Form
Unknown document format

ding-bottom:2px;border-top:1px solid #000000;">

7.0
%

6.7
%
Interest expense
1.9
%

1.7
%

2.0
%

1.8
%
Other (income), net
(0.1
)%

(0.1
)%

(0.1
)%

(0.1
)%
Income before provision for income taxes
6.6
%

7.3
%

5.1
%

5.0
%
Provision for income taxes
0.7
%

1.5

%

0.6
%

1.5
%
Net income
5.9
%

5.8
%

4.5
%

3.5
%
(1)As a percentage of Company sales.

REVENUES

Transition to New Revenue Recognition Accounting Standard

Effective June 28, 2018, our first quarter of fiscal 2019, we adopted FASB Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), from the previous guidance ASC Topic 605, *Revenue Recognition* and ASC Subtopic 952-605, Franchisors - Revenue Recognition (together, “Legacy GAAP”). Our transition to ASC 606 represents a change in accounting principle. Our Consolidated Financial Statements for the third quarter and year-to-date periods of fiscal 2019 reflect the application of ASC 606 guidance using the modified retrospective transition method, while our Consolidated Financial Statements for prior periods were prepared under Legacy GAAP. Please refer to Note 2 - Revenue Recognition for further details of our adoption of ASC 606 and our policies for recognition of revenues from contracts with customers. The most significant effect of the transition to ASC 606 that affect the comparability of our results of operations between fiscal 2019 (reported under ASC 606) and fiscal 2018 (reported under Legacy GAAP) include the following:

- *Advertising Fees* - Domestic franchisees are contractually obligated to contribute into certain advertising and marketing funds. The adoption of ASC 606 did not impact the timing of revenue recognition of the advertising fees received; however, effective in the first quarter of fiscal 2019, advertising fees are now presented on a gross basis within Franchise and other revenues. Under Legacy GAAP, the advertising funds received from

Table of Contents

franchisees were considered a reimbursement of advertising expenses and were presented on a net basis as a reduction to advertising expenses in Restaurant expenses in the Consolidated Statements of Comprehensive Income.

The adoption of ASC 606 changed the recognition timing of our initial development and franchise fees, and gift card breakage income as noted below. The recognition timing change did not have a significant impact to our results of operations during the first three quarters of fiscal 2019:

- *Initial Development and Franchise Fees* - We receive development fees from franchisees for territory development arrangements and franchise fees for a new restaurant opening. Under ASC 606, the performance obligation related to these arrangements will be collectively deferred as a contract liability and recognized on a straight-line basis into Franchise and other revenues in the Consolidated Statements of Comprehensive Income over the term of the underlying agreements. Deferred franchise and development fees are classified within Other accrued liabilities for the current portion expected to be recognized within the next 12 months, and Other liabilities for the long-term portion in the Consolidated Balance Sheets.

Under Legacy GAAP, development fees were recognized as income upon the execution of the agreement, when development rights were conveyed to the franchisee. Franchise fees were recognized as income when the obligations under the franchise agreement were satisfied, generally upon the opening of the new franchise restaurant.

- *Gift Card Breakage Income* - Breakage revenues represent the monetary value associated with outstanding gift card balances for which redemption is considered remote. We estimate this amount based on our historical gift card redemption patterns and update the breakage rate estimate periodically and if necessary, adjust the deferred revenues balance within the Gift card liability account in the Consolidated Balance Sheets accordingly. In accordance with ASC 606, breakage revenues will be recognized proportionate to the pattern of related gift card redemptions. Under Legacy GAAP, breakage revenues were recognized when redemption was considered remote. We do not charge dormancy or any other fees related to monitoring or administering the gift card program to cardholders. Breakage income is reflected within Franchise and other revenues in the Consolidated Statements of Comprehensive Income.

Revenue Results

Revenues are presented in two separate captions in the Consolidated Statements of Comprehensive Income to provide more clarity around company-owned restaurant revenues and operating expense trends. Total revenues are further disaggregated as follows:

- Company sales include revenues generated by the operation of company-owned restaurants including gift card redemptions.
- Franchise and other revenues include Royalties from franchisees and Franchise fees and other revenues which contains advertising fees, franchise and development fees, Maggiano’s banquet service charge income, gift card breakage and discounts, digital entertainment revenues, Chili’s retail food product royalties, merchandise and delivery fee income.

The following is a summary of the change in Total revenues for the thirteen and thirty-nine week periods ended March 27, 2019 compared to the thirteen and thirty-nine week periods ended March 28, 2018, respectively:

	Total Revenues	
	Thirteen Week Periods Ended	**Thirty-Nine Week Periods Ended**
For the period ended March 28, 2018 (Legacy GAAP)	$812.5	$2,318.3
Change from:		
Restaurant closings	(2.1)	(8.3)
Restaurant openings	1.9	6.6
Restaurant relocations	1.5	1.5
Comparable restaurant sales	19.8	51.5
Company sales	21.1	51.3
Royalties	—	(0.4)
Franchise fees and other revenues	5.7	14.6
For the period ended March 27, 2019 (ASC 606)	$839.3	$2,383.8

Total revenues in the thirteen week period ended March 27, 2019 increased 3.3% to $839.3 million from the $812.5 million generated in the thirteen week period ended March 28, 2018 primarily driven by a $19.8 million increase in comparable restaurant sales and a net increase of $5.7 million in Franchise fees and other revenues related to the ASC 606 adoption. Total revenues in the thirty-nine week period ended March 27, 2019 increased 2.8% to $2,383.8 million from the $2,318.3 million generated in the thirty-nine week period ended March 28, 2018 primarily driven by a $51.5 million increase in comparable restaurant sales and a net increase of $14.6 million in Franchise fees and other revenues related to the impact of ASC 606 adoption.

Royalties of $13.5 million were flat in the thirteen week period ended March 27, 2019 compared to the thirteen week period ended March 28, 2018. Royalties are based on franchise sales, our franchisees generated approximately $335.0 million in sales for the thirteen week period ended March 27, 2019 compared to $337.0 million in sales for the thirteen week period ended March 28, 2018. Royalties decreased 1.0% to $39.6 million in the thirty-nine week period ended March 27, 2019 compared to $40.0 million in the thirty-nine week period ended March 28, 2018. Our franchisees generated approximately $982.7 million in sales for the thirty-nine week period ended March 27, 2019 compared to $980.9 million in sales for the thirty-nine week period ended March 28, 2018.

Franchise fees and other revenues increased 67.1% to $14.2 million in the thirteen week period ended March 27, 2019 compared to $8.5 million in the thirteen week period ended March 28, 2018 primarily due to $5.5 million of advertising fees presented gross with the adoption of ASC 606, and higher gift card related revenues. Franchise fees and other revenues increased 51.8% to $42.8 million in the thirty-nine week period ended March 27, 2019 compared to $28.2 million in the thirty-nine week period ended March 28, 2018 primarily due to $15.9 million of advertising fees presented gross with the adoption of ASC 606 and higher gift card related revenues, partially offset by lower retail royalty revenues and digital entertainment revenues. During the thirteen and thirty-nine week periods ended March 28, 2018, advertising contributions of $6.2 million and $17.0 million from franchisees were recorded net within Restaurant expenses, respectiv

Table of Contents

The tables below present the percentage change in Comparable restaurant sales and capacity for the thirteen and thirty-nine week periods ended March 27, 2019 compared to the thirteen and thirty-nine week periods ended March 28, 2018, respectively:

	Percentage Change in the Thirteen Weeks Ended March 27, 2019 versus March 28, 2018				
	Comparable Sales [(1)]	Price Impact	Mix-Shift [(2)]	Traffic	Restaurant Capacity [(3)]
Company-owned	2.6 %	1.5 %	(1.7)%	2.8 %	(0.1)%
Chili's	2.9 %	1.6 %	(1.7)%	3.0 %	(0.1)%
Maggiano's	0.4 %	0.8 %	(0.4)%	0.0 %	0.0 %
Chili's Franchise[(4)]	(0.2)%				
U.S.	2.0 %				
International	(3.9)%				
Chili's Domestic[(5)]	2.7 %				
System-wide [(6)]	1.8 %				

	Percentage Change in the Thirty-Nine Weeks Ended March 27, 2019 versus March 28, 2018				
	Comparable Sales [(1)]	Price Impact	Mix-Shift [(2)]	Traffic	Restaurant Capacity [(3)]
Company-owned	2.3 %	1.3 %	(2.0)%	3.0 %	(0.3)%
Chili's	2.6 %	1.3 %	(2.0)%	3.3 %	(0.3)%
Maggiano's	0.8 %	1.4 %	(0.5)%	(0.1)%	(0.5)%
Chili's Franchise[(4)]	(0.3)%				
U.S.	2.2 %				
International	(4.3)%				
Chili's Domestic[(5)]	2.5 %				
System-wide [(6)]	1.6 %				

(1) Comparable restaurant sales include all restaurants that have been in operation for more than 18 months. Amounts are calculated based on comparable current period versus same period a year ago.

(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 current period versus same period a year ago.

(4) Chili's franchise sales generated by franchisees are not included in revenues in the Consolidated Statements of Comprehensive Income; however, we generate royalty revenues 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.

Please see further discussion of revenues for our Chili's and Maggiano's segments below in SEGMENT RESULTS.

Table of Contents

COSTS AND EXPENSES

Thirteen Week Periods Ended March 27, 2019 compared to March 28, 2018

The following is a summary of the change in costs and expenses for the thirteen week period ended March 27, 2019 compared to the thirteen week period ended March 28, 2018:

	Thirteen Week Periods Ended				(Favorable) Unfavorable Variance	
	March 27, 2019		March 28, 2018			
	Dollars	% of Company Sales	Dollars	% of Company Sales	Dollars	% of Company Sales
Cost of sales	$216.7	26.7 %	$207.3	26.2 %	$9.4	0.5 %
Restaurant labor	274.0	33.8 %	265.4	33.6 %	8.6	0.2 %
Restaurant expenses	204.7	25.2 %	190.2	24.1 %	14.5	1.1 %
Depreciation and amortization	36.4		37.5		(1.1)	
General and administrative	40.8		36.7		4.1	
Other (gains) and charges	(3.5)		2.7		(6.2)	
Interest expense	15.3		14.6		0.7	
Other (income), net	(0.6)		(0.8)		0.2	

increased 0.5% c nsisting of 0.6% of unfavorable menu item mix, and 0.4% of unfavorable commodity pricing primarily related to produce and bakery, partially offset by 0.5% of increased menu pricing.

Restaurant labor as a percentage of Company sales increased 0.2% consisting of 1.2% of higher hourly wage rates and 0.3% higher incentive compensation expenses, partially offset by 0.9% sales leverage and 0.4% of favorable employee health insurance expenses.

increased 1.1% consisting of 1.0% of increased operating lease expenses primarily related to the sale leaseback transactions, 0.3% of higher supplies and offices costs expenses, 0.2% of higher advertising and marketing related expenses primarily from the adoption of ASC 606 and 0.2% of other unfavorable restaurant expenses. These increases were partially offset by 0.6% of sales leverage.

decreased $1.1 million primarily consisting of a decrease of $4.6 million related to fully depreciated assets and restaurant closures and $2.4 million in reduced depreciation from the sale of assets in connection with the sale leaseback transactions. These decreases were partially offset by $4.5 million of incremental depreciation for existing restaurants primarily related to the Chili's remodel initiative, $1.0 million related to the change of estimated useful lives of certain long-lived restaurant assets, $0.4 million of new restaurants additions.

s increased $4.1 million a

	General and Administrative
Thirteen Week Period Ended March 28, 2018	$ 36.7
Change from	
Incentive compensation	2.8
Stock-based compensation	1.0
Legal and professional fees	0.5
Payroll related expenses	(0.4)
Other	0.2
Thirteen Week Period Ended March 27, 2019	$ 40.8

Table of Contents

- (Gain) on sale of assets, net primarily included a $5.8 million gain recorded in the thirteen week period ended March 27, 2019 from the sale of the owned portion of our previous corporate headquarters location.

ed gains of $4.3 million

four Chili’s restaurant properties.

$0.5 million

ge i

e in the respective periods.

- Corporate headquarters relocation charges included $5.2 million in the thirteen week period ended March 27, 2019 for

- Remodel-related costs included $1.7 million of write-offs in the thirteen week period ended March 27, 2019 associated with the Chili’s remodel project.

$0.2 million

$0.5 million of depreciation on certain leasehold improvements associated with the leased portion of our previous corporate headquarters property which closed during the third quarter of fiscal 2019.

$0.7 million

Table of Contents

Thirty-Nine Week Periods Ended March 27, 2019 compared to March 28, 2018

	Thirty-Nine Week Periods Ended				(Favorable) Unfavorable Variance	
	March 27, 2019		March 28, 2018			
	Dollars	% of Company Sales	Dollars	% of Company Sales	Dollars	% of Company Sales
Cost of sales	$609.5	26.4 %	$587.8	26.1 %	$21.7	0.3 %
Restaurant labor	791.1	34.4 %	766.9	34.1 %	24.2	0.3 %
Restaurant expenses	609.4	26.5 %	566.9	25.2 %	42.5	1.3 %
Depreciation and amortization	109.5		113.7		(4.2)	
General and administrative	110.0		102.1		7.9	
Other (gains) and charges	(12.4)		25.2		(37.6)	
Interest expense	46.3		42.8		3.5	
Other (income), net	(2.2)		(2.3)		0.1	

increased 0.3% con 0.7% of unfavorable menu mix and 0.1% of unfavorable commodity pricing, partially offset by 0.5% of increased menu pricing.

increased 0.3% consisting of 1.0% of higher hourly wage rates and 0.1% higher incentive compensation expenses, partially offset by 0.8% of sales leverage.

increased 1.3% consisting of 1.0% of increased operating lease expenses primarily related to the sale leaseback transactions, 0.4% of higher advertising and marketing related expenses primarily from the adoption of ASC 606, 0.3% of higher supplies and offices costs expenses, and 0.2% of other restaurant expenses. These increases were partially offset by 0.6% of sales leverage.

decreased $4.2 million primarily consisting of a decrease of $13.5 million related to fully depreciated assets and restaurant closures, $5.1 million in reduced depreciation from the sale of assets in connection with the sale leaseback transactions, and $0.1 million in other favorable depreciation expenses. These decreases were partially offset by $10.6 million of incremental depreciation for existing restaurants primarily related to the Chili's remodel initiative, $2.6 million related to the change of estimated useful lives of certain long-lived restaurant assets, and $1.3 million of new restaurants additions.

s increased $7.9 million

	General and Administrative
Thirty-Nine Week Period Ended March 28, 2018	$ 102.1
Change from	
Incentive compensation	3.1
Legal and professional fees	1.8
Stock-based compensation	1.9
Payroll related expenses	0.3
Other	0.8
Thirty-Nine Week Period Ended March 27, 2019	$ 110.0

of $22.0 million recorded in the thirty-nine week period ended March 27, 2019 net of professional fees for brokers, legal, due diligence, and other professional service firms in connection with the sale leaseback transactions of 149 Ch

gains of $6.8 million recorded in the thirty-nine week period ended March 27, 2019 primarily from the sale of our previous corporate headquarters location of $5.8 million and the sale of land in Scottsdale, AZ and Pensacola, FL of $0.8 million. $0.3 million r

of the Mexico joint venture.

$0.6 million $0.1 million

$0.5 million

d primarily to insurance proceeds received related to a previously filed fire claim, net of expenses associated with storm damages at certain restaurant locations. Property damages, net of (insurance recoveries) included expenses of $5.4 million in the thirty-nine week period ended March 28, 2018 primarily due to costs associated with employee relief payments and inventory spoilage from Hurricanes Harvey and Irma.

Corporate headquarters relocation charges included $5.2 million in the thirty-nine week period ended March 27, 2019 for

d $4.8 million of w

ed $4.0 million and

ded $1.0 million in the thirty-nine week period ended March 27, 2019 related to certain underperforming restaurants. Restaurant impairment charges included expenses of $9.2 million in the thirty-nine week period ended March 28, 2018

of depreciation on certain leasehold improvements associated with the leased portion of our previous corporate headquarters property which closed during the third quarter of fiscal 2019.

- Cyber security incident charges included $0.4 million in the thirty-nine week period ended March 27, 2019 related to professional service costs associated with the fiscal 2018 incident.
- Lease guarantee charges included $1.9 million in the thirty-nine week period ended March 28, 2018 related to leases that were assigned to a divested brand.

Interest expense increased $3.5 million consisting of higher average borrowing balances and a higher interest rate on our revolving credit facility in the thirty-nine week period ended March 27, 2019, partially offset by the matured $250.0 million 2.60% notes that were repaid during the .

SEGMENT RESULTS
Chili's Segment

	Thirteen Week Periods Ended			Thirty-Nine Week Periods Ended		
	March 27, 2019 ASC 606	March 28, 2018 Legacy GAAP	Favorable (Unfavorable) Variance	March 27, 2019 ASC 606	March 28, 2018 Legacy GAAP	Favorable (Unfavorable) Variance
Company sales	$709.8	$688.9	$ 20.9	$1,990.7	$1,940.1	$ 50.6
Royalties	13.4	—	13.4	39.5	—	39.5
Franchise fees and other revenues	9.5	17.2	(7.7)	26.6	52.0	(25.4)
Total revenues	732.7	706.1	26.6	2,056.8	1,992.1	64.7
Company restaurant expenses [1]	604.1	572.9	(31.2)	1,734.3	1,648.2	(86.1)
Depreciation and amortization	29.8	31.0	1.2	89.8	93.8	4.0
General and administrative	10.5	10.6	0.1	28.4	29.5	1.1
Other gains and charges	(3.0)	(0.1)	2.9	(13.9)	17.9	31.8
Total operating costs and expenses	641.4	614.4	(27.0)	1,838.6	1,789.4	(49.2)
Operating income	$91.3	$91.7	$ (0.4)	$218.2	$202.7	$ 15.5

(1) Company restaurant expenses include Cost of sales, Restaurant labor, and Restaurant expenses, including advertising. With the adoption of ASC 606, for the thirteen and thirty-nine week periods ended March 27, 2019, advertising contributions received from franchisees is recorded within Franchise fees and other revenues within Total revenues, which differs from the thirteen and thirty-nine week periods ended March 28, 2018 that includes advertising contributions recorded net within Company restaurant expenses.

Thirteen Week Period Ended March 27, 2019 compared to Thirteen Week Period Ended March 28, 2018

Chili's Total revenues increased by 3.8% to $732.7 million in the thirteen week period ended March 27, 2019 from $706.1 million in the thirteen week period ended March 28, 2018. Chili's Operating income, as a percentage of Total revenues, was 12.5% in the thirteen week period ended March 27, 2019 compared to 13.0% in the thirteen week period ended March 28, 2018, this decrease was primarily driven by increased Company restaurant expenses, as a percentage of sales.

Company restaurant expenses for Chili's, as a percentage of Company sales, increased by 1.9% in the thirteen week period ended March 27, 2019 as compared to the thirteen week period ended March 28, 2018. The increase primarily consisted of 1.3% due to higher hourly wage rates, 1.1% of higher rent expenses associated with the new operating leases entered into as part of the sale leaseback transactions, 0.7% of unfavorable menu item mix, 0.4% of unfavorable commodity pricing primarily related to produce and bakery, 0.4% higher incentive compensation expenses, 0.3% of higher office costs expenses, and 0.3% net increase in advertising and marketing related expenses primarily related to the adoption of ASC 606. These increases were partially offset by 1.7% sales leverage, 0.5% of increased menu pricing, and 0.4% of favorable employee health insurance expenses.

Other gains and charges for Chili's during the thirteen week period ended March 27, 2019 consist primarily of $4.3 million net gain from the four sale leaseback transactions, $0.5 million foreign currency gain related to the Mexican peso denominated note receivable, partially offset by $1.7 million of Chili's remodel charges. Other gains and charges during the thirteen week period ended March 28, 2018 consists primarily of a foreign currency gain of $1.0 million related to the Mexican peso denominated note receivable and property damage insurance proceeds of $0.5 million related to natural flooding in Louisiana, partially offset by restaurant closure charges of $1.1 million.

Depreciation and amortization decreased $1.2 million in the thirteen week period ended March 27, 2019 compared to the thirteen week period ended March 28, 2018 primarily consisting of a decrease of $4.2 million related to fully depreciated assets and restaurant closures, and $2.5 million in reduced depreciation from the sale of assets in connection with the sale leaseback transactions. These decreases were partially offset by $4.0 million of additions for existing restaurants primarily related to the Chili's remodels, $1.0 million related to the change of estimated useful lives of certain restaurant-level long-lived assets, $0.5 million of new restaurants additions and other.

General and administrative decreased $0.1 million in the thirteen week period ended March 27, 2019 compared to the thirteen week period ended March 28, 2018 primarily due to a $0.3 million decrease in professional fees, $0.3 million decrease in payroll-related expenses and $0.4 million of lower other general and administrative expenses, partially offset by an increase of $0.9 million of incentive compensation expenses.

Thirty-Nine Week Period Ended March 27, 2019 compared to Thirty-Nine Week Period Ended March 28, 2018

Chili's Total revenues increased 3.2% to $2,056.8 million in the thirty-nine week period ended March 27, 2019 from $1,992.1 million in the thirty-nine week period ended March 28, 2018. Chili's Operating income, as a percentage of Total revenues, was 10.6% in the thirty-nine week period ended March 27, 2019 compared to 10.2% in the thirty-nine week period ended March 28, 2018, this increase was primarily driven by a decrease in Other gains and charges.

Company restaurant expenses for Chili's, as a percentage of Company sales, increased 2.1% in the thirty-nine week period ended March 27, 2019 as compared to the thirty-nine week period ended March 28, 2018. The increase primarily consisted of 1.1% of higher hourly wage rates, 1.0% of increased operating lease expenses, 0.8% of unfavorable menu mix, 0.5% net increase in advertising and marketing related expenses primarily related to the adoption of ASC 606, 0.3% of higher supplies and office costs expenses, 0.2% of unfavorable commodity pricing primarily related to produce, and 0.3% of other unfavorable Company restaurant expenses. These increases were partially offset by 1.6% of sales leverage and 0.5% of increased menu pricing.

Other gains and charges for Chili's during the thirty-nine week period ended March 27, 2019 consist primarily of $22.0 million net gain from the 149 sale leaseback transactions, $0.8 million of gain on sale of land in Scottsdale, AZ and Pensacola, FL, $0.6 million foreign currency gain related to the Mexican peso denominated note receivable, and $0.5 million of insurance recoveries, net of property damages, partially offset by $4.8 million of Chili's remodel write-offs, $3.7 million charge related to restaurant closure expenses, and $1.0 million related to restaurant impairments. Other gains and charges during the thirty-nine week period ended March 28, 2018 consists primarily of restaurant impairment charges and restaurant closure charges of $7.2 million and $4.5 million, respectively, related to nine underperforming Chili's restaurants located in Alberta, Canada, which closed in the second quarter of fiscal 2018. Additionally, Other gains and charges during the thirty-nine week period ended March 28, 2018 consists primarily of property damages, net of insurance recoveries of $4.9 million expenses related to Hurricanes Harvey and Irma, restaurant impairment charges of $1.1 million related to certain underperforming restaurants, restaurant closure charges of $1.3 million, partially offset by property damage insurance proceeds of $0.5 million related to natural flooding in Louisiana.

Depreciation and amortization decreased $4.0 million in the thirty-nine week period ended March 27, 2019 compared to the thirty-nine week period ended March 28, 2018. The decrease primarily consisted of a decrease of $11.9 million related to fully depreciated assets and restaurant closures, $5.1 million in reduced depreciation from the sale of assets in connection with the sale leaseback transactions and $0.3 million of other reductions. These decreases were partially offset by $9.4 million of additions for existing restaurants primarily related to the Chili's remodels, $2.6 million related to the change of estimated useful lives of certain restaurant-level long-lived assets, and $1.3 million of new restaurants additions.

General and administrative decreased $1.1 million in the thirty-nine week period ended March 27, 2019 compared to the thirty-nine week period ended March 28, 2018 primarily due to a $1.0 million decrease in stock-based compensation expenses, $0.7 million in lower research and development expenses and $0.3 million decrease in legal and professional fees, partially offset by an increase of $0.9 million in incentive compensation expenses.

Table of Contents

Maggiano's Segment

	Thirteen Week Periods Ended March 27, 2019 ASC 606	March 28, 2018 Legacy GAAP	Favorable (Unfavorable) Variance	Thirty-Nine Week Periods Ended March 27, 2019 ASC 606	March 28, 2018 Legacy GAAP	Favorable (Unfavorable) Variance
Company sales	$101.8	$101.6	$ 0.2	310.7	310.0	0.7
Royalties	0.1	—	0.1	0.1	—	0.1
Franchise fees and other revenues	4.7	4.8	(0.1)	16.2	16.2	—
Total revenues	106.6	106.4	0.2	327.0	326.2	0.8
Company restaurant expenses (1)	91.2	89.9	(1.3)	275.2	273.1	(2.1)
Depreciation and amortization	3.9	3.9	—	11.8	11.9	0.1
General and administrative	1.3	1.5	0.2	4.5	4.3	(0.2)
Other gains and charges	—	—	—	—	0.8	0.8
Total operating costs and expenses	96.4	95.3	(1.1)	291.5	290.1	(1.4)
Operating income	$10.2	$11.1	$ (0.9)	35.5	36.1	(0.6)

(1)

Thirteen Week Period Ended March 27, 2019 compared to Thirteen Week Period Ended March 28, 2018

Maggiano's Total revenues increased 0.2% to $106.6 million in the thirteen week period ended March 27, 2019 from $106.4 million in the thirteen week period ended March 28, 2018. Maggiano's operating income, as a percentage of Total revenues, was 9.6% in the thirteen week period ended March 27, 2019 compared to 10.4% in the thirteen week period ended March 28, 2018, this decrease was primarily driven by increased Company restaurant expenses, as a percentage of sales.

Company restaurant expenses, as a percentage of Company sales, increased 1.1%, for Maggiano's in the thirteen week period ended March 27, 2019 as compared to the thirteen week period ended March 28, 2018. The increase primarily consisted of a 0.5% increase in rent and property tax expenses, 0.4% of higher hourly wage rates, 0.3% of unfavorable commodity pricing primarily related to produce and poultry, 0.2% of unfavorable menu item mix, 0.2% increase in repairs and maintenance expenses, 0.2% of higher supplies and office costs expenses and 0.1% of unfavorable other Company restaurant expenses. These increases were partially offset by 0.3% of increased menu pricing, 0.3% of lower incentive compensation expenses, and 0.2% of sales leverage.

Thirty-Nine Week Period Ended March 27, 2019 compared to Thirty-Nine Week Period Ended March 28, 2018

Maggiano's Total revenues increased 0.2% to $327.0 million in the thirty-nine week period ended March 27, 2019 from $326.2 million in the thirty-nine week period ended March 28, 2018. Maggiano's operating income, as a percentage of Total revenues, was 10.9% in the thirty-nine week period ended March 27, 2019 compared to 11.1% in the thirty-nine week period ended March 28, 2018, this decrease was primarily consisting of an increase in Company restaurant expenses, as a percentage of sales. Total operating costs and expenses, as a percentage of Total revenues, increased in the thirty-nine week period ended March 27, 2019 compared to the thirty-nine week period ended March 28, 2018.

Company restaurant expenses as a percentage of Company sales increased 0.5%, for Maggiano's in the thirty-nine week period ended March 27, 2019 as compared to the thirty-nine week period ended March 28, 2018, primarily consisting of 0.5% of higher rent and property tax expenses, 0.3% of higher repair and maintenance expenses, 0.2% of unfavorable commodity pricing primarily related to produce and 0.2% of higher supplies and office costs expenses.

Table of Contents

These were primarily offset by 0.2% of increased menu pricing, 0.2% of sales leverage and 0.3% of favorable other Company restaurant expenses.

INCOME TAXES

	Thirteen Week Periods Ended			Thirty-Nine Week Periods Ended		
	March 27, 2019	March 28, 2018	Change	March 27, 2019	March 28, 2018	Change
Effective income tax rate	10.3%	20.4 %	(10.1)%	11.7%	28.7 %	(17.0)%

The effective income tax rate in the thirteen and thirty-nine week periods ended March 27, 2019 decreased compared to the thirteen and thirty-nine week periods ended March 28, 2018, respectively, primarily due to the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) that was enacted on December 22, 2017. The Tax Act lowered the federal statutory tax rate from 35.0% to 21.0% effective January 1, 2018. The effective income tax rate for the thirteen and thirty-nine week periods ended March 28, 2018 included the negative impact of revaluing the Company’s deferred tax accounts pursuant to the Tax Act, partially offset by the positive impact of lowering the federal statutory tax rate. Our fiscal 2019 effective income tax rate is further lowered due to an increase in the FICA tax credit benefit, partially offset by the impact of the sale leaseback transactions.

During the thirty-nine week period ended March 27, 2019, the sale leaseback transactions, as described in Note 3 - Sale Leaseback Transactions, resulted in tax expenses of $76.0 million when the transactions were completed.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash Flows from Operating Activities

	Thirty-Nine Week Periods Ended	
	March 27, 2019	March 28, 2018
Net cash provided by operating activities	$150.6	$237.7

During the thirty-nine week period ended March 27, 2019, net cash flow provided by operating activities decreased $87.1 million from the thirty-nine week period ended March 28, 2018 primarily due to $75.0 million of tax payments related to the sale leaseback gain.

45

Cash Flows from Investing Activities

	Thirty-Nine Week Periods Ended	
	March 27, 2019	March 28, 2018
Cash flows from investing activities		
Payments for property and equipment	$(128.0)	$(69.5)
Payments for franchise restaurant acquisitions	(1.3)	—
Proceeds from sale of assets	1.4	14.8
Proceeds from note receivable	2.0	1.2
Insurance recoveries	1.4	1.7
Proceeds from sale leaseback transactions, net of related expenses	468.8	—
Net cash provided by (used in) investing activities	$344.3	$(51.8)

During the thirty-nine week period ended March 27, 2019, net cash provided by investing activities increased $396.1 million from the net cash used in the thirty-nine week period ended March 28, 2018 primarily consisting of $477.4 million gross cash proceeds received from the sale leaseback transactions, partially offset by $8.6 million of related transaction costs paid during the thirty-nine week period ended March 27, 2019, and a $58.5 million increase in capital expenditures primarily related to the Chili's remodel program and new corporate headquarters interior build-out.

Cash Flows from Financing Activities

	Thirty-Nine Week Periods Ended	
	March 27, 2019	March 28, 2018
Cash flows from financing activities		
Borrowings on revolving credit facility	$626.0	$524.0
Payments on revolving credit facility	(903.0)	(484.0)
Purchases of treasury stock	(167.7)	(162.0)
Payments on long-term debt	(5.7)	(7.8)
Payments of dividends	(46.0)	(53.1)
Proceeds from issuances of treasury stock	2.8	1.3
Net cash used in financing activities	$(493.6)	$(181.6)

During the thirty-nine week period ended March 27, 2019, net cash used in financing activities increased $312.0 million from the thirty-nine week period ended March 28, 2018 primarily consisting of $317.0 million of net repayment activity on the revolving credit facility and $5.7 million of additional share repurchases during the thirty-nine week period ended March 27, 2019, partially offset by a $7.1 million decrease in dividends paid.

Net repayments of $277.0 million were made during the thirty-nine week period ended March 27, 2019 on the $1.0 billion revolving credit facility primarily from proceeds received from the sale leaseback transactions

A $543.3 million was ou

portion of the revolving credit facility is due in March 2020. As of March 27, 2019, there are no borrowings against this current portion of the revolver. Subsequent to the end of the quarter, net borrowings of $63.0 million were drawn on the revolving credit facility.

ely 2.50%. As of March 27, 2019,

$456.7 million of credit was available under the revolving credit facility. March 27, 2019, we are in compliance with all financial covenants.

total authorizations of $4.9 billion. During the thirty-nine week period ended March 27, 2019, we repurchased 3.6 million shares of our common stock for $167.7 million. 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 award

was BB+ with a stable outlook, and our Corporate Family Rating by Moody's was Ba1 with a negative outlook. Our goal is to maintain strong free cash flow to support leverage that we believe is appropriate to allow ongoing investment in the busines

of $46.0 million to co

$14.2 million wa

n April 29, 2019, our Board of Directors declared a quarterly dividend of $0.38 per share to be paid on June 27, 2019 to shareholders of record as of June 7, 2019.

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. 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.

OFF-BALANCE SHEET ARRANGEMENTS

We have obligations for guarantees on certain lease agreements and letters of credit as disclosed in Note 13 - Contingencies, in our consolidated financial statements included in Part I, Item 1 of this Form 10-Q. Other than these items, we do not have any off-balance sheet arrangements.

RECENT ACCOUNTING PRONOUNCEMENTS

The impact of recent accounting pronouncements can be found at Part I, Item 1, Note 14 - Effect of New Accounting Standards of this Form 10-Q report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our quantitative and qualitative market risks set forth in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended June 27, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

Beginning on June 28, 2018, the first day of fiscal year 2019, we integrated certain new controls to ensure the completeness and accuracy of the adoption FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606").

Internal Control Over Financial Reporting

Other than changes described above in Changes in Internal Control Over Financial Reporting, there were no changes in our internal control over financial reporting during the thirteen week period ended March 27, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

Information and statements contained in this Form 10-Q, 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," "plans," "intends," "projects "continues" 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 which 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 Part I, Item IA "Risk Factors" in our Annual Report on Form 10-K for the year ended June 27, 2018, and below in Part II, Item 1A "Risk Factors" in this report on Form 10-Q, as well as the risks and uncertainties that generally apply to all businesses. We further caution that it is not possible to identify all risks and uncertainties, and you should not consider the identified factors as a complete list of all risks and uncertainties. Among the factors that could cause actual results to differ materially are: the impact of competition, changes in consumer preferences, consumer perception of food safety, reduced disposable income, unfavorable publicity, increased minimum wages, governmental regulations, the impact of mergers, acquisitions, divestitures and other strategic transactions, the Company's ability to meet its business strategy plan, loss of key management personnel, failure to hire and retain high-quality restaurant management, the impact of social media, failure to protect the security of data of our guests and team members, product availability, regional business and economic conditions, litigation, franchisee success, inflation, changes in the retail industry, technology failures, failure to protect our intellectual property, outsourcing, impairment of goodwill or assets, failure to maintain effective internal control over financial reporting, actions of activist shareholders, adverse weather conditions, terrorist acts, health epidemics or pandemics, and tax reform.

Other risk factors may adversely affect our financial performance. These other risk factors could cause our actual results to differ materially from those indicated in the forward-looking statements by affecting, among many things, pricing, consumer spending, consumer confidence, and operating costs. Such risks include, without limitation, changes in financial and credit markets (including rising interest rates); increases in fuel costs and availability for our team members, customers and suppliers; increases in 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.

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
Information regarding legal proceedings is incorporated by reference from Note 13 - Contingencies to our unaudited Consolidated Financial Statements set forth in Part I, Item 1, of this report.

ITEM 1A. RISK FACTORS
In addition to the other information in this report, you should carefully consider the factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended June 27, 2018, which could materially affect our business, financial condition or results of operations. It is not possible to predict or identify all risk factors. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business, financial condition or results of operations. Therefore, the risks identified are not intended to be a complete discussion of all potential risks or uncertainties.
During the thirteen week period ended March 27, 2019, there have been no material changes in the risk factors set forth in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended June 27, 2018.

	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]
December 27, 2018 through January 30, 2019	0.0	$43.85	—	$ 197.8
January 31, 2019 through February 27, 2019	—	$—	—	$ 197.8
February 28, 2019 through March 27, 2019	0.0	$45.45	—	$ 197.8
Total	0.0	$44.34	—	

(1)

4.1 thousand $44.34.

ITEM 5. OTHER INFORMATION

49

Table of Contents

ITEM 6. EXHIBITS

3.1	Certificate of Incorporation of Registrant, as amended [1]
3.2	Bylaws of Registrant [2]
31(a)	Certification by Wyman T. Roberts, President and Chief Executive Officer and President of Chili's Grill & Bar of the Registrant, pursuant to 17 CFR 240.13a – 14(a) or 17 CFR 240.15d – 14(a)
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)
32(a)	Certification by Wyman T. Roberts, President and Chief Executive Officer and President of Chili's Grill & Bar of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32(b)	Certification by 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
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BRINKER INTERNATIONAL, INC.,
a Delaware corporation

Date: May 3, 2019 By: /s/ WYMAN T. ROBERTS
Wyman T. Roberts,
President and Chief Executive Officer
and President of Chili's Grill & Bar
(Principal Executive Officer)

Date: May 3, 2019 By: /s/ JOSEPH G. TAYLOR
Joseph G. Taylor,
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)