SVB FINANCIAL GROUP
Form 10-Q
November 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from to .

Commission File Number: 000-15637

SVB FINANCIAL GROUP

(Exact name of registrant as specified in its charter)

Delaware	**91-1962278**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3003 Tasman Drive, Santa Clara, California	**95054-1191**
(Address of principal executive offices)	(Zip Code)

(408) 654-7400

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

At October 31, 2006, 34,317,570 shares of the registrant s common stock ($0.001 par value) were outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SVB FINANCIAL GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands, except par value and share data)	September 30, 2006	December 31, 2005
Assets		
Cash and due from banks	$ 305,134	$ 286,446
Federal funds sold, securities purchased under agreement to resell and other short-term investment securities	295,367	175,652
Investment securities	1,726,499	2,037,270
Loans, net of unearned income	3,319,515	2,843,353
Allowance for loan and lease losses	(39,549)	(36,785)
Net loans	3,279,966	2,806,568
Premises and equipment, net of accumulated depreciation and amortization	36,236	25,099
Goodwill	21,243	35,638
Accrued interest receivable and other assets	208,664	175,042
Total assets	$ 5,873,109	$ 5,541,715
Liabilities, Minority Interest, and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 2,956,635	$ 2,934,278
Negotiable order of withdrawal (NOW)	30,376	39,573
Money market	671,968	961,052
Time	315,481	317,827
Total deposits	3,974,460	4,252,730
Federal funds purchased, FHLB advances and securities sold under agreement to repurchase	809,767	279,464
Contingently convertible debt	148,215	147,604
Junior subordinated debentures	51,201	48,228
Other borrowings	2,669	11
Other liabilities	134,329	124,921
Total liabilities	5,120,641	4,852,958
Commitments and contingencies		
Minority interest in capital of consolidated affiliates	156,690	119,456
Stockholders equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.001 par value, 150,000,000 shares authorized; 34,253,880 and 35,103,145 shares outstanding at September 30, 2006 and December 31, 2005, respectively	34	35
Additional paid-in capital		8,439
Retained earnings	614,964	587,713
Unearned compensation	-	(5,792)
Accumulated other comprehensive loss	(19,220)	(21,094)
Total stockholders equity	595,778	569,301
Total liabilities, minority interest, and stockholders equity	$ 5,873,109	$ 5,541,715

See accompanying notes to interim consolidated financial statements (unaudited).

SVB FINANCIAL GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Interest income:				
Loans	$ 78,686	$ 57,825	$ 215,053	$ 156,587
Investment securities:				
Taxable	17,720	21,636	57,714	63,316
Non-taxable	737	872	2,341	2,842
Federal funds sold, securities purchased under agreement to resell and other short-term investments	3,161	2,284	7,731	7,268
Total interest income	100,304	82,617	282,839	230,013
Interest expense:				
Deposits	2,197	3,141	6,858	8,251
Other borrowings	8,299	1,752	16,532	3,478
Total interest expense	10,496	4,893	23,390	11,729
Net interest income	89,808	77,724	259,449	218,284
Provision for (recovery of) loan and lease losses	2,767	1,427	4,895	(1,573)
Net interest income after provision for (recovery of) loan losses	87,041	76,297	254,554	219,857
Noninterest income:				
Client investment fees	11,555	8,700	32,164	23,901
Gains on derivative instruments, net	4,729	3,040	19,683	16,959
Letter of credit and standby letter of credit income	2,617	2,625	7,609	7,418
Deposit service charges	2,747	2,435	7,235	7,317
Corporate finance fees	1,999	2,990	7,212	14,739
Gains on investment securities, net	1,645	1,301	5,664	872
Other	5,676	3,842	15,780	9,485
Total noninterest income	30,968	24,933	95,347	80,691
Noninterest expense:				
Compensation and benefits (including share-based payment expense of $5.2, $2.0, $16.8 and $5.5, respectively (in millions))	45,505	37,796	138,701	122,344
Professional services	11,363	6,336	29,792	17,059
Impairment of goodwill	-	-	18,434	
Net occupancy	4,112	3,633	12,615	12,506
Furniture and equipment	3,899	3,278	11,274	9,297
Business development and travel	3,013	2,748	8,754	7,540
Correspondent bank fees	1,510	1,429	4,092	4,125
Data processing services	944	1,098	2,933	3,063
Telephone	1,040	894	2,827	2,844
(Reduction of) provision for unfunded credit commitments	458	1,508	(3,363)	330
Other	3,163	3,263	13,274	10,015
Total noninterest expense	75,007	61,983	239,333	189,123
Income before minority interest in net (income) loss of consolidated affiliates, income tax expense and cumulative effect of change in accounting principle	43,002	39,247	110,568	111,425
Minority interest in net (income) loss of consolidated affiliates	919	(1,281)	(5,139)	(468)
Income before income tax expense	43,921	37,966	105,429	110,957
Income tax expense	18,751	14,907	44,586	44,066
Net income before cumulative effect of change in accounting principle	25,170	23,059	60,843	66,891
Cumulative effect of change in accounting principle, net of tax (1)			192	
Net income	$ 25,170	$ 23,059	$ 61,035	$ 66,891
	$ 0.73	$ 0.66	$ 1.75	$ 1.90

Earnings per common share basic, before cumulative effect of change in accounting principle				
Earnings per common share diluted, before cumulative effect of change in accounting principle	$ 0.68	$ 0.60	$ 1.61	$ 1.73
Earnings per common share basic	$ 0.73	$ 0.66	$ 1.75	$ 1.90
Earnings per common share diluted	$ 0.68	$ 0.60	$ 1.61	$ 1.73

(1) Represents the cumulative effect of change in accounting principle, net of taxes, on previously recognized share-based compensation for the effect of adopting Statement of Financial Accounting Standards No. 123 (R), *Share-Based Payment* .

See accompanying notes to interim consolidated financial statements (unaudited).

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SVB FINANCIAL GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Net income	$ 25,170	$ 23,059	$ 61,035	$ 66,891
Other comprehensive income (loss), net of tax:				
Cumulative translation (losses) gains:				
Foreign currency translation gains (losses), net of tax	117	(25)	330	(57)
Change in unrealized (losses) gains on available-for-sale investment securities:				
Unrealized holding gains (losses), net of tax	15,421	(12,684)	(686)	(14,881)
Reclassification adjustment for (losses) gains included in net income, net of tax	2,160	101	2,230	(1,189)
Total other comprehensive income (loss), net of tax	17,698	(12,608)	1,874	(16,127)
Total comprehensive income	$ 42,868	$ 10,451	$ 62,909	$ 50,764

See accompanying notes to interim consolidated financial statements (unaudited).

SVB FINANCIAL GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Nine Months Ended September 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 61,035	$ 66,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	4,895	(1,573)
Impairment of goodwill	18,434	
Changes in fair values of derivatives, net	(3,428)	4,612
Gains on investment securities, net	(5,664)	(872)
Depreciation and amortization	8,751	5,958
Minority interest	5,139	468
Tax benefits of share-based compensation and other	8,112	9,263
Amortization of share-based compensation	16,788	5,438
Amortization of deferred warrant-related loan fees	(5,605)	(4,796)
Deferred income tax (benefit) expense	(3,503)	435
Changes in other assets and liabilities:		
Increase in accrued interest receivable	(4,415)	(7,413)
Decrease in accounts receivable	2,743	6,722
Increase in income tax receivable, net	(5,911)	(2,375)
Decrease in accrued retention, incentive plans, other compensation benefits payable	(14,510)	(9,388)
(Reduction of) provision for unfunded credit commitments	(3,363)	330
Other, net	(1,873)	10,354
Net cash provided by operating activities	**77,625**	**84,054**
Cash flows from investing activities:		
Purchases of available-for-sale securities	(24,860)	(416,827)
Proceeds from sales of available-for-sale securities	126,230	11,860
Proceeds from maturities and pay-downs of available-for-sale securities	253,501	348,490
Purchases of nonmarketable securities (cost and equity method accounting)	(22,430)	(12,175)
Proceeds from sales of nonmarketable securities (cost and equity method accounting)	11,585	4,379
Proceeds from nonmarketable securities (cost and equity method accounting)	21,694	3,682
Purchases of nonmarketable securities (investment fair value accounting)	(42,943)	(54,319)
Proceeds from sales of nonmarketable securities (investment fair value accounting)	9,501	6,407
Proceeds from nonmarketable securities (investment fair value accounting)		2,828
Net increase in loans	(487,339)	(342,314)
Proceeds from recoveries of charged-off loans	8,296	9,330
Purchase of eProsper, net of cash acquired	(3,994)	
Purchases of premises and equipment	(17,783)	(14,465)
Net cash used for investing activities	**(168,542)**	**(453,124)**
Cash flows from financing activities:		
Net (decrease) increase in deposits	(278,270)	72,625
Increase in borrowings, net	530,292	111,761
Capital contributions from minority interest participants, net of distributions	33,170	38,163
Stock compensation related tax benefits	4,321	
Proceeds from issuance of common stock	34,082	15,655
Repurchases of common stock	(94,275)	(77,661)
Net cash provided by financing activities	**229,320**	**160,543**
Net increase (decrease) in cash and cash equivalents	138,403	(208,527)
Cash and cash equivalents at beginning of year	462,098	627,218
Cash and cash equivalents at end of period	$ 600,501	$ 418,691
Supplemental disclosures:		
Cash paid during the period for:		
Interest paid	$ 22,532	$ 11,661

Income taxes paid	$ 42,407	$ 36,761

See accompanying notes to interim consolidated financial statements (unaudited).

SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business

SVB Financial Group and its subsidiaries (which we refer to collectively as we , our or us in this Form 10-Q) offer clients financial products and services through four primary strategic business groups: Commercial Banking, SVB Capital, SVB Alliant, and Other Business Services. Our Other Business Services group includes SVB Global, SVB Private Client Services and certain other business service units (see Note 11. Segment Reporting).

SVB Financial Group, our parent company (which we refer to as SVB Financial Group or the Parent company) is a bank holding company and financial holding company whose principal subsidiary is Silicon Valley Bank (the Bank). The Bank is a California-chartered bank, founded in 1983, and headquartered in Santa Clara, California. We serve more than 11,000 clients worldwide through our 28 regional offices in the United States and four subsidiaries outside the United States. The Company has 13 offices throughout California and operates regional offices across the country in Arizona, Colorado, Georgia, Illinois, Massachusetts, Minnesota, New York, North Carolina, Oregon, Pennsylvania, Utah, Texas, Virginia, and Washington. SVB Financial Group also has four foreign subsidiaries, two in London, England, one in Bangalore, India and one in Shanghai, China.

Through our Commercial Banking business group, referred to as SVB Silicon Valley Bank, which includes the Bank and its subsidiaries, we serve clients in all stages of maturity ranging from emerging-growth companies to established, private and public companies in the technology, life science and premium wine industries. We define emerging-growth clients as companies in the start-up or early stages of their life cycles. These companies tend to be privately held and backed by venture capital; they generally have few employees, are primarily engaged in research and development, have brought relatively few products or services to market and have no or little revenue. By contrast, we define established or middle-market clients as companies that tend to be more mature. These companies may be publicly traded and are more established in the markets in which they participate. In 2006, we began using SVB Silicon Valley Bank to refer to our Commercial Banking activities.

SVB Capital focuses on the business needs of our private equity clients, with whom we have established and maintain relationships domestically and internationally. Through this segment, we provide banking services and financial solutions, including traditional deposit and checking accounts, loans, letters of credit and cash management services to private equity clients. SVB Capital also makes investments in private equity firms and in companies in the niches we serve. The group manages five private equity funds and oversees investments, including our investments in several sponsored limited partnerships. These limited partnerships include Gold Hill Venture Lending Partners 03, LP and its parallel funds, which primarily provide secured debt, typically to emerging-growth clients in their earliest stages; and the Partners for Growth funds, which are special situation debt funds that provide secured debt primarily to higher-risk, more established middle-market clients in their later stages.

SVB Alliant, our investment banking subsidiary, provides merger and acquisition advisory services, private placement advisory services, strategic alliance services, and specialized financial studies such as valuations and fairness opinions. SVB Alliant is a broker-dealer registered with the U.S. Securities and Exchange Commission (SEC) and a member of the National Association of Securities Dealers, Inc. (NASD). In 2005, we established SVB Alliant Europe Limited, a subsidiary of SVB Financial Group based in London, England, in order to provide investment advisory services to companies in Europe. SVB Alliant Europe Limited commenced full operations on May 2, 2006, when it received its license from the Financial Services Authority, an independent body that regulates the financial services industry in the United Kingdom.

Other Business Services includes SVB Global, SVB Private Client Services, SVB Analytics and other business service units that are not part of one of the three business groups described above. SVB Global includes three foreign subsidiaries, which facilitate our clients global expansion into major technology centers around the world. SVB Global provides a variety of services, including consulting and business services, referrals, and knowledge sharing, as well as identifying business opportunities for us. SVB Private Client Services provides a wide range of credit services to high-net-worth individuals using both long-term secured and short-term unsecured lines of credit. SVB Private Client Services helps our clients meet their cash management needs by providing deposit account products and services, including checking accounts, deposit accounts, money market accounts, and certificates of deposit. SVB Analytics, a new entity formed in 2006, provides solutions to address the valuation needs of private emerging-growth technology and life sciences companies. SVB Analytics includes eProsper, a company in which SVB Analytics acquired a controlling interest in August 2006, which provides equity ownership data management services.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements reflect all adjustments (of a normal and recurring nature) that are, in the opinion of management, necessary to fairly present our financial position; results of operations; and cash flows in accordance with accounting principles generally accepted in the United States of America (GAAP). Such interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three and nine months ended September 30, 2006 are not necessarily indicative of results to be expected for any future periods. These interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K).

The consolidated balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying interim consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Part II, Item 8. Consolidated Financial Statements and Supplementary Data - Note 2. Summary of Significant Accounting Policies presented in our Annual Report on Form 10-K for the year ended December 31, 2005.

The preparation of interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In December of 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123, Share-Based Payment (Revised 2004) (SFAS 123(R)). SFAS 123(R) requires us to measure all employee share-based compensation awards using a fair value based method, estimate award forfeitures, and record such expense in our consolidated statements of operations. SFAS 123(R) also requires the benefit of tax deductions in excess of recognized compensation cost to be reported in the statement of cash flows as a financing cash flow, rather than as an operating cash flow. SFAS 123(R) supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and amends SFAS No. 95, Statement of Cash Flows. On January 1, 2006, we adopted SFAS 123(R) using the modified prospective method, one of the adoption methods permitted under SFAS 123(R) (see Note 4).

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 (SFAS 155). Hybrid financial instruments are financial instruments that contain an embedded derivative within a single instrument. SFAS 155 gives entities an option to elect to record hybrid financial instruments at fair value as one financial instrument. Prior to this amendment, hybrid financial instruments were required to be separated into two instruments, a derivative and host, and generally only the derivative was recorded at fair value. SFAS 155 requires that beneficial interests in securitized assets be evaluated for derivatives, either freestanding or embedded. On October 25, 2006, the FASB provided a scope exception for securitized interests that (1) only contain an embedded derivative that is tied to the prepayment risk of the underlying prepayable financial assets and (2) the investor does not control the right to accelerate the settlement. SFAS 155 is effective for all financial instruments acquired or issued after January 1, 2007. Additionally, SFAS 155 provides a one-time opportunity to apply the fair value election to hybrid financial instruments existing at the date of implementation at fair value as one financial instrument, with any difference between the carrying amount of the existing hybrid financial instruments and the fair value of the single financial instrument being recorded as a cumulative-effect adjustment to beginning retained earnings. We are currently assessing the impact of SFAS 155 on our consolidated financial position and results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of SFAS 140 (SFAS 156). SFAS 156 clarifies when an entity should separately recognize servicing assets and servicing liabilities when it undertakes an obligation to service a financial asset by entering into a servicing contract. SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value and subsequently measured using either the amortization method as previously permitted under SFAS 140 or the fair value measurement method. Entities are permitted to make an election to subsequently re-measure classes of separately recognized servicing assets and liabilities. Once the fair value measurement method is elected for a class, the election should be applied prospectively to all new and existing separately recognized servicing assets and servicing liabilities within that class. The

effect of re-measuring an existing class of separately recognized servicing assets and servicing liabilities at fair value would be reported as a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. SFAS 156 is effective as of the beginning of an entity s first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued interim financial statements for that fiscal year. In the first quarter of 2006, we elected not to early adopt this Statement and, accordingly, will adopt it as of January 1, 2007.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), to clarify the accounting for uncertain tax positions. FIN 48 prescribes that a two-step benefit recognition model be applied initially to recognize and measure the benefit amount of a tax position. The first step requires that a tax benefit be recognized only when the tax position is more-likely-than-not to be sustained based on the technical merits of the position. Assuming the first step is met, the second step requires that the benefit amount be measured at the largest amount that is at least more-likely-than-not likelihood to be the ultimate outcome based on a cumulative-probability approach. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the period in which the threshold is subsequently met, the tax matter is resolved or the statute of limitations for examining the tax position has expired. FIN 48 requires that a previously recognized tax benefit be de-recognized in the period it becomes more-likely-than-not that the tax position would not be sustained on audit. The impact of applying FIN 48 should be recognized as a cumulative-effect adjustment to beginning retained earnings at the adoption date. The Interpretation is effective for fiscal years beginning after December 15, 2006. We are currently assessing the impact of FIN 48 on our consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS 157 on our consolidated financial position and results of operations.

In September 2006, the SEC Staff Bulletin issued SAB 108 on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC Staff believes that companies should quantify errors using both a balance sheet and an income statement approach and evaluate whether either of these approaches results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 also describes the circumstances where it would be appropriate for a registrant to record a one-time cumulative effect adjustment to correct errors existing in prior years that previously had been considered immaterial as well as the required disclosures to investors. SAB 108 is effective for periods ending after November 15, 2006. We are currently assessing the impact of SAB 108 on our consolidated financial position and results of operations.

3. Earnings Per Share (EPS)

The following is a reconciliation of basic EPS to diluted EPS for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars and shares in thousands, except per share amounts)	**Net Income**	**Weighted-Average Shares**	**Per Share Amount**	**Net Income**	**Weighted-Average Shares**	**Per Share Amount**
2006:						
Basic EPS:						
Income available to common stockholders	$ 25,170	34,417	$ 0.73	$ 61,035	34,813	$ 1.75
Effect of dilutive securities:						
Stock options, restricted stock awards, restricted stock units and convertible debt		2,637			3,007	
Diluted EPS:						
Income available to common stockholders and assumed conversions	$ 25,170	37,054	$ 0.68	$ 61,035	37,820	$ 1.61
2005:						
Basic EPS:						
Income available to common stockholders	$ 23,059	34,838	$ 0.66	$ 66,891	35,179	$ 1.90
Effect of dilutive securities:						
Stock options, restricted stock awards, restricted stock units and convertible debt		3,617			3,390	
Diluted EPS:						
Income available to common stockholders and assumed conversions	$ 23,059	38,455	$ 0.60	$ 66,891	38,569	$ 1.73

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For the three months ended September 30, 2006 and 2005, approximately 5.5 million and 4.5 million average potential common stock equivalents (including stock options, restricted stock and warrants), respectively, were excluded from the calculation, as they were anti-dilutive. For the nine months ended September 30, 2006 and 2005, approximately 5.3 million and 4.6 million average potential common stock equivalents (including stock options, restricted stock and warrants), respectively, were excluded from the calculation, as they were anti-dilutive.

In September 2004, the Emerging Issues Task Force (EITF) reached final consensus on EITF No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share* , that contingently convertible debt should be treated as convertible debt and included in the calculation of diluted EPS. The potential dilutive effect of our contingently convertible debt using the treasury stock method was approximately 1.1 million shares and 1.4 million shares for the three months ended September 30, 2006 and 2005, respectively, and 1.3 million shares and 1.2 million shares for the nine months ended September 30, 2006 and 2005, respectively. The assumed proceeds under the treasury stock method were calculated by subtracting the aggregate weighted-average conversion price from the average market price of the shares related to the contingently convertible debt. We included the dilutive effect of the $150.0 million zero-coupon, convertible subordinated notes (see Note 8. Borrowings) in our diluted EPS calculation using the treasury stock method, in accordance with the provisions of EITF No. 90-19, *Convertible Bonds With Issuer Option to Settle in Cash Upon Conversion* and SFAS No. 128, *Earnings Per Share* .

4. Share-Based Compensation

Impact of Adopting SFAS 123(R)

Prior to January 1, 2006, we accounted for employee stock-based compensation using the intrinsic value method supplemented by pro forma disclosures in accordance with APB 25 and SFAS 123, Accounting for Stock-Based Compensation. as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosures. Under the intrinsic value method, stock options granted with exercise prices equal to the grant date fair value of our stock have no intrinsic value and therefore no expense was actually recorded for these options under APB 25. For pro forma disclosure only, we measured the fair value of our stock options using the Black-Scholes option-pricing model and expensed the value over the corresponding service period using the straight-line amortization approach. Equity-based awards for which stock-based compensation expense was actually recorded were generally grants of restricted stock awards and restricted stock units which were measured at fair value on the date of grant based on the number of shares granted and the quoted price of our common stock. Such value was then recognized as an expense over the corresponding service period using an accelerated amortization approach in accordance with FASB Interpretation No. 28 Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.

Effective January 1, 2006, we adopted SFAS 123(R) using the modified prospective transition method and accordingly prior periods have not been restated to reflect the impact of SFAS 123(R). Under SFAS 123(R), stock-based awards that were granted prior to January 1, 2006 are being expensed over the remaining portion of their vesting period under the same amortization method and, for stock options, using the same fair value measurements which were used in calculating pro forma stock-based compensation expense under SFAS 123. Under SFAS 123(R), the fair value of stock options are being measured using the Black-Scholes option-pricing model while the fair value for restricted stock awards and restricted stock units are based on the quoted price of our common stock on the date of grant. For all stock-based awards granted on or after January 1, 2006, stock-based compensation expense is being amortized on a straight-line basis over the requisite service period. SFAS 123(R) requires that the deferred stock-based compensation on the consolidated balance sheet on the date of adoption be netted against additional paid-in capital. As of December 31, 2005, there was a balance of $5.8 million of deferred stock-based compensation that was netted against additional paid-in capital on January 1, 2006.

For the three and nine months ended September 30, 2006, we recorded share-based compensation expense of $5.2 million and $16.8 million, respectively, resulting in the recognition of $1.1 million and $3.6 million, respectively, in related tax benefits. For the three and nine months ended September 30, 2005, we recognized $2.0 million and $5.5 million, respectively, of share-based compensation expense under the intrinsic value method of APB 25, resulting in the recognition of $0.8 million and $2.2 million, respectively, in related tax benefits. As a result of adopting SFAS 123(R) on January 1, 2006, our income before income taxes and our net income for the nine months ended September 30, 2006 was $12.4 million and $10.7 million lower, respectively, than if we had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the nine months ended September 30, 2006 were $0.31 and $0.28 lower, respectively, than if we had continued to account for share-based compensation under APB 25.

SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock-based compensation expense was recorded net of estimated forfeitures for the nine months ended September 30, 2006 such that expense was recorded only for those stock-based awards that are expected to vest. Previously under APB 25 to the extent awards were forfeited prior to vesting, the corresponding previously recognized expense was reversed in the period of forfeiture. Upon adoption of FAS 123(R) as of January 1, 2006, we recorded a cumulative adjustment of $0.2 million to account for the expected forfeitures of restricted stock awards and restricted stock units granted prior to January 1, 2006, for which we previously recorded an expense.

Equity Incentive Plans

On May 11, 2006, shareholders approved the 2006 Equity Incentive Plan (the 2006 Incentive Plan). Our existing 1997 Equity Incentive Plan was set to expire in December 2006. The 2006 Incentive Plan provides for the grant of the following types of incentive awards: (i) stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance shares and performance units, and (vi) other stock awards.

Subject to the provisions of Section 14 of the 2006 Incentive Plan, the maximum aggregate number of shares that may be awarded and sold there under is 3,000,000 shares plus 1,488,361 shares comprising (i) any shares that have been reserved but not issued under our 1997 Equity Incentive Plan as of May 11, 2006, (ii) any shares subject to stock options or similar awards granted under the 1997 Equity Incentive Plan that expire or otherwise terminate without having been exercised in full and shares issued pursuant to awards granted under the 1997 Equity Incentive Plan that are forfeited to or repurchased by us. No further awards will be made under the 1997 Equity Incentive Plan, but it will continue to govern awards previously granted there under.

Restricted stock awards and restricted stock units will be counted against the numerical limits of the 2006 Incentive Plan as two shares for every one share subject thereto. Further, if shares acquired pursuant to any such award are forfeited or repurchased by us and would otherwise return to the 2006 Incentive Plan pursuant to the terms thereof, two times the number of shares so forfeited or repurchased will return to the 2006 Incentive Plan and will again become available for issuance.

Eligible participants in the 2006 Incentive Plan include directors, employees, and consultants. Options granted under the 2006 Incentive Plan generally expire 7 years after the grant date. Options generally become exercisable over various periods, typically 4 years, from date of grant based on continued employment, and typically vest annually. Restricted stock awards generally vest over the passage of time and require continued employment through the vesting period. Restricted stock units generally vest upon meeting certain performance-based objectives, with the passage of time, or a combination of both, and require continued employment through the vesting period. The vesting period for restricted stock units cannot be less than three years unless they are subject to certain performance-based objectives, in which case the vesting period can be 12 months or longer.

Employee Stock Purchase Plan

We maintain an employee stock purchase plan (ESPP) under which participating employees may annually contribute up to 10% of their gross compensation to purchase shares of our common stock at 85% of its fair market value at either the beginning or end of each six-month offering period, whichever price is less. All employees are eligible to participate in the ESPP on the first day of hire. To be eligible, an employee must, among other requirements, be age 18 or above and complete at least one hour of service as an employee of us or any of our affiliates. There were 71,036 shares issued under the ESPP for the nine months ended September 30, 2006. At September 30, 2006, a total of 915,577 shares of our common stock were still available for future issuance under the ESPP. The next purchase will be on December 29, 2006 at the end of the current six-month offering period. Effective January 1, 2006, we began recognizing compensation expense associated with the ESPP in accordance with SFAS 123(R).

Pro forma Information for Periods Prior to the Adoption of SFAS No. 123(R)

Prior to the adoption of SFAS No. 123(R), we provided the pro forma disclosures required under SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosures* . Previously reported amounts have not been restated.

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	$ 23,059	$ 66,891
Add: Stock-based compensation expense, net of tax reported in net income	1,235	3,154
Less: Total stock-based employee compensation expense determined under fair value based method, net of tax	(5,472)	(16,381)
Net income, pro forma	$ 18,822	$ 53,664
Earnings per common share basic:		
As reported	$ 0.66	$ 1.90
Pro forma	0.54	1.53
Earnings per diluted share diluted:		
As reported	$ 0.60	$ 1.73
Pro forma	0.50	1.43

Unrecognized Compensation Expense

As of September 30, 2006, unrecognized share-based compensation expense is as follows:

(Dollars in thousands)	As of September 30, 2006 Unrecognized Expense	Average Expected Recognition Period in Years
Stock option awards	$ 17,934	1.16
Restricted stock awards	931	0.78
Restricted stock units	5,963	2.29
Employee stock purchase plan	64	0.25
Total unrecognized share-based compensation expense	$ 24,892	

Valuation Assumptions

As of September 30, 2006 and 2005, the fair values of share-based awards for employee stock options and employee stock purchases made under our ESPP were estimated using the Black-Scholes option pricing model. The fair values of restricted stock awards and restricted stock units were based on our closing quoted market price on date of grant. The following weighted-average assumptions were used:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Equity Incentive Plan Awards				
Expected term of options in years	5.2	5.1	5.3	5.1
Expected volatility of the Company s underlying common stock	30.4 %	34.7 %	29.5	37.1 %
Risk-free interest rate	4.66 %	3.98 %	4.78 %	4.05 %
Expected dividend yield	%	%	%	%
Weighted-average grant date fair value-stock options	$ 16.43	$ 18.68	$ 18.57	$ 17.61
Weighted-average grant date fair value-restricted stock awards and restricted stock units	$ 45.27	$ 49.64	$ 50.97	$ 45.12
ESPP				
Expected term in years	0.5	0.5	0.5	0.5
Expected volatility of the Company s underlying common stock	19.7%	19.7 %	21.3 %	22.7 %

Risk-free interest rate	5.24 %	3.38 %	4.76 %	2.94 %
Expected dividend yield	%	%	%	%
Weighted-average fair value	$ 9.84	$ 10.18	$ 10.07	$ 10.08

The expected term was based on the implied term of the stock options using a lattice option-pricing model with early exercise factors based on historic employee exercise behavior. The expected volatilities for the 2006 Incentive Plan for the three and nine months ended September 30, 2006 and September 30, 2005 were calculated using a blended rate consisting of equal measures of our historic volatility and our expected volatility over a five-year term. The expected volatilities for the ESPP for the three and nine months ended September 30, 2006 and September 30, 2005 are equal to the historical volatility for the previous six-month periods. The expected risk-free interest rates for all periods were based on the yields of U.S. Treasury Securities, as reported by the Federal Reserve Bank of New York, with maturities equal to the expected terms of the employee stock options.

Share-Based Payment Award Activity

The table below provides stock option information related to the 1989 Stock Option Plan, the 1997 Equity Incentive Plan and the 2006 Equity Incentive Plan for the three and nine months ended September 30, 2006:

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	5,086,451	$ 31.06	6,023,080	$ 28.87
Granted	18,250	45.27	333,097	51.48
Exercised	(120,753)	25.00	(1,167,199)	23.90
Forfeited	(33,218)	36.51	(236,543)	35.76
Expired	(6,057)	37.54	(7,762)	38.21
Outstanding at September 30, 2006	4,944,673	$ 31.22	4,944,673	$ 31.22
Exercisable at September 30, 2006	3,239,604	$ 27.30	3,239,604	$ 27.30

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value of In-The-Money Options ($)
Outstanding at September 30, 2006	4,944,673	$ 31.22	4.27	$ 69,188,603
Exercisable at September 30, 2006	3,239,604	$ 27.30	4.10	$ 56,609,829

The aggregate intrinsic value of outstanding options shown in the table above represents the pretax intrinsic value as of September 30, 2006. This value is based on our closing stock price of $44.64 as of September 30, 2006. The total intrinsic value of options exercised during the three and nine months ended September 30, 2006 was $2.4 million and $30.5 million, respectively, and the total intrinsic value of options exercised during the three and nine months ended September 30, 2005 was $3.1 million and $15.8 million, respectively. The total fair value of option grants that vested during the three and nine months ended September 30, 2006 was $2.4 million and $20.6 million, respectively, and the total fair value of option grants that vested during the three and nine months ended September 30, 2005 was $2.7 million and $22.9 million, respectively. Cash received from stock option exercises was $3.0 million and $27.2 million during the three and nine months ended September 30, 2006, respectively, and cash received from stock option exercises was $2.7 million and $14.7 million during the three and nine months ended September 30, 2005, respectively. The tax benefit realized from stock options exercised was $0.7 million and $10.1 million for the three and nine months ended September 30, 2006, respectively, and the tax benefit realized from stock options exercised was $1.3 million and $7.0 million for the three and nine months ended September 30, 2005, respectively.

The following table summarizes information regarding stock options outstanding as of September 30, 2006:

		Outstanding Options			Vested Options	
Ranges of Exercise Prices		**Shares**	**Weighted-Average Remaining Contractual Life in Years**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
$ 8.25	$ 17.07	617,334	3.65	$ 13.75	522,755	13.22
17.20	23.69	505,860	4.73	22.36	484,710	22.51
23.90	25.17	496,190	2.14	25.04	363,459	25.02
25.29	26.40	513,070	4.81	26.06	511,133	26.07
26.66	31.29	508,865	5.20	30.94	490,991	30.99
31.40	35.26	575,650	2.37	34.94	300,756	34.71
35.54	36.46	495,864	4.45	35.60	241,877	35.61
36.56	43.49	671,163	5.10	40.86	210,636	40.08
43.62	53.29	555,177	5.92	49.61	113,287	48.39
53.30	53.30	5,500	6.51	53.30		
$ 8.25	$ 53.30	4,944,673	4.27	$ 31.22	3,239,604	$ 27.30

We expect to satisfy the exercise of stock options and future grants of restricted stock by issuing new shares registered under the 2006 Incentive Plan. At September 30, 2006, 4,391,611 shares were available for future issuance under the 2006 Incentive Plan.

The table below provides information for restricted stock awards and restricted stock units related to the 1989 Stock Option Plan, 1997 Plan and 2006 Incentive Plan for the three and nine months ended September 30, 2006:

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	Shares	**Weighted-Average Grant Date Fair Value**	**Shares**	**Weighted-Average Grant Date Fair Value**
Nonvested at beginning of period	321,729	$ 44.28	253,848	$ 42.12
Granted	5,250	45.27	153,341	50.97
Vested	(3,729)	45.10	(65,378)	52.93
Forfeited	(2,099)	47.94	(20,660)	45.74
Nonvested at September 30, 2006	321,151	$ 44.26	321,151	$ 43.91

The total fair value of restricted stock grants that vested during the three and nine months ended September 30, 2006 was $0.2 million and $3.5 million, respectively, and the total fair value of restricted stock grants that vested during the three and nine months ended September 30, 2005 was $0.1 million and $3.1 million, respectively.

5. Investment Securities

Federal Funds Sold, Securities Purchased under Agreement to Resell and Other Short-Term Investments

Federal funds sold, securities purchased under agreement to resell and other short-term investment securities as reported in the interim consolidated balance sheets include interest-bearing deposits in other financial institutions of $27.1 million and $34.7 million at September 30, 2006 and December 31, 2005, respectively.

The detailed composition of our investment securities as of September 30, 2006 and December 31, 2005 is presented as follows:

(Dollars in thousands)	September 30, 2006	December 31, 2005
Available-for-sale securities, at fair value	$ 1,501,632	$ 1,850,655
Non-marketable securities (investment company fair value accounting):		
Venture capital fund investments (1)	111,686	81,280
Other private equity investments (2)	32,477	26,782
Other investments (3)	15,116	25,300
Non-marketable securities (equity method accounting):		
Other investments (4)	15,584	10,985
Low income housing tax credit funds	18,260	11,682
Non-marketable securities (cost method accounting):		
Fund investments	27,683	26,924
Other private equity investments	4,061	3,662
Total investment securities	$ 1,726,499	$ 2,037,270

(1) Includes $62.2 million and $58.7 million related to SVB Strategic Investors Fund, LP at September 30, 2006 and December 31, 2005, respectively. We have a controlling ownership interest of 12.6% in the fund. Also includes $40.3 million and $22.1 million related to SVB Strategic Investors Fund II, LP, at September 30, 2006 and December 31, 2005, respectively. We have a controlling interest of 8.6% in the fund. Additionally, it includes $9.2 million and $0.5 million related to SVB Strategic Investors Fund III, LP at September 30, 2006 and December 31, 2005, respectively. Currently, we have a controlling interest of 11.7% in the fund. As of December 31, 2005, we had a controlling interest of 100.0% in the fund.

(2) Includes $29.9 million and $26.8 million related to Silicon Valley BancVentures, LP at September 30, 2006 and December 31, 2005, respectively. We have a controlling ownership interest of 10.7% in the fund. Additionally, includes $2.6 million related to SVB Capital Partners II, LP as of September 30, 2006. We have a direct ownership interest of 0.5% and indirect ownership interest of 8.5% in the fund through our ownership of SVB Strategic Investors Fund II, LP.

(3) Represents $15.1 million and $25.3 million related to Partners for Growth, LP at September 30, 2006 and December 31, 2005, respectively. We have a majority ownership interest of approximately 50.01% in the fund.

(4) Includes $6.9 million and $5.6 million related to Gold Hill Venture Lending Partners 03, LLC, the general partner of Gold Hill Venture Lending 03, LP and its parallel funds, as of September 30, 2006 and December 31, 2005, respectively. We have a majority interest of 90.7% in Gold Hill Venture Lending Partners 03, LLC. We have an indirect ownership interest of 4.5% in Gold Hill Venture Lending 03, LP and its parallel funds through Gold Hill Venture Lending Partners 03, LLC. It also includes $6.5 million and $5.4 million related to our direct investment in Gold Hill Venture Lending Partners 03, LP, as of September 30, 2006 and December 31, 2005, respectively. We have a direct ownership interest of 4.8% in the fund. Additionally, it includes $2.2 million to Partners for Growth II, LP as of September 30, 2006. We have an ownership interest of 24.2% in the fund.

The following table breaks out our unrealized losses on our available-for-sale investment securities portfolio into categories of less than 12 months, or 12 months or longer as of September 30, 2006:

	September 30, 2006					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in thousands)	Fair Value of Investments	Unrealized Losses	Fair Value of Investments (1)	Unrealized Losses (1)	Fair Value of Investments	Unrealized Losses
U.S. Treasury securities	$	$	$ 9,900	$ (81)	$ 9,900	$ (81)
U.S. agencies and corporations:						
Collateralized mortgage obligations	54,753	(501)	590,685	(14,936)	645,438	(15,437)
Mortgage-backed securities	25,465	(190)	399,572	(12,703)	425,037	(12,893)
Discount notes and bonds	29,531	(467)	210,579	(4,414)	240,110	(4,881)
Asset-backed securities			486	(1)	486	(1)
Commercial mortgage-backed securities			69,408	(1,766)	69,408	(1,766)
Total temporarily impaired securities	$ 109,749	$ (1,158)	$ 1,280,630	$ (33,901)	$ 1,390,379	$ (35,059)

(1) As of September 30, 2006, we identified 136 investments totaling $1,280.6 million with unrealized losses of $33.9 million whose fair value has been less than their adjusted cost for a period of time greater than twelve months. A U.S. Treasury note totaling $9.9 million with an unrealized loss of $81 thousand was purchased in July 2005. Securities classified as collateralized mortgage obligations totaling $590.7 million with unrealized losses of $14.9 million were originally purchased between July 1998 and September 2005. Securities classified as mortgage-backed securities totaling $399.6 million with unrealized losses of $12.7 million were originally purchased between June 2003 and April 2004. Securities classified as discount notes and bonds totaling $210.6 million with unrealized losses of $4.4 million were originally purchased between February 2003 and January 2005. An asset-backed security totaling $0.5 million with an unrealized loss of $1 thousand was originally purchased in October 2002. Securities classified as commercial mortgage-backed securities totaling $69.4 million with unrealized losses of $1.8 million were originally purchased between April 2005 and July 2005. All investments with unrealized losses for a period of time greater than twelve months are either rated triple A by Moody s or S&P or are issued by the U.S. Treasury or a government sponsored enterprise. Because these securities are of superior credit quality, the unrealized losses are due solely to increases in market interest rates and we expect to recover the impairment prior to or at maturity, we deem these impairments to be temporary. We have the intent and ability to hold the securities until the market value recovers or until maturity. Market valuations and impairment analyses on assets in the investment portfolio are reviewed and monitored on an ongoing basis.

The following table presents the components of gains and losses on investment securities, for the three and nine months ended September 30, 2006 and 2005.

	Three Months Ended September 30,		Nine Months Ended September 30,				
(Dollars in thousands)	**2006**	**2005**	**2006**	**2005**			
Gross gains on investment securities:							
Available-for-sale securities, at fair value	$ 3,692	$ 173	$ 7,042	$ 173			
Marketable securities (investment company fair value accounting)		1,602		1,602			
Non-marketable securities (investment company fair value accounting):							
Private equity fund investments.	2,161	2,219	9,341	7,121			
Other private equity investments	588	6	974	973			
Other investments			1,170				
Non-marketable securities (equity method accounting)	332		852				
Non-marketable securities (cost method accounting):							
Private equity fund investments	103	289	465	816			
Other private equity investments	11		120	171			
Total gross gains on investment securities	6,887	4,289	19,964	10,856			
Gross losses on investment securities:							
Available-for-sale securities, at fair value							
Profit Sharing(3)					271,134	30,123	30,123
Equity Compensation(5)							
Stock Options							
Performance Shares(6)				197,627	488,558	488,558	488,558
Restricted Stock					728,497	728,497	728,497
Benefits & Perquisites							
Deferred Savings Plan							
Retiree Medical							
Life Insurance(8)							1,751,000
Disability Insurance(9)						685,808	
Accrued Vacation							
Total				270,585	1,561,147	1,932,986	2,998,178

(1) Mr. Edwards is not eligible for retirement as of the last day of the fiscal year.
(2) Severance payments are based on tenure. Mr. Edwards would be eligible for a severance equal to two months of salary.
(3) The profit sharing award shown was earned for fiscal 2016, but is unpaid as of the last day of the fiscal year under all scenarios except for Change in Control. Our profit sharing plan states that no less than a target award will be paid in the event of a change in control.
(4) In this scenario Mr. Edwards is able to retain a pro-rata portion of his fiscal 2015 and 2016 option awards and performance share awards, but none of his retention or career equity awards. Mr. Edwards is only able to retain the 2015 one-time retention award under the Change in Control, Disability and Death scenarios.
(5) The amounts shown here do not include the value of any vested equity awards. For more information on Mr. Edwards s equity awards, please see the Fiscal 2016 Outstanding Equity Awards at Fiscal Year-End table.
(6) Under all of the scenarios listed, the fiscal 2015 and 2016 performance shares reflect a target payout.
(7) Under our death and disability provisions, Mr. Edwards would retain his unvested equity.
(8) The Company provides term life insurance for the NEOs at four times base salary with a maximum benefit of $3,500,000.
(9) Amount listed assumes that Mr. Edwards would be on Short Term Disability for two months (the coverage allowed under our plan based on tenure) and then Long Term Disability for two years.

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FISCAL 2016 POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL FOR

KELLI VALADE(1)

Benefits and Payments Upon Separation	Voluntary Resignation ($)	Retirement ($)	Involuntary Not For Cause Termination(4) ($)	For Cause Termination ($)	Change in Control ($)	Disability(7) ($)	Death(7) ($)
Cash Compensation							
Cash Severance(2)			397,838		397,838		
Profit Sharing(3)					246,413	27,376	27,376
Equity Compensation(5)							
Stock Options			29,820		29,820	29,820	29,820
Performance Shares(6)			421,594		724,527	724,527	724,527
Restricted Stock			363,118		1,614,354	1,614,354	1,614,354
Benefits & Perquisites							
Deferred Savings Plan							
Retiree Medical							
Life Insurance(8)							1,591,352
Disability Insurance(9)						855,352	
Accrued Vacation							
Total			1,212,370		3,012,952	3,251,429	3,987,429

(1) Ms. Valade is not eligible for retirement as of the last day of the fiscal year.
(2) Severance payments are based on tenure. Ms. Valade would be eligible for the maximum severance payment of twelve months of salary.
(3) The profit sharing award shown was earned for fiscal 2016, but is unpaid as of the last day of the fiscal year under all scenarios except for Change in Control. Our profit sharing plan states that no less than a target award will be paid in the event of a change in control.
(4) In this scenario Ms. Valade is able to retain her fiscal 2013 and 2014 option awards, a pro-rata portion of her fiscal 2015 and 2016 option awards, a pro-rata portion of her performance share awards and a pro-rata portion of her career equity awards. Ms. Valade is only able to retain the 2014 one-time retention award under the Change in Control, Disability and Death scenarios.
(5) The amounts shown here do not include the value of any vested equity awards. For more information on Ms. Valade s equity awards, please see the Fiscal 2016 Outstanding Equity Awards at Fiscal Year-End table.
(6) Under all of the scenarios listed, the fiscal 2014 performance shares reflect a payout of 50% (which was earned but unpaid as of the last day of the fiscal year) and a target payout for fiscal 2015 and 2016 awards.
(7) Under our death and disability provisions, Ms. Valade would retain her unvested equity.
(8) The Company provides term life insurance for the NEOs at four times base salary with a maximum benefit of $3,500,000.
(9) Amount listed assumes that Ms. Valade would be on Short Term Disability for nine months (the maximum coverage allowed under our plan based on tenure) and then Long Term Disability for two years.

FISCAL 2016 POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL FOR

ROGER F. THOMSON(1) (9)

			Involuntary				
Benefits and Payments Upon Separation	**Voluntary Resignation ($)**	**Retirement ($)**	**Not For Cause Termination ($)**	**For Cause Termination ($)**	**Change in Control ($)**	**Disability(6) ($)**	**Death(6) ($)**
Cash Compensation							
Cash Severance(2)			570,801		570,801		
Profit Sharing(3)	39,513	39,513	39,513		355,653	39,513	39,513
Equity Compensation(4)							
Stock Options	84,406	84,406	84,406		84,406	84,406	84,406
Performance Shares(5)	1,009,196	1,009,196	1,009,196		1,009,196	1,009,196	1,009,196
Restricted Stock	758,685	758,685	758,685		758,685	758,685	758,685
Benefits & Perquisites							
Deferred Savings Plan							
Retiree Medical							
Life Insurance(7)							2,283,204
Disability Insurance(8)						1,148,101	
Accrued Vacation							
Total	1,891,800	1,891,800	2,462,601		2,778,741	3,039,901	4,175,004

(1) Mr. Thomson is eligible for retirement as of the last day of the fiscal year. It is assumed under any of the scenarios listed (excluding death and disability) he would retire from the Company.

(2) Severance payments are based on tenure. Mr. Thomson would be eligible for the maximum severance payment of twelve months of salary.

(3) The profit sharing award shown was earned for fiscal 2016, but is unpaid as of the last day of the fiscal year under all scenarios except for Change in Control. Our profit sharing plan states that no less than a target award will be paid in the event of a change in control.

(4) Under our retirement provisions, Mr. Thomson is able to retain:

- All of his unvested stock options;
- All of his performance shares; and
- All of his career equity.

The amounts shown here do not include the value of any vested equity awards. For more information on Mr. Thomson s equity awards, please see the Fiscal 2016 Outstanding Equity Awards at Fiscal Year-End table.

(5) Under all of the scenarios listed, the fiscal 2014 performance shares reflect a payout of 50% (which was earned but unpaid as of the last day of the fiscal year) and a target payout for fiscal 2015 and 2016 awards.

(6) Under our death and disability provisions, Mr. Thomson would retain his unvested equity.

(7) The Company provides term life insurance for the NEOs at four times base salary with a maximum benefit of $3,500,000.

(8) Amount listed assumes that Mr. Thomson would be on Short Term Disability for nine months (the maximum allowed under our plan based on tenure) and then Long Term Disability for two years.

(9) On June 30, 2016, Mr. Thomson retired from the Company.

FISCAL 2016 POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL FOR

STEVE PROVOST(1)

			Involuntary				
Benefits and Payments Upon Separation	**Voluntary Resignation ($)**	**Retirement ($)**	**Not For Cause Termination(4) ($)**	**For Cause Termination ($)**	**Change in Control ($)**	**Disability(7) ($)**	**Death(7) ($)**
Cash Compensation							
Cash Severance(2)			258,663		258,663		
Profit Sharing(3)					297,534	33,056	33,056
Equity Compensation(5)							
Stock Options			61,632		61,632	61,632	61,632
Performance Shares(6)			514,315		840,620	840,620	840,620
Restricted Stock			368,380		1,209,300	1,209,300	1,209,300
Benefits & Perquisites							
Deferred Savings Plan							
Retiree Medical							
Life Insurance(8)							1,773,688
Disability Insurance(9)						879,454	
Accrued Vacation							
Total			1,202,990		2,667,749	3,024,062	3,918,296

(1) Mr. Provost is not eligible for retirement as of the last day of the fiscal year.
(2) Severance payments are based on tenure. Mr. Provost would be eligible for a severance payment of seven months of salary.
(3) The profit sharing award shown was earned for fiscal 2016, but is unpaid as of the last day of the fiscal year under all scenarios except for Change in Control. Our profit sharing plan states that no less than a target award will be paid in the event of a change in control.
(4) In this scenario Mr. Provost is able to retain his fiscal 2013 and 2014 option awards, a pro-rata portion of his fiscal 2015 and 2016 option awards, a pro-rata portion of his performance share awards and a pro-rata portion of his career equity awards. Mr. Provost is only able to retain the 2016 one-time retention award under the Change in Control, Death, and Disability scenarios.
(5) The amounts shown here do not include the value of any vested equity awards. For more information on Mr. Provost s equity awards, please see the Fiscal 2016 Outstanding Equity Awards at Fiscal Year-End table.
(6) Under all of the scenarios listed, the fiscal 2014 performance shares reflect a payout of 50% (which was earned but unpaid as of the last day of the fiscal year) and a target payout for fiscal 2015 and 2016 awards.
(7) Under our death and disability provisions, Mr. Provost would retain his unvested equity.
(8) The Company provides term life insurance for the NEOs at four times base salary with a maximum benefit of $3,500,000.
(9) Amount listed assumes that Mr. Provost would be on Short Term Disability for seven months (the coverage allowed under our plan based on tenure) and then Long Term Disability for two years.

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REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter adopted by the Board of Directors, the Audit Committee assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices. Our management is responsible for our internal controls and the financial reporting process. KPMG LLP, our independent registered public accounting firm, is responsible for performing independent audits of our consolidated financial statements and internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). The Audit Committee s responsibility is to monitor and oversee these processes. The Audit Committee also is responsible for the selection of our independent registered public accounting firm. The Audit Committee is composed solely of independent directors who are qualified for service under NYSE listing standards and SEC rules.

In this context, the Audit Committee held discussions with our management regarding our audited consolidated financial statements. Our management represented to the Audit Committee that our audited consolidated financial statements were prepared in accordance with generally accepted accounting principles. Such discussions also involved an evaluation of the independence of KPMG LLP. The Audit Committee reviewed and discussed the audited consolidated financial statements with both management and KPMG LLP. The Audit Committee also discussed with KPMG LLP the matters required to be discussed by Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 16 (Communications with Audit Committees). The Audit Committee received the written disclosures and the letter from KPMG LLP required by applicable requirements of the PCAOB and discussed with KPMG LLP their independence in connection with their audit of our consolidated financial statements.

Based on the discussions with KPMG LLP concerning the audit, the independence discussions, and the financial statement review, and such other matters deemed relevant and appropriate by the Audit Committee, the Audit Committee recommended to the Board that the consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended June 29, 2016 for filing with the SEC. The Audit Committee approved the appointment of KPMG LLP as our independent registered public accounting firm for the 2016 fiscal year.

Further, in accordance with its written charter, the Audit Committee is responsible for discussions with management relating to the Company s processes to monitor and minimize significant risks and exposures. During fiscal 2016, the Audit Committee reviewed and discussed with management progress on the Company s enterprise risk management processes, including the evaluation of identified risks and alignment of Company processes to manage the risks within the Company s approved strategies.

Respectfully submitted,

AUDIT COMMITTEE

WILLIAM GILES (Chair)

HARRIET EDELMAN

ELAINE BOLTZ

MICHAEL GEORGE

GERARDO LOPEZ

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STOCK OWNERSHIP OF CERTAIN PERSONS

The following table shows the beneficial ownership of our common stock as of August 15, 2016 by (a) all persons known by us to beneficially own more than 5% of our common stock as of such date, (b) each present director, including present directors being considered for election at the annual meeting, (c) the NEOs, and (d) all executive officers and directors as a group.

Name	Number of Shares of Common Stock Beneficially Owned as of August 15, 2016	Number Attributable to Options Exercisable Within 60 Days of August 15, 2016	Percent(13)
JPMorgan Chase & Co. 270 Park Avenue New York, NY 10017	5,788,420(1)	(5)	10.54%
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	4,806,477(2)	(5)	8.75%
BlackRock, Inc. 55 East 52nd Street New York, NY 10022	4,014,192(3)	(5)	7.31%
LSV Asset Management 155 N. Wacker Dr., Suite 4600 Chicago, IL 60606	3,729,682(4)	(5)	6.80%
Directors(6)			
Elaine L. Boltz	4,272(7)	(8)	*
Joseph M. DePinto	49,297(7)	(8)	*
Harriet Edelman	23,244(7)	(8)	*
Michael A. George	29,944(7)	(8)	*
William T. Giles	17,144(7)	(8)	*
Gerardo I. Lopez	11,144(7)	(8)	*
Jon L. Luther	17,544(7)	(8)	*
George R. Mrkonic	29,406(7)	(8)	*
Jose Luis Prado	4,587(7)	(8)	*
Wyman T. Roberts	309,642(7)	216,618(8)	*

Named Executive Officers(6)(9)			
Thomas J. Edwards, Jr.	25,859(7)	5,803(10)	*
Steve Provost	92,356(7)	61,391(10)	*
Roger F. Thomson(11)	96,431(7)	15,192(10)	*
Kelli Valade	98,336(7)	42,915(10)	*
All Executive Officers and Directors as a Group (12) (20 persons)	968,780(7)	396,677(10)	1.76%

* Less than 1%.

(1) Based on information contained in Schedule 13G/A dated March 31, 2016, filed on April 7, 2016. The Schedule 13G/A reported that JPMorgan Chase & Co. owned 5,788,420 shares of common stock, and had sole dispositive power over 5,699,119 shares of common stock, shared dispositive power over 87,885 shares of common stock, sole voting power over 5,095,740 shares of common stock and shared voting power over 288,137 shares of common stock.

(2) Based on information contained in Schedule 13G/A dated December 31, 2015, filed on February 10, 2016. The Schedule 13G/A reported that The Vanguard Group, Inc. owned 4,806,477 shares of common stock, and had sole dispositive power

over 4,762,774 shares of common stock, shared dispositive power over 43,703 shares of common stock, sole voting power over 44,103 shares of common stock and shared voting power over 3,200 shares of common stock.
(3) Based on information contained in Schedule 13G/A dated December 31, 2015, filed on February 10, 2016. The Schedule 13G/A reported that BlackRock, Inc. owned and had sole dispositive power over 4,014,192 shares of common stock and had sole voting power over 3,794,058 shares of common stock.
(4) Based on information contained in Schedule 13G dated December 31, 2015, filed on February 12, 2016. The Schedule 13G reported that LSV Asset Management owned and had sole dispositive power over 3,729,682 shares of common stock and had sole voting power over 2,148,159 shares of common stock.
(5) Not Applicable.
(6) We determined beneficial ownership in accordance with the rules of the SEC. Except as noted, and except for any community property interests owned by spouses, the listed individuals have sole investment power and sole voting power as to all shares of stock of which they are identified as being the beneficial owners.
(7) Our list includes shares of common stock which may be acquired by exercise of options vested, or vesting within 60 days of August 15, 2016, under one of the following plans: i) Stock Option and Incentive Plan and ii) 1999 Stock Option and Incentive Plan for Non-Employee Directors and Consultants, as applicable.
(8) Mr. Roberts owns 360,054 stock options, 216,618 of which have vested, or will vest, within 60 days of August 15, 2016. Messrs. DePinto, George, Giles, Lopez, Luther, Mrkonic and Prado, and Mms. Boltz and Edelman own no stock options.
(9) In addition to Mr. Roberts who serves as a director.
(10) Mr. Edwards owns 23,214 stock options, 5,803 of which have vested, or will vest, within 60 days of August 15, 2016. Mr. Provost owns 82,814 stock options, 61,391 of which have vested, or will vest, within 60 days of August 15, 2016. Mr. Thomson owns 15,192 stock options, all of which are vested. Ms. Valade owns 58,440 stock options, 42,917 of which have vested, or will vest, within 60 days of August 15, 2016. All Executive Officers and Directors as a Group own 650,822 stock options, 396,677 of which have vested, or will vest, within 60 days of August 15, 2016.
(11) Mr. Thomson retired from the Company on June 30, 2016.
(12) Includes Mr. Thomson.
(13) This percentage is based on number of outstanding shares of common stock as of August 15, 2016 (54,924,317 shares).

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under the securities laws of the United States, our directors and executive officers, and persons who own more than 10% of our common stock are required to report their initial ownership of our common stock and any subsequent changes in that ownership to the SEC and to furnish us with copies of all such reports. Based on our review of the reports we received and other written communications, we believe that all filing requirements were satisfied during fiscal 2016, except for a Form 4 filing filed on August 31, 2015, reporting the grant of stock on August 6, 2015 to Jose Luis Prado.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

It is our policy, where possible, to avoid transactions (except those which are employment related) with officers, directors, and affiliates. If we believe we should enter into any such transactions, we will do so on terms no less favorable to us than we could obtain from third parties, and such transactions will be approved by a majority of the disinterested directors of the Company. Except as noted below, there were no transactions required to be reported.

During fiscal 2016, we employed one family member of one of our executive officers as a part-time team member at one of our restaurants.

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MISCELLANEOUS

The Annual Report to Shareholders of the Company, including our Form 10-K for the fiscal year ended June 29, 2016, accompanying this Proxy Statement is not deemed to be a part of the Proxy Statement.

By Order of the Board of Directors,

SCARLETT MAY

Secretary

Dallas, Texas

September 28, 2016

BRINKER INTERNATIONAL, INC.

PROXY STATEMENT

FAQ s ABOUT THE MEETING AND VOTING

Why did you send this Proxy Statement to me?

The Board of Directors of Brinker International, Inc. (sometimes referred to here as Brinker, we, us, our, or the Company) is soliciting the enclosed proxy to be used at the annual meeting of shareholders on November 16, 2016 at 9:00 a.m. (CST), and at any adjournment or postponement of that meeting. We posted this Proxy Statement and the accompanying proxy on or about September 28, 2016, to our website at *www.proxyvote.com*, and mailed notice on or about September 28, 2016 to all shareholders entitled to vote at the annual meeting.

Where is the annual meeting held?

The meeting will be held at our principal executive office campus, in the building located at 6700 LBJ Freeway, Dallas, Texas 75240.

What is the purpose of the annual meeting?

The purpose of the meeting is to:

- elect nine (9) directors (Pages 4-8);
- vote on the ratification of the selection of KPMG LLP as our independent registered public accounting firm for the 2017 Fiscal Year (Page 9);
- cast an advisory vote on executive compensation (Page 10); and
- conduct any other business properly brought before the meeting or any adjournment or postponement thereof.

Why am I being asked to review materials on-line?

Under rules adopted by the U.S. Securities and Exchange Commission (SEC), we are furnishing proxy materials to our shareholders on the Internet, rather than mailing printed copies of those materials to each shareholder. If you receive a Notice of Internet Availability of Proxy Materials by mail, you will not receive a printed copy of the proxy materials unless you request one. Instead, the Notice of Internet Availability of Proxy Materials will instruct you as to how you may access and review the proxy materials on the Internet. If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a printed copy of our proxy materials, please follow the instructions included in the Notice of Internet Availability of Proxy Materials. We anticipate that the Notice of Internet Availability of Proxy Materials will be mailed to shareholders on or about September 28, 2016.

How many votes do I have?

If we had your name on record as owning stock in Brinker International, Inc. at the close of business on September 19, 2016, then you are entitled to vote at the annual meeting. You are entitled to one vote for each share of Brinker s common stock you own as of that date. At the close of business on August 15, 2016, 54,924,317 shares of the Company s common stock were outstanding and eligible to vote.

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How do I vote by proxy?

Whether you plan to attend the annual meeting or not, we encourage you to follow the instructions on the Notice of Internet Availability of Proxy Materials. You may vote:

- by Internet at *www.proxyvote.com* by using your 12-digit control number to access the site (you may find this number on your Notice of Internet Availability of Proxy Materials);
- by phone; and
- by requesting, completing and mailing a paper proxy card, as outlined in the Notice of Internet Availability of Proxy Materials.

How do I attend the annual meeting in person?

Seating at the annual meeting will be limited to Brinker s shareholders or their proxyholders and Brinker s invited guests. If you are a holder of record in your own name, please bring photo identification to the annual meeting. If you hold shares through a bank, broker or other third party, please bring photo identification and a current brokerage statement. Cameras, recording equipment and other electronic devices will not be permitted at the meeting. The annual meeting will begin promptly at 9:00 a.m. (CST) at our offices, so please plan to arrive accordingly. For directions to the annual meeting, please visit the Investor Information section of our website at http://www.brinker.com.

May I revoke my proxy?

You may change your vote or revoke your proxy any time before the annual meeting by:

- returning another proxy card with a later date;
- sending written notification of revocation to the Corporate Secretary at our principal executive offices at 6820 LBJ Freeway, Dallas, Texas 75240;
- entering a later vote by telephone or over the Internet; or
- attending the annual meeting and voting in person.

You should be aware that simply attending the annual meeting will not automatically revoke your previously submitted proxy. If you desire to do so, you must notify an authorized Brinker representative at the annual meeting of your desire to revoke your proxy and then you must vote in person.

Who pays for the solicitation of proxies and how are they solicited?

We pay the entire cost of the solicitation of these proxies. This cost includes preparation, assembly, printing, and mailing of this Proxy Statement and any other information we send to you. We may supplement our efforts to solicit your proxy in the following ways:

- we may contact you using the telephone or electronic communication;
- our directors, officers, or other regular employees may contact you personally; or
- we may hire agents for the sole purpose of contacting you regarding the proxy.

If we hire soliciting agents, we will pay them a reasonable fee for their services. We will not pay directors, officers, or other regular employees any additional compensation for their efforts to supplement our proxy solicitation.

Can I vote if my shares are held in street name ?

If the shares you own are held in street name by a bank or brokerage firm, your bank or brokerage firm, as the record holder of your shares, is required to vote your shares according to your instructions. In order to vote your shares, you will need to follow the directions your bank or brokerage firm provides you. If you do not give instructions to your bank or brokerage firm, it will still be able to vote your shares

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with respect to certain routine items, but will not be allowed to vote your shares with respect to certain non-routine items. In the case of non-routine items, the shares will be treated as broker non-votes, which are not counted as cast and have no effect on the outcome of the vote. Election of directors is not considered a routine matter. We urge you to give your bank or brokerage firm instructions on all proposals in this proxy statement. To be able to vote your shares held in street name at the meeting, you will need to obtain a proxy from your bank or brokerage firm.

How do I vote if my shares are held in the Company s 401(k) Plan?

If all or some of the shares you own are held through the Company s 401(k) Plan, you may vote by phone or Internet by 11:59 p.m., EST, on November 11, 2016 or the Company s agent must receive your paper proxy card on or before November 11, 2016.

What is householding ?

If you and others in your household own your shares in street name, you may receive only one copy of this proxy statement and the annual report. This practice is known as householding. If you hold your shares in street name and would like additional copies of these materials, please contact your bank or broker. If you receive multiple copies and would prefer to receive only one set of these materials, please also contact your bank or broker. Brinker does not currently use householding for owners of record and will send notice to all owners of record before using householding. By using this method, we give all owners of record the opportunity to continue to receive multiple copies of these materials in the same household.

What constitutes a quorum?

In order for business to be conducted at the meeting, a quorum must be present. A quorum consists of the holders of a majority of the shares of common stock issued, outstanding and entitled to vote at the meeting. Shares of common stock represented in person or by proxy (including broker non-votes and shares that abstain or do not vote with respect to one or more of the matters to be voted upon) will be counted for the purpose of determining whether a quorum exists. If a quorum is not present, the meeting will be adjourned until a quorum is obtained.

What vote is required to approve each proposal?

Proposal 1: Elect Nine Directors
The affirmative vote of a majority of shares of common stock present or represented by proxy and voting at the meeting is required to elect each of the nine nominees for director. Abstentions and broker non-votes have no effect on the outcome of the voting for each of the nominees.

Proposal 2: Ratify Selection of Independent Registered Public Accounting Firm for the 2017 Fiscal Year
The affirmative vote of a majority of the shares of common stock present or represented by proxy and voting at the meeting is required to approve this proposal. Abstentions are counted as votes cast and have the same effect as votes against the proposal. Broker non-votes have no effect on the outcome of the voting on this proposal.

Proposal 3: Advisory Vote on Executive Compensation

The approval, in an advisory, non-binding vote, of the compensation of the named executive officers of the Company by a majority of the shares of common stock present or represented by proxy and voting

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at the meeting is sought. Abstentions are counted as votes cast and have the same effect as votes against the proposal. Broker non-votes have no effect on the outcome of the voting on this advisory, non-binding approval.

How will my proxy get voted?

If you vote over the phone or Internet, or properly fill in and return a paper proxy card (if requested), the designated Proxies (Wyman T. Roberts and Bryan D. McCrory) will vote your shares as you have directed. If you submit a paper proxy card, but do not make specific choices, the designated Proxies will vote your shares as recommended by the Board of Directors as follows:

- FOR election of all nine nominees for director;
- FOR ratification of KPMG LLP as our independent registered public accounting firm for the 2017 Fiscal Year; and
- FOR approval in an advisory, non-binding vote of the compensation of our named executive officers.

How will voting on any other business be conducted?

Although we do not know of any business to be considered at the annual meeting other than the proposals described in this Proxy Statement, if any additional business is properly brought before the annual meeting, your signed or electronically transmitted proxy card gives authority to the designated Proxies to vote on such matters in their discretion.

Who will count the votes?

We have hired a third party, Broadridge Financial Solutions, to judge voting, be responsible for determining whether or not a quorum is present, and tabulate votes cast by proxy or in person at the Annual Meeting.

Where can I find voting results of the meeting?

We will announce general voting results at the meeting and publish final detailed voting results in a Form 8-K filed with the SEC within four (4) business days following the meeting.

May shareholders ask questions at the annual meeting?

Yes, our representatives will answer your questions after the conclusion of the formal business of the meeting. In order to give a greater number of shareholders an opportunity to ask questions, we may impose certain procedural requirements, such as limiting repetitive or follow-up questions, limiting the amount of time for a question, or requiring questions to be submitted in writing.

How do I submit a proposal for next year s annual meeting?

If you have a proposal, other than a nomination for the Board of Directors, that you would like us to consider at the 2017 annual meeting of shareholders, you must submit your proposal to the Secretary of the Company no later than May 31, 2017 and must comply with the notice, information, and other provisions contained in the Company s bylaws. If you would like your proposal to be included in our Proxy Statement and proxy relating to that meeting, it must also comply with the SEC rules, and you must submit it to us no later than May 31, 2017. Proposals should be sent to our executive offices at 6820 LBJ Freeway, Dallas, Texas 75240 in care of the Corporate Secretary.

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How do I submit a nomination for the Board of Directors?

Any shareholder of the Company may recommend one or more individuals to be considered by the Governance and Nominating Committee of the Company s Board of Directors as a potential nominee or nominees for election as a director of the Company. If you wish to recommend one or more individuals for a position or positions on the Board of Directors, our bylaws require that you submit your recommendation, along with certain information about the candidate(s) to the Secretary of the Company. If you need a copy of the bylaws, you may obtain them free of charge from the Corporate Secretary or you may find them in the Company s public filings with the SEC. If you want to submit a recommendation for the Company s 2017 annual meeting of the shareholders, your submittal must be delivered to our principal executive offices at 6820 LBJ Freeway, Dallas, Texas 75240 to the attention of the Corporate Secretary on or before May 31, 2017.

How can I communicate with the Board of Directors?

If you or any interested party wishes to communicate with the Board of Directors, as a group, or with an individual director, such communication may be directed to the appropriate group or individual in care of the General Counsel, Brinker International, Inc., 6820 LBJ Freeway, Dallas, Texas 75240. Your Board of Directors has instructed the General Counsel to review and forward such communications to the appropriate person or persons for response.

How can I access Brinker s proxy materials and annual report electronically?

You can access the Company s proxy statement, 2016 Annual Report on Form 10-K and FY 2016 Annual Report at www.brinker.com. You may simply click on the Investors tab on the home page, and then the Financial Reports link in the red banner near the top of the page; the SEC filings section of our website will be available for your usage. We will also provide you free copies of these documents by sending a written request to the Company s Corporate Secretary at 6820 LBJ Freeway, Dallas, Texas 75240. If you received a Notice of Internet Availability of Proxy Materials, you may also access this information at the website described in the Notice. We also file and furnish our annual, quarterly and current reports and other information, including proxy statements, with the SEC. Our SEC filings are available to the public in the SEC s website at *www.sec.gov*. The FY 2016 Annual Report and the Form 10-K accompany this proxy statement, but are not considered part of the proxy soliciting materials.

How long may I rely upon the information in this proxy statement? May I rely upon other materials as well regarding the annual meeting?

You should rely upon the information contained in this Proxy Statement to vote on the proposals at the annual meeting. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement. This proxy statement is dated September 28, 2016. You should not assume that the information contained in this proxy statement is accurate as of any date other than such date, unless indicated otherwise in this proxy statement, and the mailing of the proxy statement to you shall not create any implication to the contrary. We would encourage you to check our website or the SEC s website for any required updates that we may make between the date of this proxy statement and date of the annual meeting.

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6820 LBJ Freeway, Dallas, TX 75240 www.brinker.com

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BRINKER INTERNATIONAL, INC.

6820 LBJ FREEWAY

DALLAS, TX 75240

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by Brinker International, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

E13345-P82552-Z68594 KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY

BRINKER INTERNATIONAL, INC.

The Board of Directors recommends you vote FOR each of the following nominees:

1. Election of Directors	For	Against	Abstain
1a. Elaine L. Boltz	¨	¨	¨
1b. Joseph M. DePinto	¨	¨	¨
1c. Harriet Edelman	¨	¨	¨
1d. Michael A. George	¨	¨	¨
1e. William T. Giles	¨	¨	¨
1f. Gerardo I. Lopez	¨	¨	¨
1g. George R. Mrkonic	¨	¨	¨
1h. Jose Luis Prado	¨	¨	¨
1i. Wyman T. Roberts	¨	¨	¨

The Board of Directors recommends you vote FOR proposals 2 and 3.	For	Against	Abstain
2. The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal 2017 year.	¨	¨	¨
3. To approve, by non-binding vote, executive compensation.	¨	¨	¨

NOTE: IN THE DISCRETION OF THE PROXIES, ON ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT THEREOF.

For address changes and/or comments, please check this box and write them on the back where indicated. ¨

Please indicate if you plan to attend this meeting.

	¨	¨
	Yes	**No**

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and 10-K Wrap are available at www.proxyvote.com.

E13346-P82552-Z68594

BRINKER INTERNATIONAL, INC.

PROXY

The undersigned hereby (a) acknowledges receipt of the notice of Annual Meeting of Shareholders of Brinker International, Inc. (the Company) to be held at the Brinker International, Inc. principal executive office campus, in the building located at 6700 LBJ Freeway, Dallas, Texas 75240 on Wednesday, November 16, 2016, at 9:00 a.m., CST, and the Proxy Statement in connection therewith, and (b) appoints Wyman T. Roberts and Bryan D. McCrory, and each of them, as the undersigned s proxies with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to vote upon and act with respect to all of the shares of Common Stock of the Company standing in the name of the undersigned or with respect to which the undersigned is entitled to vote and act at said meeting or at any adjournment thereof, and the undersigned directs that the undersigned s proxy be voted as shown on the reverse side hereof or as directed via Telephone or Internet.

If more than one of the proxies shall be present in person or by substitute at the meeting or any adjournment thereof, all of said proxies so present and voting, either in person or by substitute, shall exercise all of the powers hereby given or given via Telephone or Internet.

The undersigned hereby revokes any proxy or proxies heretofore given to vote upon or act with respect to such stock and hereby ratifies and confirms all that said proxies, their substitutes, or any of them, may lawfully do by virtue hereof.

This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors recommendations.

Address Changes/Comments:

(If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.)

Continued and to be signed on reverse side

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***** Exercise Your *Right* to Vote *****

Important Notice Regarding the Availability of Proxy Materials for the

Shareholder Meeting to Be Held on November 16, 2016.

BRINKER INTERNATIONAL, INC.

Meeting Information

Meeting Type: Annual Meeting
For holders as of: September 19, 2016
Date: November 16, 2016 **Time:** 9:00 a.m., CST
Location: Brinker International, Inc.

Principal Executive Office

6700 LBJ Freeway

Dallas, Texas 75240

BRINKER INTERNATIONAL, INC.

6820 LBJ FREEWAY

DALLAS, TX 75240

You are receiving this communication because you hold shares in the company named above.

This is not a ballot. You cannot use this notice to vote these shares. This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. You may view the proxy materials online at *www.proxyvote.com* or easily request a paper copy (see reverse side).

We encourage you to access and review all of the important information contained in the proxy materials before voting.

See the reverse side of this notice to obtain proxy materials and voting instructions.

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Before You Vote

How to Access the Proxy Materials

Proxy Materials Available to VIEW or RECEIVE:
NOTICE AND PROXY STATEMENT 10-K WRAP

How to View Online:
Have the information that is printed in the box marked by the arrow (located on the following page) and visit: *www.proxyvote.com.*

How to Request and Receive a PAPER or E-MAIL Copy:
If you want to receive a paper or e-mail copy of these documents, you must request one. There is NO charge for requesting a copy. Please choose one of the following methods to make your request:

1) *BY INTERNET*: www.proxyvote.com
2) *BY TELEPHONE*: 1-800-579-1639
3) *BY E-MAIL**: sendmaterial@proxyvote.com

If requesting materials by e-mail, please send a blank e-mail with the information that is printed in the box marked by the arrow (located on the following page) in the subject line.

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Requests, instructions and other inquiries sent to this e-mail address will NOT be forwarded to your investment advisor. Please make the request as instructed above on or before November 2, 2016 to facilitate timely delivery.

How To Vote

Please Choose One of the Following Voting Methods

Vote In Person: Many shareholder meetings have attendance requirements including, but not limited to, the possession of an attendance ticket issued by the entity holding the meeting. Please check the meeting materials for any special requirements for meeting attendance. At the meeting, you will need to request a ballot to vote these shares.

Vote By Internet: To vote now by Internet, go to *www.proxyvote.com.* Have the information that is printed in the box marked by the arrow (located on the following page) available and follow the instructions.

Vote By Mail: You can vote by mail by requesting a paper copy of the materials, which will include a proxy card.

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Voting Items

The Board of Directors recommends you

vote FOR each of the following nominees:

1. Election of Directors

   1a. Elaine L. Boltz

   1b. Joseph M. DePinto

   1c. Harriet Edelman

   1d. Michael A. George

   1e. William T. Giles

   1f. Gerardo I. Lopez

   1g. George R. Mrkonic

   1h. Jose Luis Prado

   1i. Wyman T. Roberts

The Board of Directors recommends you vote FOR proposals 2 and 3.

2. The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal 2017 year.

3. To approve, by non-binding vote, executive compensation.

NOTE: IN THE DISCRETION OF THE PROXIES, ON ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT THEREOF.