—	13,025	—	5,621
Excess tax benefit from stock-based compensation	—	—	1,668	—	—	—	1,668
Balances at June 28, 2017	48,441	17,625	502,074	2,627,073	(3,628,532)	(11,921)	(493,681)
Net income	—	—	—	125,882	—	—	125,882
Other comprehensive income	—	—	—	—	—	186	186
Disposition of equity method investment	—	—	—	—	—	5,899	5,899
Dividends (\$1.52 per share)	—	—	—	(69,922)	—	—	(69,922)
Stock-based compensation	—	—	14,245	—	—	—	14,245
Purchases of treasury stock	(7,882)	—	(213)	—	(303,026)	—	(303,239)
Issuances of common stock	239	—	(4,502)	—	6,823	—	2,321
Balances at June 27, 2018	40,798	\$ 17,625	\$ 511,604	\$ 2,683,033	\$ (3,924,735)	\$ (5,836)	\$ (718,309)

See accompanying Notes to the Consolidated Financial Statements.

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

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Cash flows from operating activities			
Net income	\$ 125,882	\$ 150,823	\$ 200,620
Adjustments to reconcile Net income to net cash from operating activities:			
Depreciation and amortization	151,392	156,409	156,368
Stock-based compensation	14,245	14,568	15,159
Deferred income taxes, net	3,421	(22,704)	23,902
Restructure charges and other impairments	21,704	14,412	17,445
Net loss (gain) on disposal of assets	1,602	(377)	87
Undistributed loss (earnings) on equity investments	330	1	(571)
Other	3,068	3,009	1,918
Changes in assets and liabilities:			
Accounts receivable, net	(3,281)	3,487	(3,682)
Inventories	12	(62)	11
Restaurant supplies	(1,231)	(1,496)	(1,651)
Prepaid expenses	(1,694)	(696)	(11,178)
Other assets	255	308	72
Accounts payable	1,569	2,984	(5,783)
Gift card liability	(7,334)	4,153	6,190
Accrued payroll	4,223	(714)	(17,229)
Other accrued liabilities	(6,794)	(5,803)	725
Current income taxes	(14,877)	(7,692)	14,875
Other liabilities	(8,041)	4,499	2,882
Net cash provided by operating activities	<u>284,451</u>	<u>315,109</u>	<u>400,160</u>
Cash flows from investing activities			
Payments for property and equipment	(101,281)	(102,573)	(112,788)
Proceeds from sale of assets	19,873	3,157	4,256
Proceeds from note receivable	1,867	—	—
Insurance recoveries	1,747	—	—
Payment for business acquisition, net of cash acquired	—	—	(105,577)
Net cash used in investing activities	<u>(77,794)</u>	<u>(99,416)</u>	<u>(214,109)</u>
Cash flows from financing activities			
Borrowings on revolving credit facility	1,016,000	250,000	256,500
Payments on revolving credit facility	(588,000)	(388,000)	(110,000)
Purchases of treasury stock	(303,239)	(370,877)	(284,905)
Payments on long-term debt	(260,311)	(3,832)	(3,402)
Payments of dividends	(70,009)	(70,771)	(74,066)
Proceeds from issuances of treasury stock	2,321	5,621	6,147
Payments for debt issuance costs	(1,611)	(10,216)	—
Proceeds from issuance of long-term debt	—	350,000	—
Net cash used in financing activities	<u>(204,849)</u>	<u>(238,075)</u>	<u>(209,726)</u>
Net change in cash and cash equivalents	1,808	(22,382)	(23,675)
Cash and cash equivalents at beginning of year	9,064	31,446	55,121
Cash and cash equivalents at end of year	<u>\$ 10,872</u>	<u>\$ 9,064</u>	<u>\$ 31,446</u>

See accompanying Notes to the Consolidated Financial Statements.

BRINKER INTERNATIONAL, INC.
Notes to the Consolidated Financial Statements

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

We are principally engaged in the ownership, operation, development, and franchising of the Chili's Grill & Bar ("Chili's") and Maggiano's Little Italy ("Maggiano's") restaurant brands. At June 27, 2018, we owned, operated, or franchised 1,686 restaurants, consisting of 997 company-owned restaurants and 689 franchised restaurants, located in the United States and 31 countries and two territories outside of the United States.

Basis of Presentation

Our Consolidated Financial Statements include the accounts of Brinker International, Inc. and our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

We have a 52/53 week fiscal year ending on the last Wednesday in June. Fiscal years 2018 and 2017, which ended on June 27, 2018 and June 28, 2017, respectively, each contained 52 weeks. Fiscal year 2016 ended on June 29, 2016 and contained 53 weeks. The estimated impact of the 53rd week in fiscal 2016 was an increase in revenue of approximately \$58.3 million. While certain expenses increased in direct relationship to additional revenue from the 53rd week, other expenses, such as fixed costs, are incurred on a calendar month basis.

Revenues are presented in two separate captions in the Consolidated Statements of Comprehensive Income to provide more clarity around company-owned restaurant revenue and operating expense trends. Company sales include revenues generated by the operation of company-owned restaurants including gift card redemptions. Franchise and other revenues includes royalties, development fees, franchise fees, Maggiano's banquet service charge income, gift card breakage and discounts, digital entertainment revenue, Chili's retail food product royalties, merchandise and delivery fee income.

We report certain labor and related expenses in a separate caption on the Consolidated Statements of Comprehensive Income titled Restaurant labor. Restaurant labor includes all compensation-related expenses, including benefits and incentive compensation, for restaurant team members at the general manager level and below. Labor-related expenses attributable to multi-restaurant (or above-restaurant) supervision is included in Restaurant expenses.

New Accounting Standards Implemented

ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718)—In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2016-09. This update changed the recognition of excess tax benefits and tax deficiencies resulting from the settlement of share-based awards from an adjustment to Additional paid-in capital on the Consolidated Balance Sheets to an adjustment to the Provision for income taxes on the Consolidated Statements of Comprehensive Income and is applied on a prospective basis. This update also changed the classification of excess tax benefits from Cash flows from financing activities to Cash flows from operating activities on the Consolidated Statements of Cash Flows and is applied retrospectively. This update was effective for annual and interim periods for fiscal years beginning after December 15, 2016, which required us to adopt these provisions in the first quarter of fiscal 2018. We recognized a discrete tax expense of \$1.1 million in the Provision for income taxes, which resulted in a decrease in Diluted net income per share of \$0.02, in the Consolidated Statements of Comprehensive Income for the fiscal year ended June 27, 2018. The inclusion of excess tax benefits and tax deficiencies within our Provision for income taxes will increase its volatility as the amount of excess tax benefits or tax deficiencies from share-based compensation awards depends on our stock price at the date the awards vest. In addition, we reclassified \$2.2 million of excess tax benefits received from Cash flows from financing activities to Cash flows

from operating activities in our Consolidated Statements of Cash Flows for the fiscal year period ended June 28, 2017. The adoption of the other provisions in this update, including the accounting policy election for accounting for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows, had no impact to our consolidated financial statements. We will continue to estimate forfeitures of share-based awards.

Use of Estimates

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

Revenue Recognition

We record revenue from the sale of food, beverages and alcohol as products are sold. Initial fees received from a franchisee to establish a new franchise are recognized as income when we have performed our obligations required to assist the franchisee in opening a new franchise restaurant, which is generally upon the opening of such restaurant. Fees received for development arrangements are recognized as income upon satisfaction of our obligations, generally upon the execution of the agreement when the development rights are conveyed to the franchisee. Continuing royalties, which are a percentage of net sales of franchised restaurants, are accrued as income when earned.

Proceeds from the sale of gift cards are recorded as deferred revenue and recognized as revenue when the gift card is redeemed by the holder. Breakage income represents the value associated with the portion of gift cards sold that will most likely never be redeemed. Based on our historical gift card redemption patterns and considering our gift cards have no expiration dates or dormancy fees, we can reasonably estimate the amount of gift card balances for which redemption is remote and record breakage income based on this estimate. We recognize breakage income within franchise and other revenues in the Consolidated Statements of Comprehensive Income. We update our estimate of our breakage rate periodically and, if necessary, adjust the deferred revenue balance accordingly.

Effective for the first quarter of fiscal 2019, we will adopt the *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, please see Note 17—Effect of New Accounting Standards for further details on this adoption.

Fair Value Measurements

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

- Level 1—inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2—inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities.
- Level 3—inputs are unobservable and reflect our own assumptions.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable, net of the allowance for doubtful accounts, represents the estimated net realizable value. Our primary account receivables are due from franchisees, gift card sales, store purchases made on credit cards, and from time-to-time, insurance recoveries, vendor rebates and landlord related receivables. Provisions for doubtful accounts are recorded based on management's judgment regarding our ability to collect as well as the age of the receivables. Accounts receivable are written off when they are deemed uncollectible.

Inventories

Inventories consist of food, beverages and supplies and are valued at the lower of cost or net realizable value, using the first-in, first-out or "FIFO" method.

Property and Equipment

Property and equipment is stated at cost. Buildings and leasehold improvements are depreciated using the straight-line method over the lesser of the term of the lease, including certain renewal options, or the estimated useful lives of the assets, which range from 5 to 20 years. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 7 years. Depreciation expense related to property and equipment for the fiscal years ended June 27, 2018, June 28, 2017, and June 29, 2016 of \$150.1 million, \$155.0 million, and \$154.8 million, respectively, was recorded in Depreciation and amortization on the Consolidated Statements of Comprehensive Income. Routine repair and maintenance costs are expensed when incurred. Major replacements and improvements are capitalized.

We review the carrying amount of property and equipment semi-annually or when events or circumstances indicate that the carrying amount may not be recoverable. We have determined the restaurant level is the lowest level of identifiable cash flows. If the carrying amount is not recoverable, we record an impairment charge for the excess of the carrying amount over the fair value. We determine fair value based on discounted projected future operating cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the inherent risk. Impairment charges are included in Other gains and charges in the Consolidated Statements of Comprehensive Income.

During fiscal 2018, we sold the portion of our current headquarters property that we owned for net proceeds of \$13.7 million. We will continue to occupy the property rent-free until our new corporate headquarters location is available or March 31, 2019. The net sales proceeds have been recorded within Other accrued liabilities on the Consolidated Balance Sheets, until we have fully relinquished possession of the sold property and our involvement has been terminated, please see Note 5—Accrued and Other Liabilities for further details. Once our possession of the existing headquarters has terminated, we will recognize the sale, and record a gain related to the transaction. As of June 27, 2018, Land of \$5.9 million and additional Net property and equipment of \$2.2 million were recorded in our Consolidated Balance Sheets related to the sold property.

During the fourth quarter of fiscal 2018, we marketed for sale leaseback 137 Chili's restaurants located throughout the United States. As of June 27, 2018, the Consolidated Balance Sheets includes Land of \$100.9 million, Buildings and leasehold improvements of \$210.3 million, certain fixtures included in Furniture and equipment of \$9.0 million and Accumulated depreciation of \$157.9 million related to these properties. Please see Note 16—Subsequent Events for further details on the sale leaseback transactions.

Definite-lived Intangible Assets

Definite-lived intangible assets primarily include reacquired franchise rights resulting from our acquisitions. Definite-lived intangible assets are amortized using the straight-line method over the estimated useful lives of the assets.

We determine the fair value of reacquired franchise rights based on discounted projected future operating cash flows of the restaurants associated with these franchise rights. We review the carrying amount semi-annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying amount is not recoverable, we record an impairment charge for the excess of the carrying amount over the fair value. Impairment charges are included in Other gains and charges in the Consolidated Statements of Comprehensive Income.

Operating Leases

Rent expense for leases that contain scheduled rent increases is recognized on a straight-line basis over the lease term, including cancelable option periods where failure to exercise such options would result in an economic penalty such that the renewal appears reasonably assured. The straight-line rent calculation and rent expense includes any rent holiday period, which is the period of time between taking control of a leased site and the rent commencement date. Contingent rents are generally amounts due as a result of sales in excess of amounts stipulated in certain restaurant leases and are included in rent expense at the point in time we determine that it is probable that such sales levels will be achieved. Landlord contributions are recorded when received as a deferred rent liability in Other accrued liabilities and/or Other liabilities in the Consolidated Balance Sheets and amortized as a reduction of rent expense on a straight-line basis over the lease term.

Advertising

Advertising production costs are expensed in the period when the advertising first takes place. Other advertising costs are expensed as incurred. Advertising costs, net of advertising contributions from franchisees, were \$98.3 million, \$103.8 million and \$93.6 million in fiscal years ended June 27, 2018, June 28, 2017 and June 29, 2016, respectively, and are included in Restaurant expenses in the Consolidated Statements of Comprehensive Income.

Effective for the first quarter of fiscal 2019, we will adopt the *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, that reclassifies the presentation of advertising contributions on the Consolidated Statements of Comprehensive Income, please see Note 17—Effect of New Accounting Standards for further details on this adoption.

Goodwill

Goodwill is not subject to amortization, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill has been assigned to reporting units for purposes of impairment testing. Our two restaurant brands, Chili's and Maggiano's, are both operating segments and reporting units.

Goodwill impairment tests consist of a comparison of each reporting unit's fair value with its carrying value. We determine fair value based on a combination of market-based values and discounted projected future operating cash flows of the restaurant brands using a risk adjusted discount rate that is commensurate with the risk inherent in our current business model. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. We determined that there was no goodwill impairment during our annual tests as the fair value of our reporting units was substantially in excess of the carrying values. No indicators of impairment were identified through the end of fiscal year 2018. See Note 4—Goodwill and Intangibles for additional disclosures.

We occasionally acquire restaurants from our franchisees. Goodwill from these acquisitions represents the excess of the cost of the business acquired over the net amounts assigned to assets acquired, including identifiable intangible assets, primarily reacquired franchise rights. In connection with the sale of restaurants, we will allocate goodwill from the reporting unit, or restaurant brand, to the disposal group in the determination of

the gain or loss on the disposition. The allocation is based on the relative fair values of the disposal group and the portion of the reporting unit that was retained. Additionally, if we sell restaurants with reacquired franchise rights, we will include those assets in the gain or loss on the disposition.

Liquor Licenses

The costs of obtaining non-transferable liquor licenses from local government agencies are expensed over the specified term of the license. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived intangible assets and included in Intangibles, net in the Consolidated Balance Sheets.

Transferable liquor licenses are tested for impairment semi-annually or more frequently if events or circumstances indicate that the asset might be impaired. Impairment charges are recognized based on the excess of carrying value over fair value. We determine fair value based on prices in the open market for licenses in same or similar jurisdictions. Impairment charges are included in Other gains and charges in the Consolidated Statements of Comprehensive Income.

Sales Taxes

Sales taxes collected from guests are excluded from revenues. The obligation is included in Other accrued liabilities in the Consolidated Balance Sheets until the taxes are remitted to the appropriate taxing authorities.

Self-Insurance Program

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We record a liability for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return that is not more-likely-than-not to be realized. We recognize any interest and penalties related to unrecognized tax benefits in Provision for income taxes in the Consolidated Statements of Comprehensive Income.

We reinvest foreign earnings, therefore, United States deferred income taxes have not been provided on foreign earnings.

Stock-Based Compensation

We measure and recognize compensation cost at fair value for all share-based payments. We record compensation expense using a graded-vesting schedule or on a straight-line basis, as applicable, over the vesting

period, or to the date on which retirement eligibility is achieved, if shorter. We recognize compensation expense for only the portion of share-based awards that are expected to vest. Therefore, we apply estimated forfeiture rates that are derived from our historical forfeitures of similar awards.

Certain employees are eligible to receive stock options, performance stock options, performance shares, restricted stock, and restricted stock units, while non-employee members of the Board of Directors (the “Board”) are eligible to receive stock options, restricted stock and restricted stock units. Awards granted to the Board are non-forfeitable and are fully expensed upon grant. Awards to eligible employees may vest over a specified period of time, or service period, only or may also contain performance-based conditions. The fair value of restricted stock and restricted stock units that do not contain a performance condition are based on our closing stock price on the date of grant, while the fair value of stock options is estimated using the Black-Scholes option-pricing model on the date of grant.

Performance shares represent a right to receive shares of common stock upon satisfaction of company performance goals at the end of a three-fiscal-year cycle. Vesting of performance shares granted in fiscal 2018 and 2017 are contingent upon meeting company performance goals based on a specified rate of earnings growth at the end of the three-fiscal-year period. Compensation expense for the performance shares granted in fiscal 2018 and 2017 is recorded based on management’s periodic estimates of the number of shares that will ultimately be issued and the fair value of the shares as determined by our closing stock price on the date of grant. A cumulative expense adjustment is recognized when that estimate changes. The fair value of our performance shares granted prior to fiscal 2017, which contain a market condition, was determined on the date of grant based on a Monte Carlo simulation model.

Stock-based compensation expense totaled approximately \$14.2 million, \$14.5 million and \$15.2 million for fiscal years ended June 27, 2018, June 28, 2017 and June 29, 2016, respectively. The total income tax benefit recognized in the Consolidated Statements of Comprehensive Income related to stock-based compensation expense was approximately \$4.3 million, \$5.7 million and \$5.8 million during the fiscal years ended June 27, 2018, June 28, 2017 and June 29, 2016, respectively.

The weighted average fair values of option grants were \$4.51, \$9.30 and \$10.48 during fiscal years ended June 27, 2018, June 28, 2017 and June 29, 2016, respectively. The fair value of stock options is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Expected volatility	25.2%	25.5%	27.5%
Risk-free interest rate	1.9%	1.3%	1.5%
Expected lives	6 years	5 years	5 years
Dividend yield	4.4%	2.6%	2.4%

Expected volatility and the expected life of stock options are based on historical experience. The risk-free rate is based on the yield of a United States Treasury Note with a term equal to the expected life of the stock options. The dividend yield is based on the most recent quarterly dividend per share declared and the closing stock price on the declaration date.

Preferred Stock

Our Board of Directors is authorized to provide for the issuance of 1.0 million preferred shares with a par value of \$1.00 per share, in one or more series, and to fix the voting rights, liquidation preferences, dividend rates, conversion rights, redemption rights, and terms, including sinking fund provisions, and certain other rights and preferences. As of June 27, 2018, no preferred shares were issued.

Shareholders' Deficit

In August 2017, our Board of Directors authorized a \$250.0 million increase to our existing share repurchase program resulting in total authorizations of \$4.6 billion. We repurchased approximately 7.9 million shares of our common stock for \$303.2 million during fiscal 2018. The repurchased shares included shares purchased as part of our share repurchase program and shares repurchased to satisfy team member tax withholding obligations on the vesting of restricted shares. As of June 27, 2018, approximately \$63.8 million was available under our share repurchase authorizations. Our stock repurchase plan has been and will be used to return capital to shareholders and to minimize the dilutive impact of stock options and other share-based awards. We evaluate potential share repurchases under our plan based on several factors, including our cash position, share price, operational liquidity, proceeds from divestitures, borrowings, and planned investment and financing needs. Additionally, during fiscal 2018, approximately 0.1 million stock options were exercised resulting in cash proceeds of approximately \$2.3 million.

During the fiscal year ended June 27, 2018, we paid dividends of \$70.0 million to common stock shareholders, compared to \$70.8 million in the fiscal year ended June 28, 2017. Our Board of Directors approved a 12.0% increase in the quarterly dividend from \$0.34 to \$0.38 per share effective with the dividend declared in August 2017. We also declared a quarterly dividend of \$0.38 per share in April 2018 which was paid subsequent to the end of the fiscal 2018 year in the amount of \$15.7 million. The dividend accrual was included in Other accrued liabilities in our Consolidated Balance Sheets as of June 27, 2018.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For fiscal years ended June 27, 2018, June 28, 2017 and June 29, 2016, Comprehensive income consists of Net income and Foreign currency translation adjustment. The Foreign currency translation adjustment represents the unrealized impact of translating the financial statements of the Canadian restaurants and the Mexico joint venture with CMR, S.A.B. de C.V. from their respective functional currencies to United States dollars. During the fiscal year ended June 27, 2018, the Mexico joint venture was sold to CMR, please see Note 2—Equity Method Investment for further details. The Accumulated other comprehensive loss (“AOCL”) is presented in the Consolidated Balance Sheets.

Net Income Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted share awards. Stock options and restricted share awards with an anti-dilutive effect are not included in the dilutive earnings per share calculation.

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

	June 27, 2018	June 28, 2017	June 29, 2016
Basic weighted average shares outstanding	45,702	50,638	57,895
Dilutive stock options	127	192	316
Dilutive restricted shares	435	420	473
	562	612	789
Diluted weighted average shares outstanding	<u>46,264</u>	<u>51,250</u>	<u>58,684</u>
Awards excluded due to anti-dilutive effect on earnings per share	<u>1,146</u>	<u>973</u>	<u>550</u>

Segment Reporting

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing operating performance. We manage our business on the basis of two operating segments, Chili's and Maggiano's. The brands operate company-owned restaurants principally in the U.S. within the full-service casual dining segment of the industry. The Chili's segment also has company-owned restaurants in Canada and franchised locations in the United States and 31 countries and two territories outside of the United States. Additional information about our segments, including financial information, is included in Note 14—Segment Information.

2. EQUITY METHOD INVESTMENT

We had a joint venture agreement with CMR, S.A.B. de C.V. to develop 50 Chili's restaurants in Mexico, with a total of 45 Chili's restaurants operating in the joint venture as of June 28, 2017. We accounted for the joint venture investment under the equity method of accounting. In October 2017, we sold our Dutch subsidiary that held the equity interest in our Chili's joint venture in Mexico to CMR, S.A.B. de C.V. for \$18.0 million. During the second quarter of fiscal 2018, we recorded a gain of \$0.2 million to Other gains and charges in the Consolidated Statements of Comprehensive Income which included the recognition of \$5.4 million of foreign currency translation losses reclassified from AOCL consisting of \$5.9 million of foreign currency translation losses from previous years, partially offset by \$0.5 million of current year foreign currency translation gains. The changes in AOCL, including the impact from the CMR joint venture sale, for the fiscal year ended June 27, 2018 are as follows (in thousands):

	Accumulated Other Comprehensive Loss
Balance as of June 28, 2017	\$ (11,921)
Cumulative losses as of June 28, 2017 reclassified from AOCL due to disposition	5,899
Current period other comprehensive income before reclassifications	705
Current period reclassifications from AOCL due to disposition	(519)
Net current period other comprehensive income	<u>186</u>
Balance as of June 27, 2018	<u>\$ (5,836)</u>

We received a note as consideration for the sale to be paid in 72 equal installments, with one installment payment made at closing and the other payments to be made over 71 months pursuant to the note. The note is

denominated in Mexican pesos and is re-measured to U.S. dollars at the end of each period resulting in a gain or loss from foreign currency exchange rate changes included in Other gains and charges in the Consolidated Statements of Comprehensive Income for the periods presented, please see Note 3—Other Gains and Charges for more information. The current portion of the note, which represents the cash payments to be received over the next 12 months, is included within Accounts receivable, net while the long-term portion of the note is included within Other assets on the Consolidated Balance Sheets.

Before the sale of the joint venture in the second quarter of fiscal 2018, we recorded our share of the Mexico joint venture net income or loss of the investee within Operating income since their operations were similar to our ongoing operations. These amounts were included in Restaurant expenses in our Consolidated Statements of Comprehensive Income due to the immaterial nature of the amounts. The investment in the joint venture was included in Other assets in our Consolidated Balance Sheets.

3. OTHER GAINS AND CHARGES

Other gains and charges in the Consolidated Statements of Comprehensive Income consist of the following (in thousands):

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Restaurant impairment charges	\$ 10,930	\$ 5,190	\$ 10,651
Restaurant closure charges	7,522	4,084	3,780
Hurricane-related costs, net of recoveries	5,097	—	—
Cyber security incident charges	2,000	—	—
Sale-leaseback transaction charges	1,976	—	—
Lease guarantee charges	1,943	1,089	—
Accelerated depreciation	1,932	1,988	—
Remodel-related costs	1,486	—	—
Foreign currency transaction loss	1,171	—	—
Severance and other benefits	306	6,591	3,304
Gain on the sale of assets, net	(293)	(2,659)	(2,858)
Information technology restructuring	—	2,739	—
Impairment of investment	—	—	1,000
Acquisition costs	—	—	700
Impairment of intangible assets	—	—	392
Litigation	—	—	(3,191)
Other	430	3,633	3,402
	<u>\$ 34,500</u>	<u>\$ 22,655</u>	<u>\$ 17,180</u>

Fiscal 2018

Restaurant impairment charges during the fiscal year ended June 27, 2018 totaling \$10.9 million primarily includes charges of \$7.2 million recorded in the first quarter of fiscal 2018 associated with nine Alberta, Canada Chili's restaurants closed during the second quarter of fiscal 2018. Alberta has an oil dependent economy and has experienced an economic recession in recent years related to lower oil production. The slower economy has negatively affected traffic at the restaurants. The decision to close these restaurants was driven by management's belief that the long-term profitability of these restaurants would not meet our required level of return.

Additionally, during fiscal 2018, we recorded Restaurant impairment charges of \$3.8 million primarily related to the long-lived assets and reacquired franchise rights of certain underperforming Maggiano's and Chili's restaurants that will continue to operate. See Note 9—Fair Value Disclosures for further details.

Restaurant closure charges during the fiscal year ended June 27, 2018 totaling \$7.5 million primarily includes expenses of \$4.6 million associated with the Canada closures and related lease termination charges. We also recorded \$1.8 million in lease termination expenses related to locations where we are the primary lessee of leases that were sublet to the Macaroni Grill, a divested brand, currently in bankruptcy proceedings, that discontinued sublease rental payments and closed the restaurants. Additionally, we recorded Restaurant closure charges of \$1.2 million primarily related to lease termination charges and closure costs associated with Chili's restaurants closed during fiscal 2018.

Hurricane-related costs, net of recoveries include incurred expenses associated with Hurricanes Harvey and Irma primarily related to employee relief payments and inventory spoilage. Our restaurants were closed in the areas affected by these disasters and our team members were unable to work. Payments were made to assist our team members during these crises and to promote retention. We carry insurance coverage for these types of natural disasters. It was determined that Hurricane Irma damage was below insurance claim deductible limits, and we will not have any insurance proceeds related to this storm. During fiscal 2018, we received insurance proceeds related to certain Hurricane Harvey property damage of \$1.0 million that was mostly offset by the long-lived asset write-off, of which the net amount of \$0.1 million was included within Other gains and charges in the Consolidated Statements of Comprehensive Income. During the fourth quarter of fiscal 2018, the Hurricane Harvey insurance claim was substantially finalized. We recorded an insurance receivable within Accounts receivable, net in the Consolidated Balance Sheets for \$1.0 million which includes \$0.6 million of business interruption funds recorded within Restaurant expenses on the Consolidated Statements of Comprehensive Income and \$0.4 million for property damages recorded within Other gains and charges in the Consolidated Statements of Comprehensive Income.

During fiscal 2018, we received property damage insurance proceeds of \$0.5 million related to natural flooding in Louisiana that are recorded within Other gains and charges in the Consolidated Statements of Comprehensive Income. Additionally, we received business interruption funds of \$0.4 million related to the Louisiana flooding from insurers that are recorded within Restaurant expenses on the Consolidated Statements of Comprehensive Income.

Cyber security incident charges during the fiscal year ended June 27, 2018 totaling \$2.0 million were recorded related to professional services due to legal and other costs associated with our response to the incident. We first reported the incident during the fourth quarter of fiscal 2018. For further details refer to Item 1A—Risk Factors and Note 13—Commitments and Contingencies.

Sale-leaseback transaction charges during the fiscal year ended June 27, 2018 totaling \$2.0 million includes professional service fees for brokers, legal, due diligence and other professional services firms in connection with the sale-leaseback transaction that marketed certain company-owned restaurant properties. These transactions closed during the first quarter of fiscal 2019, please see Note 16—Subsequent Events for further details.

Lease guarantee charges during the fiscal year ended June 27, 2018 totaling \$1.9 million were recorded during fiscal 2018 related to the Macaroni Grill, a divested brand, currently in bankruptcy proceedings, for certain leases under which we were secondarily liable. For additional information on lease guarantees, see Note 13—Commitments and Contingencies.

Accelerated depreciation during the fiscal year ended June 27, 2018 totaling \$1.9 million was recorded primarily related to depreciation on certain leasehold improvements at the corporate headquarters property. We plan to relocate the corporate headquarters in fiscal 2019, please see Note 1—Nature of Operations and Summary of Significant Accounting Policies for details.

Remodel-related costs during the fiscal year ended June 27, 2018 totaling \$1.5 million were recorded related to existing fixed asset write-offs associated with the Chili's reimagining project.

During fiscal 2018, we sold our equity interest in our Mexico joint venture and received a note as consideration denominated in Mexican pesos which is re-measured to U.S. dollars at the end of each period resulting in a gain or loss from foreign currency exchange rate changes. Foreign currency transaction loss (gain) for fiscal 2018 included a net loss of \$1.2 million because the value of the Mexican peso decreased as compared to the U.S. dollar during the fiscal year. The sale of our equity interest resulted in a gain of \$0.2 million which was recorded within Gain on the sale of assets, net and included the recognition of prior period foreign currency translation losses reclassified from AOCL, please see Note 2—Equity Method Investment for further details.

Fiscal 2017

During fiscal 2017, we completed a reorganization of the Chili's restaurant operations team and certain departments at the corporate headquarters to better align our staffing with the current management strategy and resource needs. This employee separation action resulted in severance charges and accelerated stock-based compensation expenses of \$6.6 million. All of the severance amounts were paid by the end of fiscal 2017.

We recorded restaurant impairment charges of \$5.2 million primarily related to the long-lived assets and reacquired franchise rights of ten underperforming Chili's restaurants which will continue to operate. See Note 9—Fair Value Disclosures for additional information. Additionally, we recorded restaurant closure charges of \$4.1 million primarily related to lease charges and other costs associated with closed restaurants.

We incurred \$2.7 million of professional fees and severance associated with our information technology restructuring offset by a \$2.7 million gain on the sale of property. We also recorded accelerated depreciation charges of \$2.0 million related to long-lived assets to be disposed of and lease guarantee charges of \$1.1 million related to leases that were assigned to a divested brand. For additional lease guarantee disclosures, see Note 13—Commitments and Contingencies. Other charges primarily include \$2.4 million of expenses for consulting fees related to a special project.

Fiscal 2016

During fiscal 2016, we recorded impairment charges of \$10.7 million primarily related to seven underperforming restaurants that either continue to operate or closed during fiscal 2017 and \$1.0 million related to a cost method investment. We recorded restaurant closure charges of \$3.8 million that primarily consisted of additional lease and other costs associated with closed restaurants. We also incurred \$3.3 million in severance and other benefits related to organizational changes.

We were a plaintiff in a class action lawsuit against US Foods styled as *In re U.S. Foodservice, Inc. Pricing Litigation*. A settlement agreement was fully executed by all parties in September 2015, and we received approximately \$2.0 million during the second quarter of fiscal 2016 in settlement of this litigation. We also received net proceeds of \$1.2 million from British Petroleum in the fourth quarter of fiscal 2016 related to the 2010 Gulf of Mexico oil spill judgment.

Additionally, we recorded a \$2.9 million gain on the sale of several properties and \$0.7 million of transaction costs related to the acquisition of Pepper Dining. Other charges primarily included \$1.4 million of expenses to reserve for royalties, rents and other outstanding amounts related to a bankrupt franchisee and \$1.2 million of professional service fees associated with organizational changes.

4. GOODWILL AND INTANGIBLES

The changes in the carrying amount of Goodwill are as follows (in thousands):

	June 27, 2018			June 28, 2017		
	Chili's	Maggiano's	Consolidated	Chili's	Maggiano's	Consolidated
Balance at beginning of year	\$ 125,556	\$ 38,397	\$ 163,953	\$ 125,610	\$ 38,397	\$ 164,007
Changes in goodwill:						
Additions	—	—	—	—	—	—
Foreign currency translation adjustment	(145)	—	(145)	(54)	—	(54)
Balance at end of year	\$ 125,411	\$ 38,397	\$ 163,808	\$ 125,556	\$ 38,397	\$ 163,953

Intangible assets, net are as follows (in thousands):

	June 27, 2018			June 28, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets						
Chili's reacquired franchise rights ⁽¹⁾	\$ 13,611	\$ (4,438)	\$ 9,173	\$ 16,170	\$ (4,175)	\$ 11,995
Chili's other	5,567	(1,215)	4,352	5,985	(1,070)	4,915
	\$ 19,178	\$ (5,653)	\$ 13,525	\$ 22,155	\$ (5,245)	\$ 16,910
Indefinite-lived intangible assets						
Chili's liquor licenses	\$ 9,520			\$ 9,670		
Maggiano's liquor licenses	932			932		
	\$ 10,452			\$ 10,602		

⁽¹⁾ The gross carrying amount and accumulated amortization include the impact of foreign currency translation on existing balances of \$0.1 million and \$0.1 million for fiscal 2018 and 2017, respectively. We also recorded an impairment charge of \$1.5 million and \$0.8 million in Other gains and charges in the Consolidated Statements of Comprehensive Income in fiscal 2018 and fiscal 2017, respectively. See Note 3—Other Gains and Charges and Note 9—Fair Value Disclosures and for additional disclosures.

Amortization expense for all definite-lived intangible assets was \$1.3 million, \$1.4 million and \$1.5 million in the fiscal years ended June 27, 2018, June 28, 2017, and June 29, 2016, respectively, recorded in Depreciation and amortization in the Consolidated Statements of Comprehensive Income. Annual amortization expense for definite-lived intangible assets will approximate \$1.1 million for each of the next five fiscal years. There have been no impairments of Goodwill.

5. ACCRUED AND OTHER LIABILITIES

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

	June 27, 2018	June 28, 2017
Sales tax	\$ 14,177	\$ 12,494
Insurance	17,821	17,484
Property tax	17,422	16,566
Dividends	16,345	17,072
Deferred sale proceeds ⁽¹⁾	15,523	—
Interest	7,756	7,696
Straight-line rent	5,176	4,593
Landlord contributions	2,689	2,968
Cyber security incident ⁽²⁾	1,445	—
Other ⁽³⁾	28,846	32,642
	<u>\$ 127,200</u>	<u>\$ 111,515</u>

- (1) Deferred sale proceeds primarily relates to \$13.7 million for the corporate headquarters sale, please see Note 1—Nature of Operations and Summary of Significant Accounting Policies for further details.
- (2) Cyber security incident relates to the fiscal 2018 event, please see Note 13—Commitments and Contingencies for further details.
- (3) Other primarily consists of reserves for restaurant closure activities, certain lease reserves (see Note 13—Commitments and Contingencies for details), accruals for utilities and services, and banquet deposits for Maggiano's events.

Other liabilities consist of the following (in thousands):

	June 27, 2018	June 28, 2017
Straight-line rent	\$ 55,592	\$ 57,464
Insurance	40,093	42,532
Landlord contributions	23,334	26,402
Unfavorable leases	3,750	5,398
Unrecognized tax benefits	2,917	3,116
Other	5,999	6,212
	<u>\$ 131,685</u>	<u>\$ 141,124</u>

6. INCOME TAXES

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

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Domestic	\$ 182,097	\$ 186,679	\$ 258,905
Foreign	(11,875)	21,829	27,482
Total income before provision for income taxes	<u>\$ 170,222</u>	<u>\$ 208,508</u>	<u>\$ 286,387</u>

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

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Current income tax expense:			
Federal	\$ 28,745	\$ 64,407	\$ 48,896
State	12,173	13,358	10,843
Foreign	1	2,490	3,497
Total current income tax expense	<u>40,919</u>	<u>80,255</u>	<u>63,236</u>
Deferred income tax (benefit) expense:			
Federal	6,560	(19,647)	21,842
State	139	(3,064)	704
Foreign	(3,278)	141	(15)
Total deferred income tax (benefit) expense	<u>3,421</u>	<u>(22,570)</u>	<u>22,531</u>
	<u>\$ 44,340</u>	<u>\$ 57,685</u>	<u>\$ 85,767</u>

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

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Income tax expense at statutory rate	\$ 47,833	\$ 72,978	\$ 100,236
FICA tax credit	(22,641)	(20,657)	(20,497)
State income taxes, net of Federal benefit	8,725	5,928	9,614
Tax reform impact	8,223	—	—
Stock based compensation excess tax shortfall	1,124	—	—
Other	1,076	(564)	(3,586)
	<u>\$ 44,340</u>	<u>\$ 57,685</u>	<u>\$ 85,767</u>

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

	<u>June 27, 2018</u>	<u>June 28, 2017</u>
Deferred income tax assets:		
Leasing transactions	\$ 22,710	\$ 32,019
Stock-based compensation	9,128	14,029
Restructure charges and impairments	2,435	3,533
Insurance reserves	12,134	19,700
Employee benefit plans	54	288
Gift cards	15,053	23,670
Net operating losses	6,119	2,554
Federal credit carryover	10,672	12,697
State credit carryover	3,518	3,148
Other, net	3,763	8,480
Less: Valuation allowance	(6,104)	(5,232)
Total deferred income tax assets	<u>79,482</u>	<u>114,886</u>
Deferred income tax liabilities:		
Prepaid expenses	13,497	19,506
Goodwill and other amortization	20,284	30,213
Depreciation and capitalized interest on property and equipment	11,055	26,375
Other, net	1,033	1,763
Total deferred income tax liabilities	<u>45,869</u>	<u>77,857</u>
Net deferred income tax asset	<u>\$ 33,613</u>	<u>\$ 37,029</u>

We have deferred tax assets of \$3.8 million reflecting the benefit of state loss carryforwards, before federal benefit and valuation allowance, which expire at various dates between fiscal 2019 and fiscal 2038. We have a deferred tax asset of \$3.1 million for Canadian loss carryforwards which expire in fiscal 2038. We have deferred tax assets of \$10.7 million of federal and \$4.5 million of state tax credits, before federal benefit and valuation allowance, which expire at various dates between fiscal 2024 and fiscal 2035. The recognized deferred tax asset for the state loss carryforwards is \$0.4 million and the federal tax credits is \$10.7 million. None of the state credits have been utilized. The federal credit carryover is limited by Section 382 of the Internal Revenue Code.

The valuation allowance increased by \$0.9 million in fiscal 2018 to recognize certain state net operating loss benefits management believes are not more-likely-than-not to be realized.

No provision was made for the United States federal and state income taxes on certain outside basis differences, which primarily relate to accumulated unrepatriated foreign earnings of approximately \$8.2 million as of June 27, 2018. Our accumulated foreign earnings and profits are in a loss position and therefore no taxes are applicable related to a deemed repatriation. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

The Tax Cuts and Jobs Act of 2017 (the "Tax Act") was enacted on December 22, 2017 with an effective date of January 1, 2018. The enactment date occurred prior to the end of the second quarter of fiscal 2018 and therefore the federal statutory tax rate changes stipulated by the Tax Act were reflected in the second quarter. The Tax Act lowered the federal statutory tax rate from 35.0% to 21.0% effective January 1, 2018. Our federal

statutory tax rate for fiscal 2018 is now 28.1%, representing a blended tax rate for the current fiscal year based on the number of days in the fiscal year before and after the effective date. For fiscal years ended June 28, 2017 and June 29, 2016 our federal statutory tax rate was 35.0%. For subsequent years, our federal statutory tax rate will be 21.0%. In accordance with ASC 740, we re-measured our deferred tax accounts as of the enactment date using the new federal statutory tax rate and recognized the change as a discrete item in the Provision for income taxes. For the fifty-two week period ended June 27, 2018, the adjustment was \$8.2 million, this changed slightly from the prior quarter due to revised full year estimates for changes in our net deferred tax balance.

A reconciliation of unrecognized tax benefits are as follows (in thousands):

	<u>June 27, 2018</u>	<u>June 28, 2017</u>
Balance at beginning of year	\$ 4,062	\$ 4,989
Additions based on tax positions related to the current year	502	402
Additions based on tax positions related to prior years	—	31
Settlements with tax authorities	—	(681)
Expiration of statute of limitations	(638)	(679)
Balance at end of year	<u>\$ 3,926</u>	<u>\$ 4,062</u>

The total amount of unrecognized tax benefits, excluding interest and penalties, that would affect income tax expense if resolved in our favor was \$3.1 million and \$2.6 million as of June 27, 2018 and June 28, 2017, respectively. We do not expect any material changes to our liability for uncertain tax positions during the next 12 months.

We recognize accrued interest and penalties related to unrecognized tax benefits in Provision for income taxes in the Consolidated Statements of Comprehensive Income. As of June 27, 2018, we had \$0.5 million (\$0.4 million net of a \$0.1 million Federal deferred tax benefit) of interest and penalties accrued, compared to \$0.6 million (\$0.4 million net of a \$0.2 million Federal deferred tax benefit) at June 28, 2017.

Our income tax returns are subject to examination by taxing authorities in the jurisdictions in which we operate. The periods subject to examination for our federal return are fiscal 2018 to fiscal 2019 and fiscal 2015 to fiscal 2018 for our Canadian returns. State income tax returns are generally subject to examination for a period of three to five years after filing. We have various state income tax returns in the process of examination or settlements. Our federal return for fiscal 2018 and 2019 are currently under examination through the Internal Revenue Service: Compliance Assurance Process (CAP) program. There are no unrecorded liabilities associated with these examinations.

7. DEBT

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

	June 27, 2018	June 28, 2017
Revolving credit facility	\$ 820,250	\$ 392,250
5.00% notes	350,000	350,000
3.88% notes	300,000	300,000
2.60% notes	—	250,000
Capital lease obligations (see Note 8—Leases)	43,018	45,417
Total long-term debt	1,513,268	1,337,667
Less unamortized debt issuance costs and discounts	(6,556)	(8,189)
Total long-term debt less unamortized debt issuance costs and discounts	1,506,712	1,329,478
Less current installments	(7,088)	(9,649)
	<u>\$ 1,499,624</u>	<u>\$ 1,319,829</u>

Excluding capital lease obligations (see Note 8—Leases) and interest, our long-term debt maturities for the five fiscal years following June 27, 2018 and thereafter are as follows (in thousands):

	Long-Term Debt
2019	\$ —
2020	—
2021	—
2022	820,250
2023	300,000
Thereafter	350,000
	<u>\$ 1,470,250</u>

Revolving Credit Facility

In September 2016, we amended the revolving credit facility to increase the borrowing capacity from \$750.0 million to \$1.0 billion. We capitalized debt issuance costs of \$4.0 million associated with the amendment of the revolving credit facility, which are included in Other assets in the Consolidated Balance Sheets as of June 27, 2018. Additionally, in May 2018, an amendment to the revolving credit facility was executed. This amendment was executed to provide the ability to execute certain sale-leaseback transactions and to increase the restricted payment capacity. The related debt issuance costs of \$1.6 million are also included in Other assets in the Consolidated Balance Sheets as of June 27, 2018.

Under the amended \$1.0 billion revolving credit facility, the maturity date for \$890.0 million of the facility was extended from March 12, 2020 to September 12, 2021 and the remaining \$110.0 million remains due on March 12, 2020. The amended revolving credit facility generally bears interest of LIBOR plus an applicable margin, which is a function of our credit rating and debt to cash flow ratio, but is subject to a maximum of LIBOR plus 2.00%. For a period of 180 days following the third amendment to the revolving credit facility, we are paying interest at a rate of LIBOR plus 1.70% for a total of 3.79%. One month LIBOR at June 27, 2018 was approximately 2.09%.

During fiscal 2018, net borrowings of \$428.0 million were drawn on the revolving credit facility, which included the \$250.0 million utilized to repay the principal balance of the 2.60% notes that came due in May

2018. As of June 27, 2018, \$179.8 million of credit was available under the revolving credit facility. During fiscal 2017, \$250.0 million was drawn from the \$1.0 billion revolving credit facility primarily to fund share repurchases. We repaid a total of \$388.0 million of the revolving credit facility during fiscal 2017.

5.00% Notes

In September 2016, we completed the private offering of \$350.0 million of our 5.00% senior notes due October 2024 (the “2024 Notes”). We received proceeds of \$350.0 million and utilized the proceeds to fund a \$300.0 million accelerated share repurchase agreement and to repay \$50.0 million on the amended \$1.0 billion revolving credit facility. See Note 1—Nature of Operations and Summary of Significant Accounting Policies for additional disclosures related to the accelerated share repurchase agreement. The notes require semi-annual interest payments which began on April 1, 2017.

The indenture for the 2024 Notes contains certain covenants, including, but not limited to, limitations and restrictions on the ability of the Company and its Restricted Subsidiaries (as defined in the indenture) to (i) create liens on Principal Property (as defined in the Indenture) and (ii) merge, consolidate or amalgamate with or into any other person or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all of their property. These covenants are subject to a number of important conditions, qualifications, exceptions and limitations.

2.60% and 3.88% Notes

In May 2013, we issued \$550.0 million of notes consisting of two tranches—\$250.0 million of 2.60% notes due in May 2018 and \$300.0 million of 3.88% notes due in May 2023. The notes require semi-annual interest payments which began in the second quarter of fiscal 2014. In May 2018, we repaid \$250.0 million that was due under our 2.60% notes utilizing availability on our revolving credit facility.

Financial Covenants

Our debt agreements contain various financial covenants that, among other things, require the maintenance of certain leverage and fixed charge coverage ratios. The financial covenants were not significantly changed as a result of the new and amended debt agreements. We are currently in compliance with all financial covenants.

8. LEASES

Capital Leases

We lease certain buildings and equipment under capital leases. The building asset value of \$38.8 million at both June 27, 2018 and June 28, 2017, and the related accumulated amortization of \$27.8 million and \$26.0 million at June 27, 2018 and June 28, 2017, respectively, are included in Buildings and leasehold improvements in the Consolidated Balance Sheets.

The technology equipment capital leases asset value of \$20.3 million and \$12.4 million at June 27, 2018 and June 28, 2017, and the related accumulated amortization of \$5.1 million and \$0.7 million at June 27, 2018 and June 28, 2017, respectively, are included in Furniture and equipment in the Consolidated Balance Sheets.

Amortization expense related to all assets under capital leases of \$5.6 million, \$1.9 million, and \$2.0 million for the fiscal years ended June 27, 2018, June 28, 2017, and June 29, 2016, respectively, was recorded in Depreciation and amortization in the Consolidated Statements of Comprehensive Income.

Operating Leases

We typically lease restaurant facilities and office space under operating leases. The majority having terms expiring at various dates through fiscal 2035. The restaurant leases have cumulative renewal clauses of 2 to 34

years at our option and, in some cases, have provisions for contingent rent based upon a percentage of sales in excess of specified levels, as defined in the leases. We include other rent-related costs in rent expense, such as common area maintenance, taxes and amortization of landlord contributions. Rent expense related to restaurants is included in Restaurant expenses, and office space rent is included in General and administrative in the Consolidated Statements of Comprehensive Income. Please see Note 5—Accrued and Other Liabilities for further details on accrued straight-line rent and landlord contributions.

Rent expense consists of the following (in thousands):

	<u>June 27, 2018</u>	<u>June 28, 2017</u>	<u>June 29, 2016</u>
Straight-lined minimum rent	\$ 111,096	\$ 109,819	\$ 107,776
Contingent rent	3,154	3,821	4,408
Other	<u>11,656</u>	<u>11,682</u>	<u>11,283</u>
Total rent expense	<u>\$ 125,906</u>	<u>\$ 125,322</u>	<u>\$ 123,467</u>

Commitments

As of June 27, 2018, future minimum lease payments on capital and operating leases were as follows (in thousands):

<u>Fiscal Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2019	\$ 9,829	\$ 119,579
2020	9,153	110,484
2021	7,079	96,717
2022	5,403	77,647
2023	4,220	53,332
Thereafter	<u>20,254</u>	<u>112,156</u>
Total minimum lease payments ⁽¹⁾	55,938	<u>\$ 569,915</u>
Imputed interest (average rate of 7.00%)	<u>(12,920)</u>	
Present value of minimum lease payments	43,018	
Less current installments	<u>(7,088)</u>	
	<u>\$ 35,930</u>	

⁽¹⁾ Future minimum lease payments have not been reduced by minimum sublease rentals to be received in the future under non-cancelable subleases. The total of undiscounted future sublease rentals are approximately \$24.4 million and \$17.6 million for capital and operating subleases, respectively, as of June 27, 2018.

9. FAIR VALUE DISCLOSURES

Non-Financial Assets Measured on a Non-Recurring Basis

We review the carrying amounts of property and equipment, reacquired franchise rights and transferable liquor licenses semi-annually or when events or circumstances indicate that the fair value may not exceed the carrying amount. We record an impairment charge for the excess of the carrying amount over the fair value. All impairment charges were included in Other gains and charges in the Consolidated Statements of Comprehensive Income for the periods presented. Please see Note 1—Nature of Operations and Summary of Significant Accounting Policies for definition of levels.

We determine the fair value of property and equipment and reacquired franchise rights based on discounted projected future cash flows of the restaurants over their remaining service life using a risk adjusted discount rate that is commensurate with the inherent risk that is considered Level 3. Based on our semi-annual review, during fiscal 2018, long-lived assets and reacquired franchise rights with carrying values of \$3.8 million and \$0.3 million, respectively, primarily related to five underperforming restaurants, were determined to have a total fair value of \$0.3 million resulting in an impairment charge of \$3.8 million. During the first quarter of fiscal 2018, we impaired long-lived assets and reacquired franchise rights with carrying values of \$6.0 million and \$1.2 million, respectively, primarily related to nine underperforming Chili's restaurants located in Alberta, Canada which were identified for closure by management. We determined the leasehold improvements and other assets associated with these restaurants had no fair value, based on Level 3 fair value measurements, resulting in an impairment charge of \$7.2 million. The restaurant assets were assigned a zero fair value as the decision to close the restaurants in the second quarter of fiscal 2018 resulted in substantially all of the assets reverting to the landlords. Based on our semi-annual review, during fiscal 2017, long-lived assets and reacquired franchise rights with carrying values of \$4.5 million and \$0.8 million, respectively, primarily related to ten underperforming restaurants, were determined to have a total fair value of \$0.2 million resulting in an impairment charge of \$5.1 million.

We determine the fair value of transferable liquor licenses based on prices in the open market for licenses in the same or similar jurisdictions that is considered Level 2. Based on our semi-annual review, during fiscal 2018, we determined there was no impairment. In fiscal 2017, six transferable liquor licenses with a carrying value of \$1.3 million were written down to the fair value of \$1.2 million resulting in an impairment charge of \$0.1 million.

All impairment charges were included in Other gains and charges in the Consolidated Statements of Comprehensive Income for the periods presented, please see Note 3—Other Gains and Charges for more information.

Other Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts because of the short maturity of these items. The carrying amount of debt outstanding related to the amended revolving credit facility approximates fair value as the interest rate on this instrument approximates current market rates (Level 2). The fair values of the 2.60% notes, 3.88% and 5.00% notes are based on quoted market prices and are considered Level 2 fair value measurements.

During fiscal 2018 we received an \$18.0 million long-term note receivable as consideration related to the sale of our equity interest in the Chili's joint venture in Mexico. We determined the fair value of this note based on an internally developed analysis relying on Level 3 inputs at inception. This analysis was based on a credit rating we assigned to the counterparty and comparable interest rates associated with similar debt instruments observed in the market. As a result of this analysis, we determined the fair value of this note was approximately \$16.0 million and recorded this fair value as its initial carrying value. We believe the fair value continues to approximate the note receivable carrying value as of June 27, 2018. The current portion of the note represents cash payments to be received over the next 12 months and is included within Accounts receivable, net while the long-term portion of the note is included within Other assets in the Consolidated Balance Sheets. Please refer to Note 2—Equity Method Investment for further details about this note receivable.

The carrying amounts, which are net of unamortized debt issuance costs and discounts, and fair values of the 2.60% notes, 3.88% notes and 5.00% notes are as follows (in thousands), please see further details at Note 7—Debt:

	June 27, 2018		June 28, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
2.60% Notes	\$ —	\$ —	\$ 249,495	\$ 250,480
3.88% Notes	\$ 298,267	\$ 285,324	\$ 297,912	\$ 286,077
5.00% Notes	\$ 345,175	\$ 342,276	\$ 344,405	\$ 347,956

10. STOCK-BASED COMPENSATION

Our shareholders approved stock-based compensation plans including the Stock Option and Incentive Plan for employees and the Stock Option and Incentive Plan for Non-Employee Directors and Consultants (collectively, the “Plans”). The total number of shares authorized for issuance to employees and non-employee directors and consultants under the Plans is currently 37.3 million. The Plans provide for grants of options to purchase our common stock, restricted stock, restricted stock units, and stock appreciation rights. Additionally, grants to eligible employees may vest over a specified period of time or service period, or may contain performance-based conditions.

Stock Options

In fiscal 2018, certain eligible employees under the Plans were granted performance stock options whose vesting is contingent upon meeting company performance goals based on our annual earnings at the end of fiscal 2021 and 2022. Expense for performance stock options is recognized using a graded-vesting schedule over the vesting period based upon management’s periodic estimates of the number of stock options that ultimately will vest. The options vest over a period of 4 to 5 years and have a contractual term to exercise of 8 years.

Stock options that do not contain a performance condition were also granted to eligible employees in fiscal 2018, consistent with prior year grants. Expense related to these stock options is recognized using a graded-vesting schedule over the vesting period or to the date on which retirement eligibility is achieved, if shorter. Stock options generally vest over a period of 1 to 4 years and have contractual terms to exercise of 8 years. Full or partial vesting of awards may occur upon a change in control (as defined in the Plans), or upon an employee’s death, disability or involuntary termination.

Transactions during fiscal 2018 were as follows (in thousands, except option prices):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding at June 28, 2017	1,376	\$ 45.46		
Granted ⁽¹⁾	1,302	31.55		
Exercised	(116)	20.07		
Forfeited or canceled	(203)	47.27		
Options outstanding at June 27, 2018 ⁽¹⁾	<u>2,359</u>	<u>\$ 38.87</u>	<u>6.0</u>	<u>\$ 28,163</u>
Options exercisable at June 27, 2018	<u>662</u>	<u>\$ 43.73</u>	<u>3.7</u>	<u>\$ 5,076</u>

⁽¹⁾ There were 750,000 performance stock options granted in fiscal 2018, all of which were outstanding at June 27, 2018.

At June 27, 2018, unrecognized compensation expense related to stock options totaled approximately \$4.0 million and will be recognized over a weighted average period of 3.0 years. The intrinsic value of options exercised totaled approximately \$2.5 million, \$5.6 million and \$5.3 million for the fiscal years ended June 27, 2018, June 28, 2017, and June 29, 2016, respectively. The tax benefit realized on options exercised totaled approximately \$0.6 million, \$1.6 million and \$1.6 million for the fiscal years ended June 27, 2018, June 28, 2017, and June 29, 2016, respectively.

Restricted Share Awards

Restricted share awards consist of performance shares, restricted stock and restricted stock units. In fiscal 2018 and 2017, eligible employees under the Plans were granted performance shares whose vesting is contingent upon meeting company performance goals based on our rate of earnings growth at the end of a three-fiscal-year period. Expense is recognized ratably over the vesting period, or to the date on which retirement eligibility is achieved, if shorter, based upon management's periodic estimates of the number of shares that ultimately will be issued. Prior to fiscal 2017, eligible employees under the Plans were granted performance shares containing a market condition which generally vest in full on the third anniversary of the date of grant.

Restricted stock units granted to eligible employees under the Plans generally vest in full on the third anniversary of the date of grant. Restricted stock units issued to eligible employees under our career equity plan generally vest upon each employee's retirement from the Company. Expense is recognized ratably over the vesting period, or to the date on which retirement eligibility is achieved, if shorter. Full or partial vesting of awards may occur upon a change in control (as defined in the Plans), or upon an employee's death, disability or involuntary termination.

Restricted stock and restricted stock units granted to non-employee directors under the Plans generally vest in full on the fourth anniversary of the date of grant or upon each director's retirement from the Board. The non-employee directors' awards are non-forfeitable and are expensed upon grant.

Transactions during fiscal 2018 were as follows (in thousands, except fair values):

	Number of Restricted Share Awards	Weighted Average Grant Date Fair Value Per Award
Restricted share awards outstanding at June 28, 2017	814	\$ 46.32
Granted	466	32.05
Vested	(200)	48.31
Forfeited	(78)	39.67
Restricted share awards outstanding at June 27, 2018	1,002	\$ 39.80

At June 27, 2018, unrecognized compensation expense related to restricted share awards totaled approximately \$10.8 million and will be recognized over a weighted average period of 1.8 years. The fair value of shares that vested totaled approximately \$4.3 million, \$12.8 million and \$23.9 million, for the fiscal years ended June 27, 2018, June 28, 2017, and June 29, 2016, respectively.

11. SAVINGS PLAN

We sponsor a qualified defined contribution retirement plan covering all employees who have attained the age of twenty-one and have completed one year and 1,000 hours of service. Eligible employees are allowed to contribute, subject to IRS limitations on total annual contributions, up to 50% of their base compensation and

100% of their eligible bonuses, as defined in the plan, to various investment funds. We match in cash what an employee contributes at a rate of 100% of the first 3% and 50% of the next 2% with immediate vesting. In fiscal 2018, 2017 and 2016, we contributed approximately \$9.2 million, \$8.9 million and \$8.9 million, respectively.

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Income taxes, net of refunds	\$ 55,992	\$ 89,035	\$ 45,743
Interest, net of amounts capitalized	53,059	39,767	28,989

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

	Fiscal Years Ended		
	June 27, 2018	June 28, 2017	June 29, 2016
Retirement of fully depreciated assets	\$ 32,893	\$ 21,185	\$ 24,806
Dividends declared but not paid	17,042	17,317	18,442
Accrued capital expenditures	11,311	12,738	7,094
Capital lease additions	7,912	11,717	—

13. COMMITMENTS AND CONTINGENCIES

Lease Commitments

We have, in certain cases, divested brands or sold restaurants to franchisees and have not been released from lease guarantees or lease liability for the related restaurants. As of June 27, 2018 and June 28, 2017, we have outstanding lease guarantees or are secondarily liable for \$58.2 million and \$69.0 million, respectively. These amounts represent the maximum potential liability of future payments under the leases. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from fiscal 2019 through fiscal 2027. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred.

During fiscal 2018, Mac Acquisition LLC, the owner of Romano's Macaroni Grill restaurants, filed for Chapter 11 bankruptcy protection. We have outstanding lease guarantees or are secondarily liable for certain of its closed properties. As of June 27, 2018 and June 28, 2017, balances of \$1.4 million and \$1.1 million, respectively, were recorded in Other accrued liabilities in our Consolidated Balance Sheets based on our analysis of the potential obligations and are inclusive of the fiscal 2018 activity detailed below. Based on information obtained from the bankruptcy proceedings pertaining to our obligation under the Romano's Macaroni Grill leases and related lease guarantees, during the fiscal year ended June 27, 2018, total incremental charges based on additional leases rejected in the bankruptcy were \$1.9 million. Please refer to Note 3—Other Gains and Charges for more details. We paid \$1.4 million during the fiscal year ended June 27, 2018 to settle the remaining obligations of six of these leases. We do not expect additional leases to be rejected in bankruptcy proceedings. We will continue to monitor leases for which we have outstanding guarantees or are secondarily liable to assess the likelihood of any incremental losses. We have not been informed by landlords of Mac Acquisition LLC of any lease defaults other than those detailed in the bankruptcy filings. No other liabilities related to this matter have been recorded as of June 27, 2018.

The Mac Acquisition LLC lease obligations are based on Level 3 fair value measurements based on an estimate of the obligation associated with the lease locations, stated rent and other factors such as ability and probability of the landlord to mitigate damages by leasing to new tenants. Please refer to Note 1—Nature of Operations and Summary of Significant Accounting Policies for further details surrounding Level definitions.

Letters of Credit

We provide letters of credit to various insurers to collateralize obligations for outstanding claims. As of June 27, 2018, we had \$32.3 million in undrawn standby letters of credit outstanding. All standby letters of credit are renewable within the next 10 to 12 months.

Cyber Security Incident

On May 12, 2018, we issued a public statement that malware had been discovered at certain Chili's restaurants that resulted in unauthorized access or acquisition of customer payment card data. We have engaged third-party forensic firms and cooperated with law enforcement to investigate the matter. Based on the investigation of our third-party forensic experts, we believe most Company-owned Chili's restaurants were impacted by the malware during time frames that vary by restaurant, but we believe in each case beginning no earlier than March 21, 2018 and ending no later than April 22, 2018.

We expect to incur significant investigation, legal and professional services expenses associated with the cyber security incident in future periods. We will recognize these expenses as services are received. Related to this incident, payment card companies and associations may request us to reimburse them for unauthorized card charges and costs to replace cards and may also impose fines or penalties in connection with the cyber security incident, and enforcement authorities may also impose fines or other remedies against us. While we do not acknowledge responsibility to pay any such amounts imposed, this may result in related settlement costs. We will record an estimate for losses at the time when it is both probable that a loss has been incurred and the amount of the loss is reasonably estimable. Cyber security incident expenses of \$2.0 million have been recorded to Other gains and charges in the Consolidated Statements of Comprehensive Income for the fiscal year ended June 27, 2018, please see Note 3—Other Gains and Charges for details. To limit our exposure to cyber security events, we maintain cyber liability insurance coverage. This coverage and certain other insurance coverage may reduce our exposure for this incident. We will pursue recoveries to the maximum extent available under the policies. Our cyber liability insurance policy maintains a \$2.0 million retention that was fully accrued as of June 27, 2018.

The Company was named as a defendant in putative class action lawsuits in the United States District Court for the Middle District of Florida, the United States District Court for the District of Nevada, and two in the United States District Court for the Central District of California, filed on May 24, 2018, May 30, 2018, June 14, 2018, and June 28, 2018, respectively (collectively, the "Litigation") relating to the cyber security incident described above. In the Litigation, plaintiffs assert various claims stemming from the cyber security incident at the Company's Chili's restaurants involving customer payment card information and seek monetary damages in excess of \$5.0 million, injunctive and declaratory relief and attorney's fees and costs. We believe we have defenses and intend to defend the Litigation. Several government agencies, including State Attorneys General, are inquiring about or investigating events related to the cyber security incident, including how it occurred, its consequences and our responses (the "Inquiries"). We are cooperating with the Inquiries, and we may be subject to fines or other obligations. At this point, we are unable to predict the developments in, outcome of, and economic and other consequences of pending or future litigation or regulatory investigations related to, and other costs associated with this matter. As such, as of June 27, 2018, we have concluded that a loss from these matters is not determinable, therefore, we have not recorded an accrual for Litigation or Inquiries, although the ultimate amount paid on claims and settlement costs could be material. We will continue to evaluate these matters based on subsequent events, new information and future circumstances.

Legal Proceedings

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

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

14. SEGMENT INFORMATION

Our operating segments are Chili's and Maggiano's. The Chili's segment includes the results of our company-owned Chili's restaurants in the United States and Canada as well as the results from our domestic and international franchise business. The Maggiano's segment includes the results of our company-owned Maggiano's restaurants.

Company sales include revenues generated by the operation of company-owned restaurants including gift card redemptions. Franchise and other revenues includes royalties, development fees, franchise fees, Maggiano's banquet service charge income, gift card breakage and discounts, digital entertainment revenue, Chili's retail food product royalties, merchandise and delivery fee income. We do not rely on any major customers as a source of sales, and the customers and long-lived assets of our operating segments are predominantly in the United States. There were no material transactions amongst our operating segments.

Our chief operating decision maker uses operating income as the measure for assessing performance of our segments. Operating income includes revenues and expenses directly attributable to segment-level results of operations. Company restaurant expenses include food and beverage costs, restaurant labor costs and restaurant expenses, including advertising. The following tables reconcile our segment results to our consolidated results reported in accordance with GAAP (in thousands):

	Fiscal Year Ended June 27, 2018			
	Chili's	Maggiano's	Other	Consolidated
Company sales	\$ 2,628,262	\$ 413,254	\$ —	\$ 3,041,516
Franchise and other revenues	71,914	21,987	—	93,901
Total revenues	2,700,176	435,241	—	3,135,417
Company restaurant expenses ⁽¹⁾	2,223,987	362,843	577	2,587,407
Depreciation and amortization	124,997	15,912	10,483	151,392
General and administrative	39,580	5,560	90,872	136,012
Other gains and charges	24,498	1,061	8,941	34,500
Total operating costs and expenses	2,413,062	385,376	110,873	2,909,311
Operating income (loss)	287,114	49,865	(110,873)	226,106
Interest expense	—	—	58,986	58,986
Other, net	—	—	(3,102)	(3,102)
Income (loss) before provision for income taxes	\$ 287,114	\$ 49,865	\$ (166,757)	\$ 170,222
Segment assets	\$ 1,122,152	\$ 151,078	\$ 74,110	\$ 1,347,340
Payments for property and equipment	85,327	7,519	8,435	101,281

	Fiscal Year Ended June 28, 2017			
	Chili's	Maggiano's	Other	Consolidated
Company sales	\$ 2,653,301	\$ 409,278	\$ —	\$ 3,062,579
Franchise and other revenues	66,693	21,565	—	88,258
Total revenues	2,719,994	430,843	—	3,150,837
Company restaurant expenses ⁽¹⁾	2,220,607	361,700	469	2,582,776
Depreciation and amortization	129,335	16,172	10,902	156,409
General and administrative	37,005	6,191	89,623	132,819
Other gains and charges	13,229	783	8,643	22,655
Total operating costs and expenses	2,400,176	384,846	109,637	2,894,659
Operating income (loss)	319,818	45,997	(109,637)	256,178
Interest expense	—	—	49,547	49,547
Other, net	—	—	(1,877)	(1,877)
Income (loss) before provision for income taxes	\$ 319,818	\$ 45,997	\$ (157,307)	\$ 208,508
Segment assets	\$ 1,164,631	\$ 162,832	\$ 76,170	\$ 1,403,633
Equity method investment	10,171	—	—	10,171
Payments for property and equipment	75,992	13,288	13,293	102,573
	Fiscal Year Ended June 29, 2016			
	Chili's	Maggiano's	Other	Consolidated
Company sales	\$ 2,754,904	\$ 411,755	\$ —	\$ 3,166,659
Franchise and other revenues	68,484	22,346	—	90,830
Total revenues	2,823,388	434,101	—	3,257,489
Company restaurant expenses ⁽¹⁾	2,272,771	364,466	1,635	2,638,872
Depreciation and amortization	131,306	15,046	10,016	156,368
General and administrative	35,845	6,225	85,523	127,593
Other gains and charges	6,973	3,472	6,735	17,180
Total operating costs and expenses	2,446,895	389,209	103,909	2,940,013
Operating income (loss)	376,493	44,892	(103,909)	317,476
Interest expense	—	—	32,574	32,574
Other, net	—	—	(1,485)	(1,485)
Income (loss) before provision for income taxes	\$ 376,493	\$ 44,892	\$ (134,998)	\$ 286,387
Payments for property and equipment	\$ 80,277	\$ 17,540	\$ 14,971	\$ 112,788

⁽¹⁾ Company restaurant expenses includes Cost of sales, Restaurant labor and Restaurant expenses, including advertising.

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2018 and 2017 (in thousands, except per share amounts):

	Fiscal Year Ended June 27, 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 739,390	\$ 766,400	\$ 812,534	\$ 817,093
Income before provision for income taxes	\$ 15,149	\$ 41,142	\$ 58,916	\$ 55,015
Net income	\$ 9,877	\$ 25,366	\$ 46,916	\$ 43,723
Basic net income per share	\$ 0.20	\$ 0.55	\$ 1.03	\$ 1.03
Diluted net income per share	\$ 0.20	\$ 0.54	\$ 1.02	\$ 1.01
Basic weighted average shares outstanding	48,293	46,432	45,433	42,649
Diluted weighted average shares outstanding	48,732	46,880	45,973	43,469

	Fiscal Year Ended June 28, 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 758,492	\$ 771,043	\$ 810,641	\$ 810,661
Income before provision for income taxes	\$ 32,966	\$ 48,268	\$ 59,612	\$ 67,662
Net income	\$ 23,233	\$ 34,637	\$ 42,369	\$ 50,584
Basic net income per share	\$ 0.42	\$ 0.70	\$ 0.87	\$ 1.03
Diluted net income per share	\$ 0.42	\$ 0.69	\$ 0.86	\$ 1.02
Basic weighted average shares outstanding	54,844	49,833	48,954	48,917
Diluted weighted average shares outstanding	55,576	50,480	49,506	49,435

Net income for fiscal 2018 included restaurant impairment charges of \$7.2 million, \$2.0 million, and \$1.8 million in the first, second, and fourth quarters of fiscal 2018, respectively. We recorded additional lease and other costs associated with closed restaurants of \$0.2 million, \$4.3 million, \$2.8 million, and \$0.2 million in the first, second, third, and fourth quarters of fiscal 2018, respectively. Hurricane related costs, net of recoveries of \$4.6 million, \$0.6 million and \$0.2 million, and net recoveries of \$0.4 million were recorded in the first, second, third, and fourth quarters of fiscal 2018, respectively. Cyber security incident charges related to professional services of \$2.0 million were recorded in the fourth quarter of fiscal 2018. Sale leaseback transaction charges of \$2.0 million were recorded in the fourth quarter of fiscal 2018 related to legal, accounting, and other consulting fees. Lease guarantee charges of \$1.4 million and \$0.5 million were recorded in the second and third quarters of fiscal 2018, respectively. Accelerated depreciation related to long-lived assets to be disposed of \$0.5 million was recorded in each quarter of fiscal 2018. Remodel-related costs of \$1.4 million were recorded in the fourth quarter of fiscal 2018. Foreign currency transaction losses of \$0.9 million and \$1.2 million were recorded in the second and fourth quarters of fiscal 2018, respectively, and foreign currency transaction gains of \$0.9 million were recorded in the third quarter of fiscal 2018. Gains on the sale of property of \$0.3 million were recorded in the second quarter of fiscal 2018. Furthermore, we recorded severance charges of \$0.3 million in the fourth quarter of fiscal 2018.

Net income for fiscal 2017 included severance charges of \$0.3 million, \$5.9 million and \$0.4 million in the first, third and fourth quarters of fiscal 2017, respectively. Restaurant impairment charges of \$1.9 million and \$3.3 million were recorded in the second and fourth quarters, respectively. We also recorded additional lease and other costs associated with closed restaurants of \$2.5 million, \$0.3 million, \$0.8 million and \$0.5 million in the

first, second, third and fourth quarters of fiscal 2017, respectively. We incurred professional fees and severance expenses of \$2.5 million and \$0.2 million in the first and second quarters, respectively, related to our information technology restructuring. We also recorded gains on the sale of property of \$2.6 million in the second quarter of fiscal 2017. Additionally, we recorded accelerated depreciation related to long-lived assets to be disposed of \$0.7 million, \$0.7 million and \$0.6 million in the first, second and fourth quarters of fiscal 2017, respectively. Furthermore, we recorded consulting fees of \$2.4 million and lease guarantee charges of \$1.1 million in the fourth quarter of fiscal 2017.

16. SUBSEQUENT EVENTS

Dividend Declaration

On August 13, 2018, our Board of Directors declared a quarterly dividend of \$0.38 per share to be paid on September 27, 2018 to shareholders of record as of September 7, 2018.

Share Repurchase Program Authorization and Repurchases

Our Board of Directors also authorized a \$300.0 million increase to our existing share repurchase program, bringing the total amount available for share repurchases to \$363.8 million as of August 13, 2018. We subsequently repurchased and settled approximately 0.5 million shares of our common stock for \$24.0 million.

Revolver Net Payments

Additionally, net payments of \$381.0 million were made on the revolving credit facility subsequent to the end of the fiscal year.

Sale Leaseback Transactions

During the fourth quarter of fiscal 2018, an amendment to the revolving credit facility was executed to provide the ability to complete certain sale-leaseback transactions. In the first quarter of fiscal 2019, we entered into three purchase agreements to sell and leaseback 143 restaurant properties located throughout the United States. Subsequently under these purchase agreements, we have completed sale leaseback transactions of 137 of these restaurants for aggregate consideration of \$443.1 million, resulting in a gain of \$281.1 million. The net proceeds from these sale leaseback transactions were used to repay borrowings on our revolving credit facility. The initial term of the leases are for 15 years, and the leases were determined to be operating leases. As part of this transaction, in the first quarter of fiscal 2019, the restaurant assets will be removed from our Consolidated Balance Sheets. The majority of the gain will be deferred and amortized over the operating lease term in proportion to the gross rental charges. As of June 27, 2018, the Consolidated Balance Sheets includes Land of \$100.9 million, Buildings and leasehold improvements of \$210.3 million, certain fixtures included in Furniture and equipment of \$9.0 million and Accumulated depreciation of \$157.9 million related to these properties.

17. EFFECT OF NEW ACCOUNTING STANDARDS

ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment—In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This update eliminates step two of the goodwill impairment analysis. Companies will no longer be required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, they will measure impairment as the difference between the carrying amount and the fair value of the reporting unit. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2019, which will require us to adopt these provisions in the first quarter of fiscal 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed with measurement dates after January 1, 2017. The update will be applied on a prospective basis. We do not expect the adoption of this guidance to have any impact to our consolidated financial statements as the fair value of our reporting units is substantially in excess of the carrying values.

ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230)—In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230). This update provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2019. Early adoption is permitted for financial statements that have not been previously issued. The update will be applied on a retrospective basis. We do not expect the adoption of this guidance to have a material impact to our consolidated financial statements or debt covenants.

ASU 2016-02, Leases (Topic 842)—In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB has subsequently amended this update by issuing additional ASU's that provide clarification and further guidance around areas identified as potential implementation issues. These updates requires a lessee to recognize in the balance sheet a liability to make lease payments and a corresponding right-of-use asset for virtually all leases, other than leases with a term of 12 months or less. The update also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. In February 2018, the FASB issued ASU 2018-01 that provided a practical expedient for existing or expired land easements that were not previously accounted for in accordance with ASC 840. The practical expedient would allow entities to elect not to assess whether those land easements are, or contain, leases in accordance with ASC 842 when transitioning to the new leasing standard. The ASU clarifies that land easements entered into (or existing land easements modified) on or after the effective date of the new leasing standard must be assessed under ASC 842.

The updates are effective for annual and interim periods for fiscal years beginning after December 15, 2018, which will require us to adopt these provisions in the first quarter of fiscal 2020. Early adoption is permitted for financial statements that have not been previously issued. In July 2018, the FASB issued ASU 2018-11 that provided either a modified retrospective transition approach with application in all comparative periods presented, or an alternative transition method, which permits a company to use its effective date as the date of initial application without restating comparative period financial statements. We anticipate implementing the standard by taking advantage of the practical expedient options. The discounted minimum remaining rental payments will be the starting point for determining the right-of-use asset and lease liability. We had operating leases with remaining rental payments of approximately \$569.9 million at the end of fiscal 2018. We expect that adoption of the new guidance will have a material impact to our consolidated balance sheets due to recognition of the right-of-use asset and lease liability related to our current operating leases. The process of evaluating the full impact of the new guidance to our consolidated financial statements and disclosures is ongoing, but we anticipate the initial evaluation of the impact will be completed in the first half of fiscal 2019.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)—In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The FASB has subsequently amended this update by issuing additional ASU's that provide clarification and further guidance around areas identified as potential implementation issues. These updates provide a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. These updates also require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU 2015-14 delaying the effective date of adoption. These updates are now effective for annual and interim periods for fiscal years beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2019. Early application in fiscal 2018 is permitted, however we have elected to implement the new guidance effective first quarter of fiscal 2019. These updates permit the use of either the retrospective or cumulative effect transition method. We have selected the cumulative effect transition method.

We performed an analysis of the impact of the new revenue recognition guidance and developed a comprehensive plan for the implementation. The implementation plan included analyzing the impact to our

current revenue streams, comparing our historical accounting policies to the new guidance, and identifying potential differences from applying the requirements of the new guidance to our contracts. Based on our evaluation of our revenue streams, we do not believe these updates will impact our recognition of revenue from sales generated at company-owned restaurants or recognition of royalty fees from our franchisees, which are our primary sources of revenue. Our evaluation found that accounting for initial franchise and development fees, advertising contributions from franchisees, and gift card breakage would be impacted for the adoption of ASC 606. Under the new guidance, we will defer the initial development and franchise fees and recognize revenue over the term of the related franchise agreement. This is different from our current accounting policy which is to recognize initial development and franchise fees when we have performed all material obligations and services, which generally occurs when the franchised restaurant opens.

The new guidance will also change our reporting of advertising fund contributions from franchisees and the related advertising expenditures, which are currently reported on a net basis in our Consolidated Statements of Comprehensive Income within Restaurant expenses. Under the new guidance, advertising fund contributions from franchisees will be reported on a gross basis within Franchise and other revenues in the Consolidated Statements of Comprehensive Income, and the related advertising expenses will continue to be reported within Restaurant expenses.

Additionally, under the new standard, estimated breakage income on gift cards will be recognized in proportion to the related gift card redemption patterns over the estimated life of the gift cards. Our current accounting policy is to estimate the amount of gift card balances for which redemption is remote, and record breakage income based on this estimate.

We expect upon adoption that we will record an increase to Total shareholders' deficit in the Consolidated Balance Sheets of approximately \$7.3 million which includes the impact of deferred taxes from adopting the standard. The recognition of unamortized franchise and development fees is expected to increase Total liabilities in the Consolidated Balance Sheets by approximately \$18.0 million. Advertising contributions will increase both Total revenues and Total operating costs and expenses in fiscal 2019, with no impact to Net income. For the fiscal year ended June 27, 2018, advertising contributions included within Restaurant expenses in the Consolidated Statements of Comprehensive Income totaled \$22.6 million. The reduction of gift card liability to adjust to the new redemption pattern is expected to decrease Total liabilities in the Consolidated Balance Sheets by approximately \$8.2 million. We are currently in the process of implementing internal controls related to these revenue recognition updates and related disclosures under the new standards.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Brinker International, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Brinker International, Inc. and subsidiaries (the Company) as of June 27, 2018 and June 28, 2017, the related consolidated statements of comprehensive income, shareholders' deficit, and cash flows for each of the years in the three-year period ended June 27, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 27, 2018 and June 28, 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended June 27, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 27, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated August 27, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 1984.

/s/ KPMG LLP

Dallas, Texas

August 27, 2018

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Brinker International, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Brinker International, Inc. and subsidiaries' (the Company) internal control over financial reporting as of June 27, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 27, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of June 27, 2018 and June 28, 2017, the related consolidated statements of comprehensive income, shareholders' deficit, and cash flows for each of the years in the three-year period ended June 27, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated August 27, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Dallas, Texas

August 27, 2018

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

We have assessed the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we concluded that our internal control over financial reporting was effective as of June 27, 2018.

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

The effectiveness of our internal control over financial reporting as of June 27, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

Remediation of Previously Identified Material Weakness

During fiscal year 2017, management, including the principal executive officer and principal financial officer, conducted an assessment, including testing, of the effectiveness of the Company's internal control over financial reporting as of June 28, 2017, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—An Integrated Framework (2013). Based on this evaluation, management identified that as of June 28, 2017, a material weakness existed in our internal controls over the measurement and presentation of deferred income taxes. Specifically, the Company did not have effective controls over the completeness and accuracy of temporary taxable and deductible differences between the book carrying amount and the tax basis of the underlying assets and liabilities at interim and annual reporting dates and including when the tax returns were filed. These process level control deficiencies resulted from a lack of skilled resources in the tax department with sufficient understanding of internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

During fiscal 2018, the Company took steps to remediate the material weakness related to the measurement and presentation of deferred income taxes. We executed a remediation plan and made changes in our financial

reporting processes and related internal controls to address the material weakness in internal control over financial reporting. Specifically, we implemented and monitored the following actions to accumulate adequate evidence over a reasonable period of time to determine that the new or modified processes, procedures, controls and oversight related to such controls were operating effectively:

- Engaged external tax advisers to assist with the design and implementation of the remediation plan that enhanced internal control over financial reporting for income taxes;
- Implemented new reporting processes and system improvements in our tax department that simplified and improved manual reconciliation controls and allow us to more effectively train tax department personnel;
- Ensured that tax department personnel effectively collaborate with financial reporting and other key departments to gain a better understanding of the information, analysis, and documentation necessary for the accurate presentation of deferred income taxes; and
- Successfully executed testing of the key internal controls as of June 27, 2018 and concluded that the remediated controls are effective.

By: /s/ Wyman T. Roberts
Wyman T. Roberts,
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Joseph G. Taylor
Joseph G. Taylor
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

**BRINKER INTERNATIONAL, INC., A DELAWARE CORPORATION
SUBSIDIARIES**

BI INTERNATIONAL SERVICES, LLC, a Delaware limited liability company
 BI MEXICO HOLDING CORPORATION, a Delaware corporation
 BRINKER RESTAURANT CORPORATION, a Virginia corporation
 BRINKER INTERNATIONAL PAYROLL COMPANY, L.P., a Delaware limited partnership
 BRINKER AIRPORTS, LLC, a Delaware limited liability company
 BRINKER ALABAMA, INC., a Virginia corporation
 BRINKER ARKANSAS, INC., a Virginia corporation
 BRINKER ASIA, INC., a British Virgin Islands corporation
 BRINKER BRAZIL, LLC, a Delaware limited liability company
 BRINKER CB, LP, a Texas limited partnership
 BRINKER CB MANAGEMENT, LLC, a Delaware limited liability company
 BRINKER CANADIAN HOLDING CO., ULC, a British Columbia unlimited liability company
 BRINKER CANADIAN RESTAURANT CO., ULC, a British Columbia unlimited liability company
 BRINKER FHC B.V., a Netherlands private company
 BRINKER FLORIDA, INC., a Virginia corporation
 BRINKER FREEHOLD, INC., a New Jersey corporation
 BRINKER GEORGIA, INC., a Virginia corporation
 BRINKER LOUISIANA, INC., a Virginia corporation
 BRINKER MICHIGAN, INC., a Virginia corporation
 BRINKER MISSISSIPPI, INC., a Virginia corporation
 BRINKER MISSOURI, INC., a Virginia corporation
 BRINKER NEVADA, INC., a Nevada corporation
 BRINKER NEW JERSEY, INC., a Virginia corporation
 BRINKER NORTH CAROLINA, INC., a Virginia corporation
 BRINKER OF BALTIMORE COUNTY, INC., a Maryland corporation
 BRINKER OF CARROLL COUNTY, INC., a Maryland corporation
 BRINKER OF CECIL COUNTY, INC., a Maryland corporation
 BRINKER OKLAHOMA, INC., a Virginia corporation
 BRINKER OPCO, LLC, a Virginia limited liability company
 BRINKER PENN TRUST, a Pennsylvania business trust
 BRINKER PROPCO FLORIDA, INC., a Delaware corporation
 BRINKER PROPERTY CORPORATIN, a Delaware corporation
 BRINKER PURCHASING, INC., a Delaware corporation
 BRINKER RHODE ISLAND, INC., a Rhode Island corporation
 BRINKER SERVICES CORPORATION, a Virginia corporation
 BRINKER SOUTH CAROLINA, INC., a Virginia corporation
 BRINKER TEXAS, INC., a Virginia corporation
 BRINKER VIRGINIA, INC., a Virginia corporation
 CHILI'S BEVERAGE COMPANY, INC., a Texas corporation
 CHILI'S, INC., a Delaware corporation
 CHILI'S, INC., a Tennessee corporation
 CHILI'S INTERNATIONAL BASES, B.V., a Netherlands private company
 CHILI'S OF BEL AIR, INC., a Maryland corporation
 CHILI'S OF KANSAS, INC., a Kansas corporation
 CHILI'S OF MARYLAND, INC., a Maryland corporation
 CHILI'S OF WEST VIRGINIA, INC., a West Virginia corporation
 MAGGIANO'S, INC., an Illinois corporation
 MAGGIANO'S BEVERAGE COMPANY, a Texas corporation
 MAGGIANO'S HOLDING CORPORATION, a Virginia corporation
 MAGGIANO'S OF ANNAPOLIS, INC., a Maryland corporation
 MAGGIANO'S OF HOWARD COUNTY, INC., a Maryland corporation
 MAGGIANO'S OF KANSAS, INC., a Kansas corporation
 MAGGIANO'S OF TYSON'S, INC., a Virginia corporation
 MAGGIANO'S TEXAS, INC., a Virginia corporation
 PEPPER DINING HOLDING CORP., a Virginia corporation
 PEPPER DINING, INC., a Virginia corporation
 PEPPER DINING VERMONT, INC., a Vermont corporation
 BIPC GLOBAL PAYROLL COMPANY, LLC, a Delaware limited liability company
 BIPC MANAGEMENT, LLC, a Delaware limited liability company
 BIPC INVESTMENTS, LLC, a Delaware limited liability company

Consent of Independent Registered Public Accounting Firm

The Board of Directors

Brinker International, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 033-56491, 333-02201, 333-93755, 333-42224, 333-105720, 333-125289, 333-157050, and 333-201929) on Form S-8, registration statements (Nos. 333-74902 and 333-188252) on Form S-3, and registration statement (No. 333-116879) on Form S-4 of Brinker International, Inc. of our reports dated August 27, 2018, with respect to the consolidated balance sheets of Brinker International, Inc. and subsidiaries as of June 27, 2018 and June 28, 2017, and the related consolidated statements of comprehensive income, shareholders' deficit, and cash flows for each of the years in the three-year period ended June 27, 2018, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of June 27, 2018, which reports appear in the June 27, 2018 annual report on Form 10-K of Brinker International, Inc.

/s/ KPMG LLP

Dallas, Texas

August 27, 2018

CERTIFICATION

I, Wyman T. Roberts, certify that:

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

Dated: August 27, 2018

/s/ Wyman T. Roberts

Wyman T. Roberts,
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Joseph G. Taylor, certify that:

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

Dated: August 27, 2018

/s/ Joseph G. Taylor

Joseph G. Taylor
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Brinker International, Inc. (the “Company”), hereby certifies that the Company’s Annual Report on Form 10-K for the year ended June 27, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 27, 2018

By: /s/ Wyman T. Roberts
Name: Wyman T. Roberts,
Title: *President and Chief Executive Officer*
(Principal Executive Officer)

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Brinker International, Inc. (the “Company”), hereby certifies that the Company’s Annual Report on Form 10-K for the year ended June 27, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 27, 2018

By: /s/ Joseph G. Taylor
Name: Joseph G. Taylor
Title: *Senior Vice President and Chief Financial
Officer (Principal Financial and Accounting
Officer)*

BOARD OF DIRECTORS

Elaine L. Boltz

Former Senior Vice President, E-Commerce
TJX Companies, Inc.

Joseph M. DePinto

Chairman of the Board, Brinker International, Inc.
President and Chief Executive Officer
7-Eleven, Inc.

Harriet Edelman

Vice Chairman
Emigrant Bank

Michael A. George

President and Chief Executive Officer
Qurate Retail, Inc.

William T. Giles

Chief Financial Officer and Executive Vice President,
Finance and Information Technology
AutoZone

James C. Katzman

Former Partner
Goldman Sachs

George R. Mrkonic

Non Executive Chairman
MARU Group

Jose Luis Prado

Chairman of the Board and Chief Executive Officer
Evans Food Group, Ltd.

Wyman T. Roberts

President and Chief Executive Officer
Brinker International, Inc.

PRINCIPAL OFFICERS

Wyman T. Roberts

President and Chief Executive Officer and
President of Chili's Grill & Bar

Richard Badgley

Senior Vice President and Chief People Officer

Wade R. Allen

Senior Vice President and Chief Digital Officer

Kelly C. Baltés

Executive Vice President and President of Maggiano's
Little Italy

Charles A. Lousignont

Senior Vice President of Supply Chain Management

Steve D. Provost

Executive Vice President, Chief Marketing & Innovation
Officer for Chili's Grill & Bar

Joseph G. Taylor

Senior Vice President and Chief Financial Officer

SHAREHOLDER INFORMATION

Executive Offices

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

Annual Meeting

Thursday, November 15, 2018 at 9:00 a.m.
Brinker International, Inc.
The Play Room in Building C
6700 LBJ Freeway
Dallas, TX 75240

Independent Public Accountants

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

NYSE Symbol: **EAT**

Stock Transfer Agent And Registrar

Computershare
P.O. Box 505008
Louisville, KY 40233-9814

or

Meidinger Tower
462 S. 4th Street
Louisville, KY 40202
Customer Service (800) 213-5156
TDD for Hearing Impaired (800) 231-5469
Foreign Shareowners (201) 680-6578
You can now access your Brinker Shareholder Account
online via
Investor Centre at www.computershare.com

10-K Availability

The company will furnish to any shareholder, without
charge, a copy of the company's annual report filed with
the Securities and Exchange Commission on Form 10-K
for the 2018 fiscal year from our website at:
www.brinker.com or upon written request from the
shareholder.

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

CEO/CFO Certifications

On November 21, 2017, the company submitted its annual
Section 303A CEO certification to the New York Stock
Exchange.

The company also filed the CEO and CFO certifications
required under Section 302 of the Sarbanes-Oxley Act of
2002 with the Securities and Exchange Commission as
exhibits to its Annual Report on Form 10-K for the year
ended June 27, 2018.

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International Payroll Company, L.P.



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