

RED ROBIN GOURMET BURGERS INC  
Form 10-Q  
May 21, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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

For the quarterly period ended April 19, 2015

or  
 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: 001-34851

RED ROBIN GOURMET BURGERS, INC.  
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or  
organization)

6312 S. Fiddler's Green Circle, Suite 200 N  
Greenwood Village, CO

(Address of principal executive offices)  
(303) 846-6000

(Registrant's telephone number, including area code)

84-1573084

(I.R.S. Employer Identification No.)

80111

(Zip Code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

No

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

| Class                                     | Outstanding at May 20, 2015 |
|---|-----------------------------|
| Common Stock, \$0.001 par value per share | 14,123,957                  |

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## PART I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements (unaudited)

RED ROBIN GOURMET BURGERS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

|  | (Unaudited)    |                      |
|--|----------------|----------------------|
|  | April 19, 2015 | December 28,<br>2014 |
| Assets:  |                |                      |
| Current assets:  |                |                      |
| Cash and cash equivalents  | \$21,447       | \$22,408             |
| Accounts receivable, net   | 12,612         | 23,740               |
| Inventories  | 25,924         | 25,947               |
| Prepaid expenses and other current assets  | 19,914         | 23,160               |
| Deferred tax asset and other   | 4,478          | 4,677                |
| Total current assets   | 84,375         | 99,932               |
| Property and equipment, net  | 506,619        | 496,262              |
| Goodwill   | 83,194         | 84,115               |
| Intangible assets, net   | 41,748         | 42,479               |
| Other assets, net  | 19,388         | 13,101               |
| Total assets   | \$735,324      | \$735,889            |
| Liabilities and stockholders' equity:  |                |                      |
| Current liabilities:   |                |                      |
| Trade accounts payable   | \$25,180       | \$28,522             |
| Construction related payables  | 16,815         | 15,652               |
| Accrued payroll and payroll-related liabilities  | 42,068         | 47,362               |
| Unearned revenue   | 32,643         | 45,049               |
| Accrued liabilities and other  | 25,903         | 27,084               |
| Total current liabilities  | 142,609        | 163,669              |
| Deferred rent  | 59,254         | 57,341               |
| Long-term debt   | 135,875        | 139,375              |
| Long-term portion of capital lease obligations   | 7,804          | 7,938                |
| Other non-current liabilities  | 9,462          | 7,795                |
| Total liabilities  | 355,004        | 376,118              |
| Stockholders' equity:  |                |                      |
| Common stock; \$0.001 par value: 30,000 shares authorized; 17,851 and 17,851 shares issued; 14,130 and 14,043 shares outstanding | 18             | 18                   |
| Preferred stock, \$0.001 par value: 3,000 shares authorized; no shares issued and outstanding                                    | —              | —                    |
| Treasury stock 3,721 and 3,808 shares, at cost   | (129,222       | ) (132,252           |
| Paid-in capital  | 202,676        | 200,617              |
| Accumulated other comprehensive loss, net of tax   | (3,029         | ) (1,924             |
| Retained earnings  | 309,877        | 293,312              |
| Total stockholders' equity   | 380,320        | 359,771              |
| Total liabilities and stockholders' equity   | \$735,324      | \$735,889            |
| See Notes to Condensed Consolidated Financial Statements.  |                |                      |



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RED ROBIN GOURMET BURGERS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (In thousands, except per share amounts)  
 (Unaudited)

|  | Sixteen Weeks Ended |                |
|--|---------------------|----------------|
|  | April 19, 2015      | April 20, 2014 |
| Revenues:  |                     |                |
| Restaurant revenue   | \$388,509           | \$334,995      |
| Franchise royalties, fees, and other revenues  | 6,392               | 5,489          |
| Total revenues   | 394,901             | 340,484        |
| Costs and expenses:  |                     |                |
| Restaurant operating costs (excluding depreciation and amortization shown separately below): |                     |                |
| Cost of sales  | 97,950              | 84,220         |
| Labor  | 124,356             | 110,921        |
| Other operating  | 46,584              | 40,597         |
| Occupancy  | 30,147              | 24,282         |
| Depreciation and amortization  | 23,003              | 18,886         |
| Selling, general, and administrative expenses  | 48,061              | 42,423         |
| Pre-opening and acquisition costs  | 955                 | 2,113          |
| Total costs and expenses   | 371,056             | 323,442        |
| Income from operations   | 23,845              | 17,042         |
| Other expense:   |                     |                |
| Interest expense, net and other  | 1,060               | 674            |
| Income before income taxes   | 22,785              | 16,368         |
| Provision for income taxes   | 6,220               | 4,424          |
| Net income   | \$16,565            | \$11,944       |
| Earnings per share:  |                     |                |
| Basic  | \$1.18              | \$0.83         |
| Diluted  | \$1.16              | \$0.82         |
| Weighted average shares outstanding:   |                     |                |
| Basic  | 14,077              | 14,352         |
| Diluted  | 14,275              | 14,592         |
| See Notes to Condensed Consolidated Financial Statements.                                    |                     |                |

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

|  | Sixteen Weeks Ended |                |
|--|---------------------|----------------|
|  | April 19, 2015      | April 20, 2014 |
| Net income                                     | \$16,565            | \$11,944       |
| Other comprehensive loss, net of tax:          |                     |                |
| Changes in derivative instrument:              |                     |                |
| Net change in fair value of interest rate swap | (3                  | ) (70          |
| Net loss reclassified into interest expense    | 23                  | 29             |
| Tax (expense) benefit                          | (8                  | ) 16           |
| Net change in derivative instrument            | \$12                | \$(25          |
| Foreign currency translation adjustment        | \$(1,117            | ) —            |
| Other comprehensive loss, net of tax           | \$(1,105            | ) \$(25        |
| Total comprehensive income                     | \$15,460            | \$11,919       |

See Notes to Condensed Consolidated Financial Statements.

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RED ROBIN GOURMET BURGERS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)  
 (Unaudited)

|   | Sixteen Weeks Ended |                   |
|---|---------------------|-------------------|
|   | April 19,<br>2015   | April 20,<br>2014 |
| Cash flows from operating activities:   |                     |                   |
| Net income  | \$ 16,565           | \$ 11,944         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                   |
| Depreciation and amortization   | 23,003              | 18,886            |
| Stock-based compensation expense  | 1,446               | 1,009             |
| Other, net  | (2,238              | ) (659            |
| Changes in operating assets and liabilities, net of business acquisitions:        |                     |                   |
| Accounts receivable   | 11,522              | 8,167             |
| Trade accounts payable and accrued liabilities                                    | (9,045              | ) (3,246          |
| Unearned revenue  | (10,211             | ) (8,305          |
| Other operating assets and liabilities, net                                       | 4,949               | 8,239             |
| Net cash provided by operating activities   | 35,991              | 36,035            |
| Cash flows from investing activities:   |                     |                   |
| Purchases of property, equipment, and intangible assets                           | (31,580             | ) (24,314         |
| Deposit on equipment purchase   | (5,479              | ) —               |
| Acquisition of franchise restaurants, net of cash acquired                        | —                   | (7,958            |
| Other investing activities  | (207                | ) (71             |
| Net cash used in investing activities   | (37,266             | ) (32,343         |
| Cash flows from financing activities:   |                     |                   |
| Borrowings of long-term debt  | 95,500              | 39,000            |
| Payments of long-term debt and capital leases                                     | (99,199             | ) (40,206         |
| Purchase of treasury stock  | —                   | (7,500            |
| Tax benefit from exercise of stock options  | 1,193               | 927               |
| Proceeds from exercise of stock options and employee stock purchase plan          | 2,947               | 1,614             |
| Net cash provided by (used in) financing activities                               | 441                 | (6,165            |
| Effect of exchange rate changes on cash   | (127                | ) —               |
| Net decrease in cash and cash equivalents   | (961                | ) (2,473          |
| Cash and cash equivalents, beginning of period                                    | 22,408              | 17,108            |
| Cash and cash equivalents, end of period  | \$ 21,447           | \$ 14,635         |
| Supplemental of cash flow information   |                     |                   |
| Income taxes paid   | \$ 1,076            | \$ 2,026          |
| Interest paid, net of amounts capitalized   | \$ 1,486            | \$ 797            |
| See Notes to Condensed Consolidated Financial Statements.                         |                     |                   |



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RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Recent Accounting Pronouncements

Red Robin Gourmet Burgers, Inc., a Delaware corporation, together with its subsidiaries (“Red Robin” or the “Company”), develops and operates casual-dining and fast-casual restaurants. As of April 19, 2015, the Company owned and operated 418 restaurants located in 38 states, the District of Columbia, and two Canadian provinces. The Company also had 99 franchised casual-dining restaurants in 15 states as of April 19, 2015. The Company operates its business as one operating and one reportable segment.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Red Robin and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for any interim period are not necessarily indicative of results for the full year.

The accompanying condensed consolidated financial statements of Red Robin have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in the Company’s annual consolidated financial statements on Form 10-K have been condensed or omitted. The condensed consolidated balance sheet as of December 28, 2014 has been derived from the audited consolidated financial statements as of that date, but does not include all disclosures required by GAAP. For further information, please refer to and read these interim condensed consolidated financial statements in conjunction with the Company’s audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 28, 2014, filed with the SEC on February 20, 2015.

The Company’s quarter that ended April 19, 2015 is referred to as first quarter 2015, or the sixteen weeks ended April 19, 2015; the quarter ended April 20, 2014 is referred to as first quarter 2014, or the sixteen weeks ended April 20, 2014.

Change in Accounting Estimate - Gift Card Breakage

During the sixteen weeks ended April 19, 2015, the Company re-evaluated the estimated redemption pattern related to gift cards and aligned the recognition of gift card breakage revenue to the updated estimated redemption pattern. As a result, the Company recognized \$1.4 million of additional gift card breakage revenue in the first quarter of 2015. Gift card breakage revenue is included in other revenue in the condensed consolidated statement of incomes. This change in accounting estimate increased net income by \$0.9 million or \$0.06 per diluted share.

Recently Issued Accounting Standards

In April 2015, the Financial Accounting Standards Board (“FASB”) issued guidance on the financial statement presentation of debt issuance costs. This guidance requires debt issuance costs to be presented in the balance sheet as a reduction of the related debt liability rather than an asset. The guidance is effective for reporting periods beginning after December 15, 2015 and will result in a change in presentation of these costs on our consolidated balance sheets. In April 2015, the FASB issued guidance clarifying that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance is effective for reporting periods beginning after December 15, 2015. We are currently evaluating the impact this guidance may have on our consolidated financial position and results of operations.



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In May 2014, the FASB issued guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. The guidance is effective for reporting periods beginning after December 15, 2016. We are currently evaluating the impact this guidance will have on our consolidated financial position and results of operations.

In April 2014, the FASB issued guidance that changes the criteria for reporting discontinued operations. To qualify as a discontinued operation under the amended guidance, a component or group of components of an entity that has been disposed of or is classified as held for sale must represent a strategic shift that has or will have a major effect on the entity's operations and financial results. This guidance also expands related disclosure requirements. The guidance is effective for the reporting periods beginning after December 15, 2014. The adoption of this guidance did not have a significant impact on the Company's consolidated financial position or results of operations.

## 2. Goodwill and Intangible Assets

The following table presents goodwill as of April 19, 2015 and December 28, 2014 (in thousands):

|                            |          |
|----------------------------|----------|
| Balance, December 28, 2014 | \$84,115 |
| Translation adjustment     | \$(921)  |
| Balance, April 19, 2015    | \$83,194 |

The Company had no goodwill impairment losses in the period presented in the above table or any prior periods.

The following table presents intangible assets as of April 19, 2015 and December 28, 2014 (in thousands):

|  | April 19, 2015        |                          |                     | December 28, 2014     |                          |                     |
|--|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|  | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Intangible assets subject to amortization: |                       |                          |                     |                       |                          |                     |
| Franchise rights                           | \$50,648              | \$(21,653)               | \$28,995            | \$50,826              | \$(20,583)               | \$30,243            |
| Favorable leases                           | 12,991                | (5,755)                  | 7,236               | 12,991                | (5,553)                  | 7,438               |
| Liquor licenses                            | 10,066                | (9,619)                  | 447                 | 10,058                | (9,548)                  | 510                 |
|  | \$73,705              | \$(37,027)               | \$36,678            | \$73,875              | \$(35,684)               | \$38,191            |
| Indefinite-lived intangible assets:        |                       |                          |                     |                       |                          |                     |
| Liquor licenses and other                  | \$5,070               | \$—                      | \$5,070             | \$4,288               | \$—                      | \$4,288             |
| Intangible assets, net                     | \$78,775              | \$(37,027)               | \$41,748            | \$78,163              | \$(35,684)               | \$42,479            |

There were no impairments to intangible assets during the sixteen weeks ended April 19, 2015 and April 20, 2014.

The aggregate amortization expense related to intangible assets subject to amortization was \$1.3 million and \$1.1 million for the sixteen weeks ended April 19, 2015 and April 20, 2014.

The estimated aggregate future amortization expense as of April 19, 2015 is as follows, (in thousands):

|                   |          |
|-------------------|----------|
| Remainder of 2015 | \$2,837  |
| 2016              | 3,875    |
| 2017              | 3,770    |
| 2018              | 3,537    |
| 2019              | 3,594    |
| Thereafter        | 19,065   |
|                   | \$36,678 |

## 3. Stock Incentive Plans

Under the Company's Second Amended and Restated 2007 Performance Incentive Plan (the "2007 Stock Plan"), various stock options and stock awards may be granted to employees of the Company and any of the Company's subsidiaries, directors of the Company, and certain consultants and advisors to the Company or any of its subsidiaries.



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Stock options are granted with an exercise price equal to the fair market value of shares of the Company's common stock at the grant date. We account for stock-based compensation in accordance with fair value recognition provisions, calculated using the Black-Scholes option pricing model ("the pricing model"). The weighted-average fair value of non-qualified stock options and the related assumptions used in the pricing model were as follows:

|  | Sixteen Weeks Ended |                |   |
|--|---------------------|----------------|---|
|  | April 19, 2015      | April 20, 2014 |   |
| Risk-free interest rate  | 1.4                 | % 1.7          | % |
| Expected years until exercise  | 4.8                 | 5.8            |   |
| Expected stock volatility  | 40.6                | % 44.7         | % |
| Dividend yield   | —                   | % —            | % |
| Weighted average Black-Scholes fair value per share at date of grant | \$29.69             | \$31.53        |   |

The following table presents a summary of the Company's stock-based compensation activity for the sixteen weeks ended April 19, 2015 (in thousands):

|                                | Stock Options | Restricted Stock Units |
|--------------------------------|---------------|------------------------|
| Outstanding, December 28, 2014 | 462           | 101                    |
| Granted                        | 70            | 20                     |
| Forfeited/expired              | (26           | ) (6                   |
| Exercised/vested               | (71           | ) (17                  |
| Outstanding, April 19, 2015    | 435           | 98                     |

We recognized expense from stock-based compensation for the sixteen weeks ended April 19, 2015 and April 20, 2014 as follows (in thousands):

|  | Sixteen Weeks Ended |                |
|--|---------------------|----------------|
|  | April 19, 2015      | April 20, 2014 |
| Restaurant related                           | \$35                | \$31           |
| Selling, general, and administrative related | 1,411               | 978            |
| Total stock-based compensation               | \$1,446             | \$1,009        |

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## 4. Earnings Per Share

Basic earnings per share amounts are calculated by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share amounts are calculated based upon the weighted-average number of shares of common stock and potentially dilutive shares of common stock outstanding during the period. Potentially dilutive shares are excluded from the computation in periods in which they have an anti-dilutive effect. Diluted earnings per share reflect the potential dilution that could occur if holders of options exercised their options into common stock. During the sixteen weeks ended April 19, 2015 and April 20, 2014, weighted average stock options outstanding of 38 thousand shares and 36 thousand shares were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented. The Company uses the treasury stock method to calculate the effect of outstanding stock options. The computations for basic and diluted earnings per share are as follows (in thousands, except per share data):

|   | Sixteen Weeks Ended |                |
|---|---------------------|----------------|
|   | April 19, 2015      | April 20, 2014 |
| Net income                                  | \$ 16,565           | \$ 11,944      |
| Basic weighted average shares outstanding   | 14,077              | 14,352         |
| Dilutive effect of stock options and awards | 198                 | 240            |
| Diluted weighted average shares outstanding | 14,275              | 14,592         |
| Earnings per share:                         |                     |                |
| Basic                                       | \$ 1.18             | \$ 0.83        |
| Diluted                                     | \$ 1.16             | \$ 0.82        |

## 5. Acquisitions of Red Robin Franchised Restaurants

On March 24, 2014, the Company acquired four restaurants in the United States from one of its franchisees with a purchase price of \$8.0 million in cash. On July 14, 2014, the Company acquired 32 Red Robin franchised restaurants, 14 in the United States and 18 in Canada, from Mach Robin, LLC and its Canadian affiliate, with a purchase price of \$39.5 million in cash. The condensed consolidated statements of income include the results of operations for these restaurants from the dates of acquisition. The pro forma impact of the acquisitions on prior periods is not presented as the impact was not material to reported results.

The Company preliminarily allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed at the acquisition date at their estimated fair values with the remaining \$23.0 million allocated to goodwill. The fair value measurement of tangible and intangible assets and liabilities as of the acquisition date is based on significant inputs not observed in the market and thus represents a level 3 fair value measurement.

## 6. Impairment and Restaurant Closures

The Company closed one restaurant at the end of its lease term during the first quarter 2015. The Company closed two restaurants that operated below acceptable profitability levels during the first quarter 2014. Both restaurants closed in first quarter 2014 had been impaired in fiscal year 2013. No impairments were recorded during the first quarter 2015 and the first quarter 2014.

The Company evaluates restaurants that are closed and allocates goodwill based on the relative fair value of the disposed restaurants to the Company's reporting unit. Since restaurant operations are typically valued based on cash flow from operations, the Company compares the historical cash flow from the closed restaurants to the cash flow from the reporting unit to determine the relative value. No goodwill was allocated to the restaurants closed during the first quarter 2015 and the first quarter 2014, because those restaurants had projected zero or negative cash flow and consequently did not have positive fair value.

## 7. Advertising Costs

Costs incurred in connection with the advertising and marketing of the Company are included in selling, general, and administrative expenses. Advertising and marketing includes salaries and benefits of marketing personnel, advertising, media, and marketing materials. Advertising production costs are expensed in the period when the advertising first takes place. Other advertising and marketing costs are expensed as incurred. Advertising and marketing costs were

\$15.2 million and \$12.3

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million for the sixteen weeks ended April 19, 2015 and April 20, 2014, which included \$13.1 million and \$10.3 million related to selling expense.

#### 8. Derivative and Other Comprehensive Income

The Company enters into derivative instruments for risk management purposes only, including a derivative designated as a cash flow hedge under guidance for derivative instruments and hedging activities. The Company uses interest rate-related derivative instruments to manage the exposure to fluctuations in interest rates. By using these instruments, the Company exposes itself, from time to time, to both credit and market risk. Credit risk is the failure of either party to the contract to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, creating credit risk for the Company. The Company minimizes credit risk by entering into transactions with high-quality counterparties whose credit ratings are evaluated on a quarterly basis. Market risk, as it relates to the Company's interest-rate derivative, is the adverse effect on the value of a financial instrument resulting from changes in interest rates. The Company minimizes market risk by establishing and monitoring parameters that limit the types and degree of market risk that the Company accepts.

The Company had one interest rate swap at April 19, 2015 and December 28, 2014 with Rabobank to hedge its floating interest rate borrowings. The Company entered into this variable-to-fixed interest rate swap agreement with Rabobank in August 2011 with an initial notional amount of \$74.1 million. The notional amount amortizes over time from \$74.1 million at inception to \$50.6 million at its maturity on June 30, 2015. The remaining notional amount as of April 19, 2015 and December 28, 2014 was \$52.5 million and \$54.4 million. Under the terms of the interest rate swap, the quarterly cash payment or receipt is equal to the net of (1) the fixed interest rate of 1.135% paid by the Company and (2) the 3 month LIBOR rate for the applicable interest period received by the Company multiplied by the remaining notional amount as of the payment date.

Changes in fair value of the interest rate swap are recorded, net of tax, as a component of Accumulated other comprehensive income ("AOCI"), in the accompanying condensed consolidated balance sheets. The Company reclassifies the effective gain or loss from accumulated other comprehensive income, net of tax, to Interest expense on the Company's condensed consolidated statements of income as the interest expense is recognized on the related debt. The ineffective portion of the change in fair value of the interest rate swap, if any, is recognized directly in earnings in Interest expense. The following table presents losses on the interest rate swap designated as a cash flow hedge recognized in the Other comprehensive income ("OCI") and reclassifications from AOCI to earnings for the sixteen weeks ended April 19, 2015 and April 20, 2014 (in thousands):

|                     | Losses recognized in OCI on derivative (effective portion) |                | Losses reclassified from AOCI into income (effective portion) |                |
|---------------------|--|----------------|---|----------------|
|                     | April 19, 2015   | April 20, 2014 | April 19, 2015  | April 20, 2014 |
| Sixteen Weeks Ended | \$ (3 )  | \$ (70 )       | \$ (23 )  | \$ (29 )       |

The following table summarizes the fair value and presentation of the interest rate swap in the accompanying condensed consolidated balance sheets as hedging instruments as of April 19, 2015 and December 28, 2014 (in thousands):

| Balance Sheet Location | Derivative Liability         |                                 |
|------------------------|------------------------------|---------------------------------|
|                        | Fair Value at April 19, 2015 | Fair Value at December 28, 2014 |
| Accrued liabilities    | \$ 110                       | \$ 347                          |
| Total derivatives      | \$ 110                       | \$ 347                          |

The components of accumulated other comprehensive income related to the interest rate swap being used to hedge cash flows were immaterial as of April 19, 2015 and December 28, 2014.

The interest rate swap was highly effective during the sixteen weeks ended April 19, 2015. Amounts reclassified from accumulated other comprehensive loss into interest expense represent payments made to the counterparty for the effective portion of the interest rate swap. The Company expects the swap to continue to be highly effective until it



matures on June 30, 2015. Approximately \$13 thousand of the deferred losses included in accumulated other comprehensive loss on the accompanying condensed consolidated balance sheets at April 19, 2015 is expected to be reclassified into earnings before the swap matures on June 30, 2015. Additionally, the Company had no obligations as of April 19, 2015 to post collateral under the terms of the interest rate swap agreements. If the Company had breached any of its provisions at April 19, 2015, it could have been required to settle its obligations on the interest rate swap at a termination value of \$0.1 million.

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## 9. Fair Value Measurements

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the short term nature or maturity of the instruments.

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis as of April 19, 2015 and December 28, 2014 (in thousands):

|  | 4/19/2015  | Level 1 | Level 2 | Level 3 |
|--|------------|---------|---------|---------|
| Assets:                                  |            |         |         |         |
| Investments in rabbi trust               | \$6,679    | \$6,679 | \$—     | \$—     |
| Total assets measured at fair value      | \$6,679    | \$6,679 | \$—     | \$—     |
| Liabilities:                             |            |         |         |         |
| Derivative—interest rate swap            | \$110      | \$—     | \$110   | \$—     |
| Total liabilities measured at fair value | \$110      | \$—     | \$110   | \$—     |
|  | 12/28/2014 | Level 1 | Level 2 | Level 3 |
| Assets:                                  |            |         |         |         |
| Investments in rabbi trust               | \$5,723    | \$5,723 | \$—     | \$—     |
| Total assets measured at fair value      | \$5,723    | \$5,723 | \$—     | \$—     |
| Liabilities:                             |            |         |         |         |
| Derivative—interest rate swap            | \$347      | \$—     | 347     | \$—     |
| Total liabilities measured at fair value | \$347      | \$—     | \$347   | \$—     |

Other than disclosed in Note 5, Acquisitions of Red Robin Franchised Restaurants, as of April 19, 2015 and December 28, 2014, the Company had no financial assets or liabilities that were measured using level 3 inputs. The Company also had no non-financial assets or liabilities that were required to be measured on a recurring basis.

## Disclosures of Fair Value of Other Assets and Liabilities

The Company's liabilities under its credit facility and capital leases are carried at historical cost in the accompanying condensed consolidated balance sheets. For disclosure purposes, the Company estimated the fair value of the credit facility and capital lease obligations using discounted cash flow analysis based on market rates obtained from independent third parties for similar types of debt. Both the credit facility and the Company's capital lease obligations are considered to be level 2 instruments. The carrying value of the Company's credit facility as of April 19, 2015 and December 28, 2014 was \$135.0 million and \$138.5 million. The fair value of the Company's credit facility as of April 19, 2015 and December 28, 2014 was approximately \$134.9 million and \$138.4 million. There were \$8.3 million of outstanding borrowings recorded for the Company's capital leases as of April 19, 2015, which have an estimated fair value of \$9.7 million. At December 28, 2014, the carrying amount of the Company's capital lease obligations was \$8.5 million and the fair value was \$10.0 million.

## 10. Commitments and Contingencies

In the normal course of business, there are various claims in process, matters in litigation, and other contingencies. These include employment-related claims and claims alleging illness, injury, or other food quality, health, or operational issues. To date, no claims of these types of litigation, certain of which are covered by insurance policies, have had a material effect on the Company. While it is not possible to predict the outcome of these suits, legal proceedings and claims with certainty, management is of the opinion that adequate provision for potential losses associated with these matters has been made in the financial statements and that the ultimate resolution of these matters will not have a material effect on the Company's financial position and results of operations.

## 11. Subsequent Events

The Company has evaluated subsequent events and found there to be no events requiring recognition or disclosure through the date of issuance of this report.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations provides a narrative of our financial performance and condition that should be read in conjunction with the accompanying condensed consolidated financial statements. All comparisons under this heading between 2015 and 2014 refer to the sixteen week periods ending April 19, 2015 and April 20, 2014, unless otherwise indicated.

Overview

Red Robin Gourmet Burgers, Inc., a Delaware corporation, together with its subsidiaries ("Red Robin," "we," "us," "our" or the "Company"), primarily develops, operates, and franchises casual-dining restaurants and fast-casual restaurants with 517 locations in North America. As of April 19, 2015, the Company operated 418 Company-owned restaurants located in 38 states, the District of Columbia, and two Canadian provinces, comprised of 408 Red Robin® restaurants and 10 Red Robin Burger Works®, a smaller non-traditional prototype with a limited menu and service. The Company also had 99 franchised casual-dining restaurants in 15 states as of April 19, 2015. The Company operates its business as one operating and one reportable segment.

The following summarizes the operational and financial highlights during the sixteen weeks ended April 19, 2015, and our outlook for the remainder of fiscal year 2015:

**Financial performance.**

Restaurant revenues increased \$53.5 million or 16.0% to \$388.5 million for the sixteen weeks ended April 19, 2015 as compared to the sixteen weeks ended April 20, 2014, primarily due to \$43.5 million in revenue from acquired and new restaurants, net of closures, and a \$10.0 million or 3.1% increase in comparable restaurant revenue.

Restaurant operating costs, as a percentage of restaurant revenue, decreased 60 basis points to 77.0% for the sixteen weeks ended April 19, 2015 compared to 77.6% for the sixteen weeks ended April 20, 2014. The decrease was primarily due to a 110 basis point decrease in labor costs, driven by lower health insurance and workers' compensation claims, partially offset by higher rent associated with newly opened and acquired restaurants.

Net income increased 38.7% to \$16.6 million for the sixteen weeks ended April 19, 2015 from \$11.9 million for the sixteen weeks ended April 20, 2014. Diluted earnings per share increased 41.5% to \$1.16 for the sixteen weeks ended April 19, 2015 as compared to \$0.82 for the sixteen weeks ended April 20, 2014. Excluding the impact of \$0.06 per diluted share related to the change in accounting estimate for gift card breakage, net income per diluted share for the sixteen weeks ended April 19, 2015 was \$1.10.

**Marketing.** Our Red Robin Royalty™ loyalty program operates in all of our U.S. Company-owned Red Robin restaurants and has been rolled out to most of our franchised restaurants. We engage our guests through Red Robin Royalty with offers designed to increase frequency of visits as a key part of our overall marketing strategy. We also inform enrolled guests early about new menu items to generate awareness and trial. Our media buying approach is designed to achieve greater continuity with less time off air between televised advertising windows. In addition, we use digital, social, and earned media to target and more effectively reach specific segments of our guest base. Our "Million Reasons" advertising campaign features a female spokeswoman to appeal to our core target of female decision-makers and create continuity of branding across individual advertisements and media.

**Brand Transformation Initiative.** In 2012, we began investing in our brand transformation program to enhance our service, menu, food presentation, and other guest experiences. Key elements of the restaurant remodel associated with our brand transformation include greater separation of the bar and family dining area, and new exteriors including signage. As of April 19, 2015, we have remodeled 122 of our Company-owned Red Robin restaurants to our new brand standards. We plan to remodel approximately 150 Company-owned Red Robin restaurants during the fiscal year 2015.

**Restaurant Development.** We opened one new Red Robin restaurant during the sixteen weeks ended April 19, 2015. We plan to open 19 Red Robin restaurants during the remainder of 2015 and relocate three restaurants. We expect that our franchisees will open two new Red Robin restaurants during 2015.

**Red Robin Burger Works.** During the sixteen weeks ended April 19, 2015, we opened three new Red Robin Burger Works restaurants, all located in central business district areas, bringing our total units to ten. We continue to evaluate the results of different types of trade areas as well as optimize operating performance. The underlying restaurant performance has been mixed with sales at our central business district and lifestyle trade areas



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performing as expected and our college campus locations performing below our expectations. For the remainder of 2015, we plan to open two additional Red Robin Burger Works restaurants in central business district locations.

## Restaurant Data

The following table details restaurant unit data for our Company-owned and franchise locations for the periods indicated:

|                                  | Sixteen Weeks Ended |                |
|----------------------------------|---------------------|----------------|
|                                  | April 19, 2015      | April 20, 2014 |
| Company-owned:                   |                     |                |
| Beginning of period              | 415                 | 361            |
| Opened during the period         | 4                   | 4              |
| Acquired from franchisee         | —                   | 4              |
| Closed during the period         | (1                  | ) (2           |
| End of period                    | 418                 | 367            |
| Franchised:                      |                     |                |
| Beginning of period              | 99                  | 134            |
| Opened during the period         | —                   | —              |
| Sold or closed during the period | —                   | (5             |
| End of period                    | 99                  | 129            |
| Total number of restaurants      | 517                 | 496            |

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## Results of Operations

Operating results for each fiscal year presented below are expressed as a percentage of total revenues, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant revenues.

This information has been prepared on a basis consistent with our audited 2014 annual financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. Our operating results may fluctuate significantly as a result of a variety of factors, and operating results for any period presented are not necessarily indicative of results for a full fiscal year.

|   | Sixteen Weeks Ended |   |                |   |
|---|---------------------|---|----------------|---|
|   | April 19, 2015      |   | April 20, 2014 |   |
| Revenues:   |                     |   |                |   |
| Restaurant revenue  | 98.4                | % | 98.4           | % |
| Franchise royalties, fees, and other revenues   | 1.6                 |   | 1.6            |   |
| Total revenues  | 100.0               |   | 100.0          |   |
| Costs and expenses:   |                     |   |                |   |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): |                     |   |                |   |
| Cost of sales   | 25.2                |   | 25.1           |   |
| Labor   | 32.0                |   | 33.1           |   |
| Other operating   | 12.0                |   | 12.1           |   |
| Occupancy   | 7.8                 |   | 7.3            |   |
| Total restaurant operating costs  | 77.0                |   | 77.6           |   |
| Depreciation and amortization   | 5.8                 |   | 5.6            |   |
| Selling, general, and administrative  | 12.2                |   | 12.4           |   |
| Pre-opening and acquisition costs   | 0.2                 |   | 0.6            |   |
| Income from operations  | 6.0                 |   | 5.0            |   |
| Interest expense, net and other   | 0.3                 |   | 0.2            |   |
| Income before income taxes  | 5.7                 |   | 4.8            |   |
| Provision for income taxes  | 1.5                 |   | 1.3            |   |
| Net income  | 4.2                 | % | 3.5            | % |

Certain percentage amounts in the table above do not total due to rounding as well as the fact that restaurant operating costs are expressed as a percentage of restaurant revenues and not total revenues.

## Revenues

| (Revenues in thousands)  | Sixteen Weeks Ended |                |      | Percent Change |  |
|--|---------------------|----------------|------|----------------|--|
|  | April 19, 2015      | April 20, 2014 |      |                |  |
| Restaurant revenue   | \$388,509           | \$334,995      | 16.0 | %              |  |
| Franchise royalties, fees, and other revenue                     | 6,392               | 5,489          | 16.5 | %              |  |
| Total revenues   | \$394,901           | \$340,484      | 16.0 | %              |  |
| Average weekly net sales volumes in Company-owned restaurants(1) | \$59,207            | \$58,382       | 1.4  | %              |  |
| Total operating weeks  | 6,660               | 5,810          | 14.6 | %              |  |
| Net sales per square foot  | \$148               | \$143          | 3.5  | %              |  |

(1)Excludes Red Robin Burger Works.

Restaurant revenue for the sixteen weeks ended April 19, 2015, which is comprised almost entirely of food and beverage



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sales, increased by \$53.5 million or 16.0% as compared to the first quarter of fiscal 2014. Our 36 newly acquired restaurants (Refer to Note 5, Acquisitions of Red Robin Franchised Restaurants) contributed \$29.5 million or 8.8% of the increase. New restaurant openings, net of closures, provided an additional \$14.0 million or 4.2% of the increase. Comparable restaurant revenue grew \$10.0 million or 3.1%, driven by a 2.0% increase in average guest check and a 1.1% increase in guest counts.

Average weekly net sales volumes represent the total restaurant revenue for all Company-owned Red Robin casual dining restaurants for each time period presented, divided by the number of operating weeks in the period.

Comparable restaurant revenues include those restaurants that are in the comparable base at the end of each period presented. New restaurants are restaurants that are open but by definition not included in the comparable category because they have not yet operated for five full quarters. Fluctuations in average weekly net sales volumes for Company-owned restaurants reflect the effect of comparable restaurant revenue changes as well as the performance of new and acquired restaurants during the period and the average square feet of our restaurants.

Franchise royalties, fees, and other revenue increased \$0.9 million or 16.5% for the sixteen weeks ended April 19, 2015, as the result of a \$1.8 million increase in other revenue, offset by a \$0.9 million decrease in franchise revenue. Other revenue increased primarily due to a \$1.4 million increase in gift card breakage revenue as the result of changing the accounting estimate for gift card breakage. Franchise revenue decreased primarily related to the loss of royalties from 36 franchised restaurants that we acquired in 2014. The decrease was partially offset by an increase in franchise royalties from our current franchisees. Our franchisees reported that comparable restaurant revenue increased 7.2% for the sixteen weeks ended April 19, 2015 compared to the sixteen weeks ended April 20, 2014.

## Cost of Sales

| (In thousands, except percentages) | Sixteen Weeks Ended |                | Percent Change |   |
|------------------------------------|---------------------|----------------|----------------|---|
|                                    | April 19, 2015      | April 20, 2014 |                |   |
| Cost of sales                      | \$97,950            | \$84,220       | 16.3           | % |
| As a percent of restaurant revenue | 25.2                | % 25.1         | % 0.1          | % |

Cost of sales, which is comprised of food and beverage costs, is variable and generally fluctuates with sales volume.

Cost of sales as a percentage of restaurant revenue increased 10 basis points for the sixteen weeks ended April 19, 2015 compared to the same period in 2014. The increase was due to an increase in the cost of ground beef and poultry, partially offset by a decrease in beverage costs and the cost of steak fries, cheese, and fry oil.

## Labor

| (In thousands, except percentages) | Sixteen Weeks Ended |                | Percent Change |    |
|------------------------------------|---------------------|----------------|----------------|----|
|                                    | April 19, 2015      | April 20, 2014 |                |    |
| Labor                              | \$124,356           | \$110,921      | 12.1           | %  |
| As a percent of restaurant revenue | 32.0                | % 33.1         | % (1.1)        | )% |

Labor costs include restaurant-level hourly wages and management salaries as well as related taxes and benefits. For the sixteen weeks ended April 19, 2015, labor as a percentage of restaurant revenue decreased 110 basis points compared to the same period in 2014. This decrease was primarily driven by an 80 basis point decrease in health insurance and workers' compensation claims in addition to the leverage of operating at higher volumes. We expect health insurance and workers' compensation costs to revert back to normal levels.

## Other Operating

| (In thousands, except percentages) | Sixteen Weeks Ended |                | Percent Change |    |
|------------------------------------|---------------------|----------------|----------------|----|
|                                    | April 19, 2015      | April 20, 2014 |                |    |
| Other operating                    | \$46,584            | \$40,597       | 14.7           | %  |
| As a percent of restaurant revenue | 12.0                | % 12.1         | % (0.1)        | )% |

Other operating costs include costs such as restaurant supplies, utilities, and other costs such as service repairs and maintenance costs. For the sixteen weeks ended April 19, 2015, other operating costs as a percentage of restaurant revenue decreased 10 basis points over the prior year due primarily to decreased utility, maintenance, and supply



costs, partially offset by higher credit card fees, local media, and travel costs.

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## Occupancy

| (In thousands, except percentages) | Sixteen Weeks Ended |                | Percent Change |   |
|------------------------------------|---------------------|----------------|----------------|---|
|                                    | April 19, 2015      | April 20, 2014 |                |   |
| Occupancy                          | \$30,147            | \$24,282       | 24.2           | % |
| As a percent of restaurant revenue | 7.8                 | % 7.3          | % 0.5          | % |

Occupancy costs include fixed rents, property taxes, common area maintenance charges, general liability insurance, contingent rents, and other property costs. Occupancy costs incurred prior to opening our new restaurants are included in Pre-opening costs. For the sixteen weeks ended April 19, 2015, occupancy costs as a percentage of restaurant revenue increased 50 basis points over the prior year, primarily due to higher fixed rents for newly opened and acquired restaurants. Our fixed rents for the sixteen weeks ended April 19, 2015 and April 20, 2014 were \$19.7 million and \$15.6 million.

## Depreciation and Amortization

| (In thousands, except percentages) | Sixteen Weeks Ended |                | Percent Change |   |
|------------------------------------|---------------------|----------------|----------------|---|
|                                    | April 19, 2015      | April 20, 2014 |                |   |
| Depreciation and amortization      | \$23,003            | \$18,886       | 21.8           | % |
| As a percent of total revenues     | 5.8                 | % 5.6          | % 0.2          | % |

Depreciation and amortization includes depreciation on capital expenditures for restaurants and corporate assets as well as amortization of acquired franchise rights, leasehold interests, and certain liquor licenses. For the sixteen weeks ended April 19, 2015, depreciation and amortization expense increased \$4.1 million or 21.8% over the prior year, primarily related to the new restaurants opened and acquired since the first quarter 2014 and the restaurants remodeled under our brand transformation initiative.

## Selling, General, and Administrative

| (In thousands, except percentages)   | Sixteen Weeks Ended |                | Percent Change |    |
|--------------------------------------|---------------------|----------------|----------------|----|
|                                      | April 19, 2015      | April 20, 2014 |                |    |
| Selling, general, and administrative | \$48,061            | \$42,423       | 13.3           | %  |
| As a percent of total revenues       | 12.2                | % 12.4         | % (0.2)        | )% |

Selling, general, and administrative costs include all corporate and administrative functions. Components of this category include corporate, regional, and franchise support salaries and benefits, travel, information systems, training, office rent, professional and consulting fees, board of directors' expenses, legal expenses, and marketing costs.

Selling, general, and administrative costs in the sixteen weeks ended April 19, 2015 increased \$5.6 million or 13.3% as compared to the same period in 2014. The increase was primarily due to an increase in advertising and gift card costs, salaries and incentive compensation, travel expenses, and recruiting and hiring costs.

## Pre-opening and Acquisition Costs

| (In thousands, except percentages) | Sixteen Weeks Ended |                | Percent Change |    |
|------------------------------------|---------------------|----------------|----------------|----|
|                                    | April 19, 2015      | April 20, 2014 |                |    |
| Pre-opening and acquisition costs  | \$955               | \$2,113        | (54.8)         | )% |
| As a percent of total revenues     | 0.2                 | % 0.6          | % (0.4)        | )% |

Pre-opening costs, which are expensed as incurred, consist of the costs of labor, hiring and training the initial work force for our new restaurants, occupancy costs incurred prior to opening, travel expenses for our training teams, the cost of food and beverages used in training, marketing, and supply costs, and other direct costs related to the opening of new restaurants. Our pre-opening costs fluctuate from period to period, depending upon, but not limited to, the number of restaurant openings, the size of the restaurants being opened and the location of the restaurants.

Pre-opening expenses for any given quarter will typically include expenses associated with restaurants opened during the quarter as well as expenses related to restaurants opening in subsequent quarters. Pre-opening costs decreased \$1.2 million for the sixteen weeks ended April 19, 2015 due to fewer restaurant openings in 2015 in addition to \$0.6 million in acquisition costs included in the first quarter of 2014.



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Interest Expense, Net and Other

Interest expense, net and other was \$1.1 million for the sixteen weeks ended April 19, 2015, an increase of \$0.4 million or 57.3% from the same period in 2014. The increase was primarily related to a higher average debt balance in the first quarter 2015 compared to the same period in 2014.

Our weighted average interest rate was 2.4% for the sixteen weeks ended April 19, 2015, compared to 3.1% for the sixteen weeks ended April 20, 2014.

Provision for Income Taxes

The effective income tax rate for the sixteen weeks ended April 19, 2015 was 27.3%, compared to 27.0% for the sixteen weeks ended April 20, 2014. We anticipate that our full year fiscal 2015 effective tax rate will be approximately 27.5%.

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## Liquidity and Capital resources

Cash and cash equivalents decreased \$1.0 million to \$21.4 million at April 19, 2015, from \$22.4 million at the beginning of the fiscal year. We expect to continue to reinvest available cash flows from operations to develop new restaurants or invest in existing restaurants and infrastructure, including the remodeling of our restaurants as part of our brand transformation initiative, pay down debt, and maintain the flexibility to use excess cash to opportunistically repurchase our common stock and execute our long term strategic initiatives.

## Cash Flows

The table below summarizes our cash flows from operating, investing, and financing activities for each period presented (in thousands):

|   | Sixteen Weeks Ended |                   |
|---|---------------------|-------------------|
|   | April 19,<br>2015   | April 20,<br>2014 |
| Net cash provided by operating activities           | \$35,991            | \$36,035          |
| Net cash used in investing activities               | (37,266 )           | (32,343 )         |
| Net cash provided by (used in) financing activities | 441                 | (6,165 )          |
| Effect of exchange rate changes on cash             | (127 )              | —                 |
| Net decrease in cash and cash equivalents           | \$(961 )            | \$(2,473 )        |

## Operating Cash Flows

Net cash flows provided by operating activities were \$36.0 million for the sixteen weeks ended April 19, 2015, comparable to the same period in 2014. A \$14.8 million increase in restaurant operations due to new restaurants opened and acquired since the second quarter 2014 was offset by an \$11.9 million increase in payments to vendors, a \$2.5 million increase in contributions to marketing and national media advertising funds, and a \$0.8 million increase in salaries, benefits, and incentive-based compensation.

## Investing Cash Flows

Net cash flows used in investing activities were \$37.3 million for the sixteen weeks ended April 19, 2015, compared to \$32.3 million for the same period in 2014. The increase over prior year was due primarily to increased capital investments in restaurant remodels, restaurant maintenance, restaurant equipment, and technology infrastructure, partially offset by a decrease in acquisition costs. The following table lists the components of our capital expenditures, net of currency translation effect, for the sixteen weeks ended April 19, 2015 (in thousands):

|   | Sixteen Weeks<br>Ended April 19,<br>2015 |
|---|--|
| New restaurants                                   | \$8,693                                  |
| Restaurant remodels                               | 14,432                                   |
| Restaurant maintenance capital                    | 3,181                                    |
| Investment in technology infrastructure and other | 5,274                                    |
| Deposit on restaurant equipment                   | 5,479                                    |
| Total capital expenditures                        | \$37,059                                 |

## Financing Cash Flows

Cash provided by our financing activities increased \$6.6 million to \$0.4 million for the sixteen weeks ended April 19, 2015 compared to the same period in 2014. This increase was primarily due to a \$7.5 million reduction in cash used to repurchase the Company's common stock, a \$1.3 million increase in cash proceeds from the exercise of employee stock options and employee stock purchases, and a \$0.3 million increase in the tax benefit from exercise of stock options, offset by a \$2.5 million increase in net debt repayment.

## Credit Facility

On July 2, 2014, we replaced our existing credit facility ("Previous Credit Facility") with a new credit facility ("New Credit Facility") with the same lenders of the Previous Credit Facility. The New Credit Facility provides for a \$250 million revolving line of credit with a sublimit for the issuance of up to \$25 million in letters of credit and swingline loans up to \$15 million, and includes an option to increase the amount available under the credit facility up to an

additional \$100

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million in the aggregate, subject to the lenders' participation. The New Credit Facility also provides a Canadian Dollar borrowing sublimit equivalent to \$20 million. Borrowings under the New Credit Facility, if denominated in Dollars, are subject to rates based on the London Interbank Offered Rate ("LIBOR") plus a spread based on leverage or a base rate plus a spread based on leverage (base rate is the highest of (a) the Prime Rate, (b) the Federal Funds Rate plus 0.50%, and (c) LIBOR for an Interest Period of one month plus 1%). Borrowings under the New Credit Facility, if denominated in Canadian Dollars, are subject to rates based on LIBOR plus a spread based on leverage or a base rate plus a spread based on leverage (base rate is the highest of (a) the Canadian Prime Rate and (b) the Canadian Dealer Offered Rate ("CDOR Rate") for an interest period of one month plus 1%). The New Credit Facility matures on July 2, 2019.

Borrowings under the New Credit Facility are secured by first priority liens and security interests in substantially all of the Company's assets, including the capital stock of certain Company subsidiaries, and are available for financing activities including restaurant construction costs, working capital, and general corporate purposes, including, among other uses, to refinance certain indebtedness, permitted acquisitions, and redemption of capital stock. We do not believe that any of our lenders will be unable to fulfill their lending commitments under our New Credit Facility. Loan origination costs associated with the New Credit Facility are included as deferred costs in other assets, net in the accompanying condensed consolidated balance sheet. As of April 19, 2015, the Company had outstanding borrowings under the New Credit Facility of \$135.0 million, in addition to amounts issued under letters of credit of \$9.0 million, which reduce the amount available under the credit facility but are not recorded as debt.

We had one interest rate swap with Rabobank International, Utrecht ("Rabobank") to hedge a portion of our floating interest rate borrowings. The interest rate swap had an effective date of August 5, 2011 with an initial notional amount of \$74.1 million. The notional amount amortizes over time from \$74.1 million at inception to \$50.6 million at its maturity on June 30, 2015. The remaining notional amount as of April 19, 2015 was \$52.5 million. Under the swap, we are required to make quarterly payments based on a fixed interest rate of 1.135%, calculated based on the remaining notional amount. In exchange, we receive interest on the notional amount at a variable rate that is based on the 3-month spot LIBOR rate quarterly.

**Covenants.** We are subject to a number of customary covenants under our New Credit Facility, including limitations on additional borrowings, acquisitions, stock repurchases, sales of assets, and dividend payments. As of April 19, 2015, we were in compliance with all debt covenants.

**Debt Outstanding.** Total debt and capital lease obligations outstanding decreased \$3.7 million to \$144.2 million at April 19, 2015, from \$147.9 million at December 28, 2014, primarily due to our net repayments to the New Credit Facility.

We typically maintain current liabilities in excess of our current assets which results in a working capital deficit. We are able to operate with a working capital deficit because restaurant sales are primarily conducted on a cash or credit card basis. Rapid turnover of inventory results in limited investment in inventories, and cash from sales is usually received before related payables for food, supplies, and payroll become due. In addition, receipts from the sale of gift cards are received well in advance of related redemptions. Rather than maintain higher cash balances that would result from this pattern of operating cash flows, we typically utilize operating cash flows in excess of those required for currently-maturing liabilities to pay for capital expenditures, debt repayment, or to repurchase stock. When necessary, we utilize our revolving credit facility to satisfy short-term liquidity requirements. However, we believe that our future cash flows will be sufficient to satisfy any working capital deficits.

### **Inflation**

The primary inflationary factors affecting our operations are food, labor costs, energy costs, and materials used in the construction of new restaurants. A large number of our restaurant personnel are paid at rates based on the applicable minimum wage, and increases in the minimum wage have directly affected our labor costs in recent years. Many of our leases require us to pay taxes, maintenance, repairs, insurance, and utilities, all of which are generally subject to inflationary increases. We believe inflation had a negative impact on our financial condition and results of operations during the sixteen weeks ended April 19, 2015, due primarily to higher wages, costs for certain supplies, and commodity prices for certain foods we purchased at market rates. Uncertainties related to fluctuations in costs, including energy costs, commodity prices, annual indexed wage increases, and construction materials make it difficult

to predict what impact, if any, inflation may have on our business during 2015, but it is anticipated that inflation will continue to have a negative impact in fiscal year 2015.

Seasonality

Our business is subject to seasonal fluctuations. Historically, sales in most of our restaurants have been higher during the summer months and winter holiday season. As a result, our quarterly and annual operating results and comparable restaurant revenue may fluctuate significantly as a result of seasonality. Accordingly, results for any one quarter or year are not necessarily indicative of results to be expected for any other quarter or for any year, and comparable restaurant sales for any particular future period may decrease.



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### Off Balance Sheet Arrangements

Except for operating leases, primarily restaurant leases, entered into the normal course of business, we do not have any material off balance sheet arrangements.

### Contractual Obligations

The Company entered into an agreement during the first quarter of 2015 to purchase certain restaurant equipment. As of April 19, 2015, the balance due under the contract of \$6.8 million will be paid in less than one year. There were no other material changes outside the ordinary course of business to our contractual obligations since the filing of Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2014.

### Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, including our estimates of future restaurant level cash flows, which are subject to the current economic environment, and we might obtain different results if we used different assumptions or conditions.

In the first quarter of 2015, we changed our estimate on gift card breakage, see Note 1, Basis of Presentation and Recent Accounting Pronouncements. We had no changes in our critical accounting policies, which were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 28, 2014.

### Recently Issued Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued guidance on the financial statement presentation of debt issuance costs. This guidance requires debt issuance costs to be presented in the balance sheet as a reduction of the related debt liability rather than an asset. The guidance is effective for reporting periods beginning after December 15, 2015 and will result in a change in presentation of these costs on our consolidated balance sheets.

In April 2015, the FASB issued guidance clarifying that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance is effective for reporting periods beginning after December 15, 2015. We are currently evaluating the impact this guidance may have on our consolidated financial position and results of operations.

In May 2014, the FASB issued guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. The guidance is effective for reporting periods beginning after December 15, 2016. We are currently evaluating the impact this guidance will have on our consolidated financial position and results of operations.

In April 2014, the FASB issued guidance that changes the criteria for reporting discontinued operations. To qualify as a discontinued operation under the amended guidance, a component or group of components of an entity that has been disposed of or is classified as held for sale must represent a strategic shift that has or will have a major effect on the entity's operations and financial results. This guidance also expands related disclosure requirements. The guidance is effective for the reporting periods beginning after December 15, 2014. The adoption of this guidance did not have a significant impact on the Company's consolidated financial position or results of operations.

### Forward-Looking Statements

Certain information and statements contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA") codified at Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This statement is included for purposes of complying with the safe harbor provisions of the PSLRA. Forward-looking statements include statements regarding our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, or performance and underlying assumptions and other statements which are other than statements of historical facts. These statements may be identified, without limitation, by the use of forward-looking terminology such as "anticipate," "assume," "believe," "estimate," "expect," "intend," "plan," "project," "may," "will," "would," and similar expressions. Certain forward-looking sta

are included in this Quarterly Report on Form 10-Q, principally in the sections captioned “Financial Statements” and “Management’s Discussion and

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Analysis of Financial Condition and Results of Operations”. Forward-looking statements in this report include, among other things: our marketing strategy; brand transformation initiative and anticipated number and timing of restaurant remodels; anticipated number and timing of new restaurant openings and restaurant development efforts, including Red Robin Burger Works; expected uses for available cash flow; beliefs about sufficiency of future cash flows to satisfy working capital deficit; anticipated funding for new restaurant openings; expectations about our interest-rate swaps; anticipated effective tax rate for 2015; beliefs about health insurance and workers’ compensation costs, inflation, commodity, and utility costs; and the effect of the adoption of new accounting standards on our financial and accounting systems and analysis programs.

Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those we express in these forward-looking statements. These risks and uncertainties include, but are not limited to, the following: the effectiveness of our business improvement initiatives; effectiveness of our marketing campaign; uncertainty regarding general economic conditions and economic recovery; concentration of restaurants in certain markets and lack of market awareness in new markets; changes in consumer disposable income, consumer spending trends and habits; the effectiveness of our information technology efforts; regional mall and lifestyle center traffic trends; increased competition and discounting in the casual-dining restaurant market; costs and availability of food and beverage inventory; changes in commodity prices, particularly ground beef; changes in labor and energy costs; limitations on the Company’s ability to execute stock repurchases due to lack of available shares or acceptable stock price levels or other market or Company-specific conditions; our ability to attract qualified managers and team members; changes in the availability of capital or credit facility borrowings; the effectiveness of our new technology systems; changes in health care and insurance costs; costs and other effects of legal claims by team members, franchisees, customers, vendors, stockholders, and others, including settlement of those claims; effectiveness of management strategies and decisions; the ability to fulfill planned expansion and restaurant remodeling; weather conditions and related events in regions where our restaurants are operated; changes in accounting standards policies and practices or related interpretations by auditors or regulatory entities; and other risk factors described from time to time in our SEC reports, including the Company’s most recent Annual Report on Form 10-K for the fiscal year ended December 28, 2014, filed with the SEC on February 20, 2015.

Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, such expectations may prove to be materially incorrect due to known and unknown risks and uncertainties. All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances arising after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Under our current credit facility, we are exposed to market risk from changes in interest rates on borrowings, which bear interest at one of the following rates we select: if our borrowings are denominated in U.S. Dollars, an Alternate Base Rate (“ABR”), based on the Prime Rate plus 0.00% to 1.00%, or the London Interbank Offered Rate (“LIBOR”), based on the relevant one, three or six-month LIBOR, at our discretion, plus 1.00% to 2.00%; if our borrowings are denominated in Canadian Dollars, an ABR based on the Canadian Prime Rate plus 0.00% to 1.00%, or the London Interbank Offered Rate (“LIBOR”), based on the relevant one, three, or six-month LIBOR, at our discretion, plus 1.00% to 2.00%. The spread, or margin, for ABR and LIBOR loans under the New Credit Facility is subject to quarterly adjustment based on our leverage ratio, as defined by the credit agreement. As of April 19, 2015, we had \$82.5 million of borrowings subject to variable interest rates. A 1.0% change in the effective interest rate applied to these loans would have resulted in pre-tax interest expense fluctuation of \$0.8 million on an annualized basis.

Our objective in managing exposure to interest rate changes is to limit the effect of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve this objective, we have used an interest rate swap and may use other means such as caps to manage our net exposure to interest rate changes related to our borrowings. As appropriate, on the date derivative contracts are entered into, we designate derivatives as either a hedge of the fair

value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Refer to Note 8, Derivative and Other Comprehensive Income, of Notes to Condensed Consolidated Financial Statements of this report.

Foreign Currency Exchange Risk

We operate 18 restaurants in Canada and the Canadian dollar is the functional currency for our Canadian restaurant operations. We have currency risk related to transactions denominated in Canadian dollars and the translation of our Canadian restaurants' financial results into U.S. dollars. Due to the immateriality of our Canadian restaurant operations, our foreign

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currency risk is limited at this date. As a result, the Company has not entered into any foreign currency exchange rate contracts to hedge against changes in foreign currency exchange rates on assets and liabilities expected to be settled at a future date.

Commodity Price Risks

Many of the food products we purchase are affected by changes in weather, production, availability, seasonality, and other factors outside our control. In an effort to mitigate some of this risk, we have entered into fixed price agreements on some of our food and beverage products, including certain proteins, produce, and cooking oil. As of April 19, 2015, approximately 57% of our estimated annual food and beverage purchases were covered by fixed price contracts, most of which are scheduled to expire at various times through the end of fiscal year 2015. These contracts may exclude related expenses such as fuel surcharges and other fees. In addition, we believe that almost all of our food and supplies are available from several sources, which helps to reduce or mitigate these risks.

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ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the management of the Company ("Management"), including the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives. The Company's CEO and CFO have concluded that, based upon the evaluation of disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act), the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

As discussed in Note 5, Acquisitions of Red Robin Franchised Restaurants, to our Condensed Consolidated Financial Statements, we acquired 36 franchised restaurants, 18 in the United States and 18 in Canada, in fiscal year 2014. We have integrated the 18 acquired U.S. restaurants into our existing internal control environment as of December 28, 2014. As a result of the timing of the acquisition, we excluded the 18 acquired Canadian restaurants from the annual assessment of our internal control over financial reporting for the year ending December 28, 2014. We are evaluating the internal controls over financial reporting for the 18 acquired Canadian restaurants and will be implementing changes as needed to align their controls with the rest of the Company. Internal controls for the Canadian restaurants will be included in the 2015 annual assessment.

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PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

In the normal course of business, there are various claims in process, matters in litigation, and other contingencies. These include employment related claims and claims from guests or team members alleging illness, injury, or other food quality, health, or operational concerns. To date, no claims of these types of litigation, certain of which are covered by insurance policies, have had a material effect on the Company. While it is not possible to predict the outcome of these suits, legal proceedings, and claims with certainty, management is of the opinion that adequate provision for potential losses associated with these matters has been made in the financial statements and that the ultimate resolution of these matters will not have a material adverse effect on our financial position and results of operations.

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ITEM 1A. Risk Factors

A description of the risk factors associated with our business is contained in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 28, 2014 filed with the SEC on February 20, 2015. There have been no material changes to our Risk Factors disclosed in our 2014 Annual Report on Form 10-K.

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ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the sixteen weeks ended April 19, 2015, the Company did not have any sales of securities in transactions that were not registered under the Securities Act of 1933, as amended, that have not been reported in a Current Report on Form 8-K. On February 11, 2015, the Company's board of directors authorized a repurchase of up to \$50 million of the Company's common stock. This authorization became effective on February 11, 2015, and will terminate upon completing the repurchase of \$50 million of common stock unless earlier terminated by the Company's board of directors. Purchases under the repurchase program may be made in open market or privately negotiated transactions. Purchases may be made from time to time at the Company's discretion and the timing and amount of any share repurchases will be determined based on share price, market conditions, legal requirements and other factors. The repurchase program does not obligate the Company to acquire any particular amount of common stock, and it may be suspended or discontinued at any time. The Company did not repurchase any of its own common stock during first quarter 2015. Therefore, the repurchase program had remaining authorized funds of \$50.0 million at April 19, 2015.

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ITEM 6. Exhibits

Exhibit  
Number      Description

31.1          Rule 13a-14(a) Certification of Chief Executive Officer

31.2          Rule 13a-14(a) Certification of Chief Financial Officer

32.1          Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer

101          The following financial information from the Quarterly Report on Form 10-Q of Red Robin Gourmet Burgers, Inc. for the quarter ended April 19, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at April 19, 2015 and December 28, 2014; (ii) Condensed Consolidated Statements of Operations for the sixteen weeks ended April 19, 2015 and April 20, 2014; (iii) Condensed Consolidated Statements of Comprehensive Income for the sixteen weeks ended April 19, 2015 and April 20, 2014; (iv) Condensed Consolidated Statements of Cash Flows for the sixteen weeks ended April 19, 2015 and April 20, 2014; and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RED ROBIN GOURMET BURGERS, INC.  
(Registrant)

May 21, 2015  
(Date)

By: /s/ Stuart B. Brown  
Stuart B. Brown  
(Chief Financial Officer)