

**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 **October 6, 2019**

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)

84-1573084

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

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

Greenwood Village, CO

(Address of principal executive offices)

80111

(Zip Code)

(303) 846-6000

(Registrant's telephone number, including area 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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

Title of each class

Trading symbol(s)

Name of each exchange on which registered

Common Stock, \$0.001 par value

RRGB

NASDAQ (Global Select Market)

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

As of November 4, 2019, there were 12,939,670 shares of the registrant's common stock, par value of \$0.001 per share outstanding.

RED ROBIN GOURMET BURGERS, INC.

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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) October 6, 2019 | December 30, 2018 |
|--|--------------------------------|-------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 20,211 | \$ 18,569 |
| Accounts receivable, net | 11,470 | 25,034 |
| Inventories | 27,053 | 27,370 |
| Prepaid expenses and other current assets | 16,450 | 27,576 |
| Total current assets | 75,184 | 98,549 |
| Property and equipment, net | 522,387 | 565,142 |
| Right of use assets, net | 441,701 | — |
| Goodwill | 96,162 | 95,838 |
| Intangible assets, net | 30,937 | 34,609 |
| Other assets, net | 79,288 | 49,803 |
| Total assets | \$ 1,245,659 | \$ 843,941 |
| Liabilities and stockholders' equity: | | |
| Current liabilities: | | |
| Accounts payable | \$ 37,050 | \$ 39,024 |
| Accrued payroll and payroll-related liabilities | 37,542 | 37,922 |
| Unearned revenue | 37,913 | 55,360 |
| Short-term portion of lease obligations | 43,303 | 786 |
| Accrued liabilities and other | 41,823 | 38,057 |
| Total current liabilities | 197,631 | 171,149 |
| Deferred rent | — | 75,675 |
| Long-term debt | 188,875 | 193,375 |
| Long-term portion of lease obligations | 481,295 | 9,414 |
| Other non-current liabilities | 10,067 | 11,523 |
| Total liabilities | 877,868 | 461,136 |
| Stockholders' equity: | | |
| Common stock; \$0.001 par value: 45,000 shares authorized; 17,851 and 17,851 shares issued; 12,957 and 12,971 shares outstanding | 18 | 18 |
| Preferred stock, \$0.001 par value: 3,000 shares authorized; no shares issued and outstanding | — | — |
| Treasury stock 4,894 and 4,880 shares, at cost | (201,350) | (201,505) |
| Paid-in capital | 213,141 | 212,752 |
| Accumulated other comprehensive loss, net of tax | (4,986) | (4,801) |
| Retained earnings | 360,968 | 376,341 |
| Total stockholders' equity | 367,791 | 382,805 |
| Total liabilities and stockholders' equity | \$ 1,245,659 | \$ 843,941 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Twelve Weeks Ended | | Forty Weeks Ended | |
|--|--------------------|-----------------|-------------------|------------------|
| | October 6, 2019 | October 7, 2018 | October 6, 2019 | October 7, 2018 |
| Revenues: | | | | |
| Restaurant revenue | \$ 289,862 | \$ 290,218 | \$ 992,764 | \$ 1,015,312 |
| Franchise and other revenues | 4,360 | 4,659 | 19,305 | 16,472 |
| Total revenues | <u>294,222</u> | <u>294,877</u> | <u>1,012,069</u> | <u>1,031,784</u> |
| Costs and expenses: | | | | |
| Restaurant operating costs (excluding depreciation and amortization shown separately below): | | | | |
| Cost of sales | 69,017 | 69,003 | 235,119 | 242,392 |
| Labor | 104,870 | 102,322 | 354,302 | 351,813 |
| Other operating | 44,317 | 43,612 | 142,882 | 141,305 |
| Occupancy | 24,942 | 26,629 | 85,420 | 88,099 |
| Depreciation and amortization | 21,280 | 21,819 | 71,087 | 73,335 |
| Selling, general, and administrative expenses | 36,776 | 28,780 | 120,126 | 110,715 |
| Pre-opening costs | — | 387 | 319 | 2,093 |
| Other (gains) charges | (1,757) | 520 | 17,488 | 17,422 |
| Total costs and expenses | <u>299,445</u> | <u>293,072</u> | <u>1,026,743</u> | <u>1,027,174</u> |
| (Loss) income from operations | (5,223) | 1,805 | (14,674) | 4,610 |
| Other expense: | | | | |
| Interest expense, net and other | 1,812 | 2,295 | 7,203 | 8,087 |
| Loss before income taxes | (7,035) | (490) | (21,877) | (3,477) |
| Income tax benefit | (5,214) | (2,199) | (21,676) | (7,692) |
| Net (loss) income | <u>\$ (1,821)</u> | <u>\$ 1,709</u> | <u>\$ (201)</u> | <u>\$ 4,215</u> |
| (Loss) earnings per share: | | | | |
| Basic | <u>\$ (0.14)</u> | <u>\$ 0.13</u> | <u>\$ (0.02)</u> | <u>\$ 0.32</u> |
| Diluted | <u>\$ (0.14)</u> | <u>\$ 0.13</u> | <u>\$ (0.02)</u> | <u>\$ 0.32</u> |
| Weighted average shares outstanding: | | | | |
| Basic | <u>12,959</u> | <u>12,994</u> | <u>12,967</u> | <u>12,977</u> |
| Diluted | <u>12,959</u> | <u>13,054</u> | <u>12,967</u> | <u>13,064</u> |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustment | \$ (262) | \$ 261 | \$ (185) | \$ (509) |
| Other comprehensive (loss) income, net of tax | (262) | 261 | (185) | (509) |
| Total comprehensive (loss) income | <u>\$ (2,083)</u> | <u>\$ 1,970</u> | <u>\$ (386)</u> | <u>\$ 3,706</u> |

See Notes to Condensed Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

| | Common Stock | | Treasury Stock | | Paid-in Capital | Accumulated Other Comprehensive Loss, net of tax | Retained Earnings | Total |
|---|--------------|--------|----------------|--------------|-----------------|--|-------------------|------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance, December 30, 2018 | 17,851 | \$ 18 | 4,880 | \$ (201,505) | \$ 212,752 | \$ (4,801) | \$ 376,341 | \$ 382,805 |
| Exercise of options, issuance of restricted stock, shares exchanged for exercise and tax, and stock issued through employee stock purchase plan | — | — | (32) | 1,344 | (1,204) | — | — | 140 |
| Acquisition of treasury stock | — | — | 31 | (974) | — | — | — | (974) |
| Non-cash stock compensation | — | — | — | — | 477 | — | — | 477 |
| Net income | — | — | — | — | — | — | 639 | 639 |
| Other comprehensive loss | — | — | — | — | — | (329) | — | (329) |
| Topic 842 transition impairment, net of tax | — | — | — | — | — | — | (15,172) | (15,172) |
| Balance, April 21, 2019 | 17,851 | \$ 18 | 4,879 | \$ (201,135) | \$ 212,025 | \$ (5,130) | \$ 361,808 | \$ 367,586 |
| Exercise of options, issuance of restricted stock, shares exchanged for exercise and tax, and stock issued through employee stock purchase plan | — | — | (30) | 1,208 | (907) | — | — | 301 |
| Acquisition of treasury stock | — | — | 17 | (501) | — | — | — | (501) |
| Non-cash stock compensation | — | — | — | — | 941 | — | — | 941 |
| Net income | — | — | — | — | — | — | 981 | 981 |
| Other comprehensive income | — | — | — | — | — | 406 | — | 406 |
| Balance, July 14, 2019 | 17,851 | \$ 18 | 4,866 | \$ (200,428) | \$ 212,059 | \$ (4,724) | \$ 362,789 | \$ 369,714 |
| Exercise of options, issuance of restricted stock, shares exchanged for exercise and tax, and stock issued through employee stock purchase plan | — | — | (1) | 37 | (44) | — | — | (7) |
| Acquisition of treasury stock | — | — | 29 | (959) | — | — | — | (959) |
| Non-cash stock compensation | — | — | — | — | 1,126 | — | — | 1,126 |
| Net loss | — | — | — | — | — | — | (1,821) | (1,821) |
| Other comprehensive loss | — | — | — | — | — | (262) | — | (262) |
| Balance, October 6, 2019 | 17,851 | \$ 18 | 4,894 | \$ (201,350) | \$ 213,141 | \$ (4,986) | \$ 360,968 | \$ 367,791 |

See Notes to Condensed Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

| | Common Stock | | Treasury Stock | | Paid-in Capital | Accumulated Other Comprehensive Loss, net of tax | Retained Earnings | Total |
|---|--------------|--------|----------------|--------------|-----------------|--|-------------------|------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance, December 31, 2017 | 17,851 | \$ 18 | 4,897 | \$ (202,485) | \$ 210,708 | \$ (3,566) | \$ 382,760 | \$ 387,435 |
| Exercise of options, issuance of restricted stock, shares exchanged for exercise and tax, and stock issued through employee stock purchase plan | — | — | (26) | 1,042 | (1,167) | — | — | (125) |
| Non-cash stock compensation | — | — | — | — | 1,287 | — | — | 1,287 |
| Net income | — | — | — | — | — | — | 4,380 | 4,380 |
| Other comprehensive loss | — | — | — | — | — | (273) | — | (273) |
| Balance April 22, 2018 | 17,851 | \$ 18 | 4,871 | \$ (201,443) | \$ 210,828 | \$ (3,839) | \$ 387,140 | 392,704 |
| Exercise of options, issuance of restricted stock, shares exchanged for exercise and tax, and stock issued through employee stock purchase plan | — | — | (22) | 961 | (545) | — | — | 416 |
| Non-cash stock compensation | — | — | — | — | 1,069 | — | — | 1,069 |
| Net loss | — | — | — | — | — | — | (1,874) | (1,874) |
| Other comprehensive loss | — | — | — | — | — | (497) | — | (497) |
| Balance July 15, 2018 | 17,851 | \$ 18 | 4,849 | \$ (200,482) | \$ 211,352 | \$ (4,336) | \$ 385,266 | \$ 391,818 |
| Exercise of options, issuance of restricted stock, shares exchanged for exercise and tax, and stock issued through employee stock purchase plan | — | — | (2) | 70 | (94) | — | — | (24) |
| Acquisition of treasury stock | — | — | 8 | (336) | — | — | — | (336) |
| Non-cash stock compensation | — | — | — | — | 744 | — | — | 744 |
| Net income | — | — | — | — | — | — | 1,709 | 1,709 |
| Other comprehensive income | — | — | — | — | — | 261 | — | 261 |
| Balance October 7, 2018 | 17,851 | \$ 18 | 4,855 | \$ (200,748) | \$ 212,002 | \$ (4,075) | \$ 386,975 | \$ 394,172 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Forty Weeks Ended | |
|--|-------------------|------------------|
| | October 6, 2019 | October 7, 2018 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (201) | \$ 4,215 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 71,087 | 73,335 |
| Gift card breakage | (4,899) | (2,210) |
| Unpaid other charges | 2,929 | 13,925 |
| Deferred income tax benefit | (27,477) | (11,569) |
| Stock-based compensation expense | 2,539 | 3,101 |
| Other, net | 665 | 1,033 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 14,059 | 15,268 |
| Prepaid expenses and other current assets | 2,367 | 10,156 |
| Trade accounts payable and accrued liabilities | (6,657) | (4,127) |
| Unearned revenue | (12,564) | (15,450) |
| Other operating assets and liabilities, net | (231) | 1,103 |
| Net cash provided by operating activities | <u>41,617</u> | <u>88,780</u> |
| Cash flows from investing activities: | | |
| Purchases of property, equipment, and intangible assets | (33,078) | (39,842) |
| Proceeds from sales of real estate and property, plant, and equipment and other investing activities | 178 | 265 |
| Net cash used in investing activities | <u>(32,900)</u> | <u>(39,577)</u> |
| Cash flows from financing activities: | | |
| Borrowings of long-term debt | 211,500 | 194,500 |
| Payments of long-term debt and finance leases | (216,918) | (240,553) |
| Purchase of treasury stock | (2,434) | (337) |
| Proceeds from exercise of stock options and employee stock purchase plan | 696 | 733 |
| Net cash used in financing activities | <u>(7,156)</u> | <u>(45,657)</u> |
| Effect of exchange rate changes on cash | 81 | (892) |
| Net change in cash and cash equivalents | 1,642 | 2,654 |
| Cash and cash equivalents, beginning of period | 18,569 | 17,714 |
| Cash and cash equivalents, end of period | <u>\$ 20,211</u> | <u>\$ 20,368</u> |
| Supplemental disclosure of cash flow information | | |
| Income taxes paid | \$ 3,140 | \$ 1,286 |
| Interest paid, net of amounts capitalized | \$ 7,799 | \$ 7,638 |
| Change in construction related payables | \$ 3,902 | \$ (1,084) |

See Notes to Condensed Consolidated Financial Statements.

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”), primarily develops, operates, and franchises full-service restaurants in North America. As of October 6, 2019, the Company owned and operated 471 restaurants located in 38 states and two Canadian provinces. The Company also had 90 franchised full-service restaurants in 16 states as of October 6, 2019. 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. 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”), including the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 30, 2018 has been derived from the audited consolidated financial statements as of that date, but does not include all disclosures required for audited annual financial statements. 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 30, 2018, filed with the SEC on February 27, 2019.

The Company’s quarter that ended October 6, 2019 is referred to as third quarter 2019, or the twelve weeks ended October 6, 2019; the second quarter ended July 14, 2019 is referred to as second quarter 2019, or the twelve weeks ended July 14, 2019; the first quarter ended April 21, 2019 is referred to as first quarter 2019, or the sixteen weeks ended April 21, 2019; and together, the first, second, and third quarters of 2019 are referred to as the forty weeks ended October 6, 2019. The Company’s quarter that ended October 7, 2018 is referred to as third quarter 2018, or the twelve weeks ended October 7, 2018; the second quarter ended July 15, 2018 is referred to as second quarter 2018, or the twelve weeks ended July 15, 2018; the first quarter ended April 22, 2018 is referred to as first quarter 2018, or the sixteen weeks ended April 22, 2018; and together, the first, second, and third quarters of 2018 are referred to as the forty weeks ended October 7, 2018. The Company’s fiscal year 2019 comprises 52 weeks and will end on December 29, 2019.

Reclassifications

Certain amounts presented in prior periods have been reclassified to conform with the current period presentation. For the forty week period ended October 7, 2018, the Company reclassified gift card breakage of \$2.2 million from Other, net to its own line item presented in the adjustments to reconcile net (loss) income to net cash provided by operating activities on the condensed consolidated statement of cash flows. For the fiscal year ended December 30, 2018, the Company reclassified unfavorable lease rights of \$1.4 million from Deferred rent to Other non-current liabilities on the condensed consolidated balance sheets. Management believes this presentation better reflects the nature of these liabilities subsequent to the adoption of Topic 842, as defined in Note 3, *Leases*.

Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Update 2016-13, Financial Instruments - Credit Losses (“Topic 326”), subsequently amended by various standard updates. This guidance replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information when determining credit loss estimates and requires financial assets to be measured net of expected credit losses at the time of initial recognition. This guidance is effective for annual and interim reporting periods beginning after December 15, 2019 using a modified retrospective adoption method. Early adoption is permitted. The Company will adopt this guidance beginning with its fiscal first quarter 2020 and will apply it retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment to retained earnings. We are evaluating the full impact this guidance will have on our consolidated financial statements.

We reviewed all other recently issued accounting pronouncements and concluded they were either not applicable or not expected to have a significant impact on the Company's condensed consolidated financial statements.

2. Revenue

Disaggregation of revenue

In the following table, revenue is disaggregated by type of good or service (in thousands):

| | Twelve Weeks Ended | | Forty Weeks Ended | |
|--------------------|--------------------|-----------------|-------------------|-----------------|
| | October 6, 2019 | October 7, 2018 | October 6, 2019 | October 7, 2018 |
| Restaurant revenue | \$ 289,862 | \$ 290,218 | \$ 992,764 | \$ 1,015,312 |
| Franchise revenue | 3,727 | 3,914 | 13,479 | 13,363 |
| Gift card breakage | 580 | 536 | 4,899 | 2,210 |
| Other revenue | 53 | 209 | 927 | 899 |
| Total revenues | \$ 294,222 | \$ 294,877 | \$ 1,012,069 | \$ 1,031,784 |

Contract liabilities

Unearned gift card revenue at October 6, 2019 and December 30, 2018 was \$27.4 million and \$45.4 million. Deferred loyalty revenue, which was also included in Unearned revenue in the accompanying condensed consolidated balance sheets, was \$10.5 million and \$10 million at October 6, 2019 and December 30, 2018.

Revenue recognized in the condensed consolidated statements of operations and comprehensive (loss) income for the redemption of gift cards that were included in the liability balance at the beginning of the fiscal year was as follows (in thousands):

| | Forty Weeks Ended | |
|-------------------|-------------------|-----------------|
| | October 6, 2019 | October 7, 2018 |
| Gift card revenue | \$ 19,400 | \$ 16,842 |

3. Leases

Adoption of FASB Accounting Standards Update ("ASU") 2016-02

On January 1, 2019, we adopted ASU 2016-02, Leases (Topic 842) ("Topic 842") along with related clarifications and improvements using the modified retrospective approach without application to prior periods. This guidance requires the recognition of liabilities for lease obligations and corresponding right-of-use assets on the balance sheet and disclosure of key information about leasing arrangements. We applied the practical expedients that do not require us to reassess existing contracts for embedded leases, to separate lease and non-lease components for our population of operating assets, or to reassess lease classification or initial direct costs.

The effect of the changes made to our consolidated December 31, 2018 balance sheet as a result of the adoption of Topic 842 was as follows (in thousands):

| | Balance at December 30, 2018 | Adjustments due to Topic 842 | Balance at December 31, 2018 |
|---|---------------------------------|---------------------------------|---------------------------------|
| Balance sheet | | | |
| Non-current assets | | | |
| Right of use assets, net | \$ — | \$ 478,268 | \$ 478,268 |
| Prepaid expenses and other current assets | 27,576 | (6,592) | 20,984 |
| Current liabilities | | | |
| Short-term portion of lease obligations | 786 | 40,606 | 41,392 |
| Non-current liabilities | | | |
| Deferred Rent | 75,675 | (75,675) | — |
| Long-term portion of lease obligations | 9,414 | 506,745 | 516,159 |
| Stockholders' equity: | | | |
| Retained earnings | \$ 376,341 | \$ (15,172) | \$ 361,169 |

This change did not have any impact on our consolidated statement of operations or consolidated statement of cash flows.

Leases

The Company leases land, buildings, and equipment used in its operations under operating and finance leases. Our leases generally have remaining terms of 1-15 years, most of which include options to extend the leases for additional 5-year periods. Generally, the lease term is the minimum of the non-cancelable period of the lease or the lease term inclusive of reasonably certain renewal periods up to a term of 20 years.

We determine if a contract contains a lease at inception. Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent our right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, we estimate incremental secured borrowing rates corresponding to the maturities of the leases. We estimate this rate based on prevailing financial market conditions, comparable company and credit analysis, and management judgment.

Our leases typically contain rent escalations over the lease term. We recognize expense for these leases on a straight-line basis over the lease term. Additionally, tenant incentives used to fund leasehold improvements are recognized when earned and reduce our right-of-use asset related to the lease. These are amortized through the right-of-use asset as reductions of expense over the lease term.

Some of our leases include rent escalations based on inflation indexes and fair market value adjustments. Certain leases contain contingent rental provisions that include a fixed base rent plus an additional percentage of the restaurant's sales in excess of stipulated amounts. Operating lease liabilities are calculated using the prevailing index or rate at lease commencement. Subsequent escalations in the index or rate and contingent rental payments are recognized as variable lease expenses. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Leases are included in right-of-use assets, net, short-term portion of lease obligations, and long-term portion of lease liabilities on our condensed consolidated balance sheet as of October 6, 2019 as follows (in thousands):

| | Finance | Operating | Total |
|---|------------------|-------------------|-------------------|
| Right of use assets, net | \$ 8,675 | \$ 433,026 | \$ 441,701 |
| Short-term portion of lease obligations | 947 | 42,356 | 43,303 |
| Long-term portion of lease obligations | 10,214 | 471,081 | 481,295 |
| Total | \$ 11,161 | \$ 513,437 | \$ 524,598 |

We have elected the short-term lease recognition exemption for all applicable classes of underlying assets. Short-term disclosures include only those leases with a term greater than one month and 12 months or less, and expense is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less, that do not include an option to purchase the underlying asset that we are reasonably certain to exercise, are not recorded on the balance sheet.

The components of lease expense, including variable lease costs primarily consisting of common area maintenance charges and real estate taxes, are included in occupancy on our condensed consolidated statement of operations as follows (in thousands):

| | Twelve Weeks Ended October 6, 2019 | Forty Weeks Ended October 6, 2019 |
|-------------------------------------|--|--------------------------------------|
| Operating lease cost | \$ 17,298 | \$ 58,412 |
| Finance lease cost: | | |
| Amortization of right of use assets | 193 | 635 |
| Interest on lease liabilities | 122 | 415 |
| Total finance lease cost | 315 | 1,050 |
| Variable lease cost | 6,653 | 22,186 |
| Total | \$ 24,267 | \$ 81,648 |

Maturities of our lease liabilities as of October 6, 2019 were as follows (in thousands):

| | Finance Leases | Operating Leases | Total |
|--------------------------------------|------------------|-------------------|-------------------|
| Remainder of 2019 | \$ 280 | \$ 12,997 | \$ 13,277 |
| 2020 | 1,396 | 78,135 | 79,531 |
| 2021 | 1,437 | 77,392 | 78,829 |
| 2022 | 1,283 | 74,865 | 76,148 |
| 2023 | 1,220 | 72,339 | 73,559 |
| Thereafter | 8,824 | 451,232 | 460,056 |
| Total future lease liability | 14,440 | 766,960 | 781,400 |
| Less imputed interest | 3,279 | 253,523 | 256,802 |
| Fair value of lease liability | \$ 11,161 | \$ 513,437 | \$ 524,598 |

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As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting guidance, maturities of lease liabilities were as follows as of December 30, 2018 (in thousands):

| | Capital Leases | Operating Leases |
|--|-------------------|---------------------|
| 2019 | \$ 1,234 | \$ 80,367 |
| 2020 | 1,242 | 76,936 |
| 2021 | 1,240 | 70,419 |
| 2022 | 1,063 | 61,649 |
| 2023 | 1,019 | 54,121 |
| Thereafter | 7,552 | 206,879 |
| Total | 13,350 | \$ 550,371 |
| Less amount representing interest | (3,150) | |
| Present value of future minimum lease payments | 10,200 | |
| Less current portion | (786) | |
| Long-term capital lease obligations | \$ 9,414 | |

Supplemental cash flow information related to leases is as follows:

| | Forty Weeks Ended October 6, 2019 |
|--|--------------------------------------|
| Cash paid for amounts included in the measurement of lease liabilities (in thousands): | \$ 60 |
| Right of use assets obtained in exchange for operating lease obligations following the adoption of Topic 842 (in thousands): | \$ 10 |
| Right of use assets obtained in exchange for finance lease obligations following the adoption of Topic 842 (in thousands): | \$ 2 |

Other information related to operating leases as follows:

| | |
|---------------------------------------|----------|
| Weighted average remaining lease term | 11 years |
| Weighted average discount rate | 7.33 % |

Other information related to financing leases as follows:

| | |
|---------------------------------------|----------|
| Weighted average remaining lease term | 12 years |
| Weighted average discount rate | 4.71 % |

4. Goodwill and Intangible Assets

The following table presents goodwill as of October 6, 2019 and December 30, 2018 (in thousands):

| | |
|---|------------------|
| Balance, December 30, 2018 | \$ 95,838 |
| Foreign currency translation adjustment | 324 |
| Balance, October 6, 2019 | \$ 96,162 |

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

The following table presents intangible assets as of October 6, 2019 and December 30, 2018 (in thousands):

| | October 6, 2019 | | | December 30, 2018 | | |
|---|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Intangible assets subject to amortization: | | | | | | |
| Franchise rights | \$ 53,336 | \$ (35,124) | \$ 18,212 | \$ 54,404 | \$ (33,160) | \$ 21,244 |
| Favorable leases | 13,001 | (8,642) | 4,359 | 13,001 | (8,136) | 4,865 |
| Liquor licenses and other | 10,737 | (9,831) | 906 | 10,810 | (9,770) | 1,040 |
| | <u>\$ 77,074</u> | <u>\$ (53,597)</u> | <u>\$ 23,477</u> | <u>\$ 78,215</u> | <u>\$ (51,066)</u> | <u>\$ 27,149</u> |
| Indefinite-lived intangible assets: | | | | | | |
| Liquor licenses and other | \$ 7,460 | \$ — | \$ 7,460 | \$ 7,460 | \$ — | \$ 7,460 |
| Intangible assets, net | <u>\$ 84,534</u> | <u>\$ (53,597)</u> | <u>\$ 30,937</u> | <u>\$ 85,675</u> | <u>\$ (51,066)</u> | <u>\$ 34,609</u> |

5. 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.

The Company uses the treasury stock method to calculate the effect of outstanding stock options. Basic weighted average shares outstanding is reconciled to diluted weighted average shares outstanding as follows (in thousands):

| | Twelve Weeks Ended | | Forty Weeks Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | October 6, 2019 | October 7, 2018 | October 6, 2019 | October 7, 2018 |
| Basic weighted average shares outstanding | 12,959 | 12,994 | 12,967 | 12,977 |
| Dilutive effect of stock options and awards | — | 60 | — | 87 |
| Diluted weighted average shares outstanding | <u>12,959</u> | <u>13,054</u> | <u>12,967</u> | <u>13,064</u> |
| Awards excluded due to anti-dilutive effect on diluted earnings per share | <u>358</u> | <u>548</u> | <u>405</u> | <u>428</u> |

6. Other (Gains) Charges

Other (gains) charges consist of the following (in thousands):

| | Twelve Weeks Ended | | Forty Weeks Ended | |
|------------------------------------|--------------------|-----------------|-------------------|-----------------|
| | October 6, 2019 | October 7, 2018 | October 6, 2019 | October 7, 2018 |
| Asset impairment | \$ — | \$ — | \$ 14,064 | \$ 9,643 |
| Executive transition and severance | 594 | — | 2,958 | — |
| Restaurant closure gains | (3,922) | — | (2,617) | — |
| Board and stockholder matter costs | 1,311 | — | 2,463 | — |
| Litigation contingencies | — | — | — | 4,000 |
| Reorganization costs | — | 520 | — | 3,273 |
| Spiral menu disposal | — | — | — | 506 |
| Executive retention | 260 | — | 620 | — |
| Other (gains) charges | \$ (1,757) | \$ 520 | \$ 17,488 | \$ 17,422 |

In second quarter 2019, the Company determined 29 Company-owned restaurants were impaired and recognized a non-cash impairment charge of \$14.1 million. In second quarter 2018, the Company determined eight Company-owned restaurants were impaired and recognized a non-cash impairment charge of \$9.6 million. The Company recognized the non-cash impairment charges included in asset impairment above resulting from the continuing and projected future results of these restaurants, primarily through projected cash flows. Non-cash impairment charges resulting from restaurant closures are included within restaurant closure gains.

7. Borrowings

Long-term debt as of October 6, 2019 and December 30, 2018 was \$188.9 million and \$193.4 million.

On June 30, 2016, the Company entered into a credit facility (the “Credit Facility”), which provides for a \$400 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. On August 19, 2019, the Company entered into a second amendment (the “Amendment”) to the Credit Facility. The Amendment increases the lease adjusted leverage ratio to 5.0x through December 29, 2019 before returning to 4.75x thereafter. In addition, the Amendment revises the definition of permitted acquisitions under the Credit Facility to correspond with the change to the lease adjusted leverage ratio and clarifies the classification of existing capital and operating leases. The Company's lease adjusted leverage ratio was 4.55x as of October 6, 2019. The lease adjusted leverage ratio is defined in Section 1.1 of the Credit Facility, which is filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 5, 2016, as further amended by the Amendment filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 23, 2019.

The Credit Facility matures on June 30, 2021. As of October 6, 2019, the Company had outstanding borrowings under the Credit Facility of \$188.0 million, in addition to amounts issued under letters of credit of \$7.5 million. The amounts issued under letters of credit reduce the amount available under the facility but were not recorded as debt. As of December 30, 2018, the Company had outstanding borrowings under the Credit Facility of \$192.5 million, in addition to amounts issued under letters of credit of \$7.8 million. No outstanding borrowings were considered short-term as of October 6, 2019 and December 30, 2018.

Loan origination costs associated with the Credit Facility are included as deferred costs in Other assets, net in the accompanying condensed consolidated balance sheets. Unamortized debt issuance costs were \$1.2 million and \$1.7 million as of October 6, 2019 and December 30, 2018.

8. 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, accounts payable, and current accrued expenses and other liabilities approximate fair value due to the short term nature or maturity of the instruments.

The following tables present the Company's assets measured at fair value on a recurring basis as of October 6, 2019 and December 30, 2018 (in thousands):

| | October 6, 2019 | Level 1 | Level 2 | Level 3 |
|-------------------------------------|-----------------|----------|---------|---------|
| Assets: | | | | |
| Investments in rabbi trust | \$ 7,109 | \$ 7,109 | \$ — | \$ — |
| Total assets measured at fair value | \$ 7,109 | \$ 7,109 | \$ — | \$ — |

| | December 30, 2018 | Level 1 | Level 2 | Level 3 |
|-------------------------------------|-------------------|----------|---------|---------|
| Assets: | | | | |
| Investments in rabbi trust | \$ 8,198 | \$ 8,198 | \$ — | \$ — |
| Total assets measured at fair value | \$ 8,198 | \$ 8,198 | \$ — | \$ — |

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as property, plant and equipment, goodwill, and other intangible assets. These assets are measured at fair value if determined to be impaired.

Disclosures of Fair Value of Other Assets and Liabilities

The Company's liabilities under its Credit Facility and finance leases are carried at historical cost in the accompanying condensed consolidated balance sheets. Both the Credit Facility and the Company's finance lease obligations are measured using level 2 inputs. The carrying value of the Credit Facility approximates fair value as the interest rate on this instrument approximates current market rates. For disclosure purposes, the Company estimated the fair value of the finance lease obligations using discounted cash flow analysis based on market rates obtained from independent third parties for similar types of debt.

The following table presents the carrying value and estimated fair value of the Company's finance lease obligations as of October 6, 2019 and December 30, 2018 (in thousands):

| | October 6, 2019 | | December 30, 2018 | |
|---------------------------|-----------------|----------------------|-------------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Finance lease obligations | \$ 11,161 | \$ 10,839 | \$ 10,200 | \$ 10,143 |

9. 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. Evaluating contingencies related to litigation is a complex process involving subjective judgment on the potential outcome of future events, and the ultimate resolution of litigated claims may differ from our current analysis. We review the adequacy of accruals and disclosures pertaining to litigation matters each quarter in consultation with legal counsel, and we assess the probability and range of possible losses associated with contingencies for potential accrual in the consolidated financial statements. While it is not possible to predict the outcome of these claims with certainty, management is of the opinion that adequate provision for potential losses associated with these matters has been made in the condensed consolidated financial statements.

Amounts recorded in the periods presented for litigation contingencies related to employment claims are disclosed in Note 6 *Other (Gains) Charges*.

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 2019 and 2018 refer to the twelve and forty week periods ending October 6, 2019 and October 7, 2018, respectively, 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 full-service restaurants with 561 locations in North America. As of October 6, 2019, the Company operated 471 Company-owned restaurants located in 38 states and two Canadian provinces. The Company also had 90 franchised full-service restaurants in 16 states as of October 6, 2019. The Company operates its business as one operating and one reportable segment.

The following summarizes the operational and financial highlights during the twelve and forty weeks ended October 6, 2019:

- *Financial performance.*
 - Restaurant revenue decreased \$0.4 million, or 0.1%, to \$289.9 million for the twelve weeks ended October 6, 2019, as compared to the twelve weeks ended October 7, 2018, due to a \$4.8 million decrease from closed restaurants, partially offset by a \$4.4 million, or 1.6%, increase in comparable restaurant revenue. Restaurant revenue decreased \$22.5 million, or 2.2%, to \$992.8 million for the forty weeks ended October 6, 2019, as compared to the forty weeks ended October 7, 2018, due to a \$12.0 million, or 1.2%, decrease in comparable restaurant revenue, a \$9.5 million, or 0.9% decrease from closed restaurants, and a \$1.0 million unfavorable foreign currency exchange impact.
 - Restaurant operating costs, as a percentage of restaurant revenue, increased 70 basis points to 83.9% for the twelve weeks ended October 6, 2019, as compared to 83.2% for the twelve weeks ended October 7, 2018. The increase was primarily due to higher average wages, increased manager staffing levels, and higher third-party delivery expense driven by increasing volumes, partially offset by a decrease in occupancy costs due to restaurant closures. For the forty weeks ended October 6, 2019, restaurant operating costs, as a percentage of restaurant revenue increased 130 basis points to 82.4%, as compared to 81.1% for the same period in 2018. The increase was primarily due to higher average wages, increased manager staffing levels, and higher third-party delivery expense driven by increasing volumes, offset by a decrease in occupancy costs due to restaurant closures, and lower food and beverage costs.
 - Net loss was \$1.8 million for the twelve weeks ended October 6, 2019 compared to net income of \$1.7 million for the twelve weeks ended October 7, 2018. Diluted loss per share was \$0.14 for the twelve weeks ended October 6, 2019, as compared to diluted earnings per share of \$0.13 for the twelve weeks ended October 7, 2018. Excluding a gain included in Other (gains) charges of \$0.23 for lease terminations for previously closed restaurants, and costs included in Other (gains) charges of \$0.07 for board and stockholder matter costs, \$0.04 for executive transition and severance, and \$0.02 for executive retention, adjusted loss per share for the twelve weeks ended October 6, 2019 was \$0.24. Excluding charges of \$0.03 for reorganization costs, adjusted earnings per diluted share for the twelve weeks ended October 7, 2018 was \$0.16.
 - Net loss was \$0.2 million for the forty weeks ended October 6, 2019 compared to net income of \$4.2 million for the forty weeks ended October 7, 2018. Diluted loss per share was \$0.02 for the forty weeks ended October 6, 2019, as compared to diluted earnings per share of \$0.32 for the forty weeks ended October 7, 2018. Excluding charges included in Other (gains) charges of \$0.80 for asset impairment, \$0.17 for executive transition and severance, \$0.14 for board and stockholder matter costs, and \$0.04 for executive retention, and a gain included in Other (gains) charges of \$0.15 for lease terminations for previously closed restaurants, adjusted earnings per diluted share for the forty weeks ended October 6, 2019 was \$0.98. Excluding charges of \$0.55 for asset impairment, \$0.23 for litigation contingencies, \$0.18 for reorganization costs, and \$0.03 for spiral menu disposal, adjusted earnings per diluted share for the forty weeks ended October 7, 2018 was \$1.31.

- Marketing.** Our Red Robin Royalty™ loyalty program operates in all our U.S. and Canadian 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 of these offerings. Our media buying approach is concentrated on generating significant reach and frequency while on-air. In addition, we use digital, social, and earned media to target and more effectively reach specific segments of our guest base.

Restaurant Data

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

| | Twelve Weeks Ended | | Forty Weeks Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | October 6, 2019 | October 7, 2018 | October 6, 2019 | October 7, 2018 |
| Company-owned: | | | | |
| Beginning of period | 472 | 484 | 484 | 480 |
| Opened during the period ⁽¹⁾ | 1 | 2 | — | 8 |
| Closed during the period | (2) | (1) | (13) | (3) |
| End of period | 471 | 485 | 471 | 485 |
| Franchised: | | | | |
| Beginning of period | 90 | 88 | 89 | 86 |
| Opened during the period | — | 1 | 1 | 3 |
| End of period | 90 | 89 | 90 | 89 |
| Total number of restaurants | 561 | 574 | 561 | 574 |

(1) The restaurant opened during the twelve weeks ended October 6, 2019 consisted of the reopening of one restaurant which was temporarily closed in the second quarter of 2019. Restaurants opened during the twelve and forty weeks ended October 7, 2018 consisted entirely of completed new restaurant openings.

Results of Operations

Operating results for each fiscal period 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 revenue.

This information has been prepared on a basis consistent with our audited 2018 annual financial statements, with the exception of changes made due to the adoption of Topic 842, 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.

| | Twelve Weeks Ended | | Forty Weeks Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | October 6, 2019 | October 7, 2018 | October 6, 2019 | October 7, 2018 |
| Revenues: | | | | |
| Restaurant revenue | 98.5 % | 98.4 % | 98.1 % | 98.4 % |
| Franchise and other revenues | 1.5 | 1.6 | 1.9 | 1.6 |
| Total revenues | 100.0 | 100.0 | 100.0 | 100.0 |
| Costs and expenses: | | | | |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | | | |
| Cost of sales | 23.8 | 23.8 | 23.7 | 23.9 |
| Labor | 36.2 | 35.3 | 35.7 | 34.7 |
| Other operating | 15.3 | 15.0 | 14.4 | 13.9 |
| Occupancy | 8.6 | 9.2 | 8.6 | 8.7 |
| Total restaurant operating costs | 83.9 | 83.2 | 82.4 | 81.1 |
| Depreciation and amortization | 7.2 | 7.4 | 7.0 | 7.1 |
| Selling, general and administrative | 12.5 | 9.8 | 11.8 | 10.7 |
| Pre-opening and acquisition costs | — | 0.1 | — | 0.2 |
| Other (gains) charges | (0.6) | 0.2 | 1.7 | 1.7 |
| (Loss) income from operations | (1.8) | 0.6 | (1.4) | 0.4 |
| Interest expense, net and other | 0.6 | 0.8 | 0.7 | 0.8 |
| Loss before income taxes | (2.4) | (0.2) | (2.2) | (0.3) |
| Income tax benefit | (1.8) | (0.7) | (2.1) | (0.7) |
| Net (loss) income | (0.6)% | 0.6 % | — % | 0.4 % |

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

Revenues

| (Revenues in thousands) | Twelve Weeks Ended | | | Forty Weeks Ended | | |
|--|--------------------|-------------------|----------------|---------------------|---------------------|----------------|
| | October 6, 2019 | October 7, 2018 | Percent Change | October 6, 2019 | October 7, 2018 | Percent Change |
| Restaurant revenue | \$ 289,862 | \$ 290,218 | (0.1)% | \$ 992,764 | \$ 1,015,312 | (2.2)% |
| Franchise royalties, fees and other revenue | 4,360 | 4,659 | (6.4)% | 19,305 | 16,472 | 17.2% |
| Total revenues | \$ 294,222 | \$ 294,877 | (0.2)% | \$ 1,012,069 | \$ 1,031,784 | (1.9)% |
| Average weekly sales volumes in Company-owned restaurants ⁽¹⁾ | \$ 51,221 | \$ 49,925 | 2.6% | \$ 51,961 | \$ 52,379 | (0.8)% |
| Total operating weeks | 5,659 | 5,805 | (2.5)% | 19,106 | 19,346 | (1.2)% |
| Net sales per square foot | \$ 98 | \$ 98 | —% | \$ 334 | \$ 340 | (1.8)% |

(1) Calculated using constant currency rates. Using historical currency rates, the average weekly sales per unit for the twelve and forty weeks ended October 7, 2018 for Company-owned restaurants was \$49,926 and \$52,433, respectively. The Company calculates non-GAAP constant currency average weekly sales per unit by translating prior year local currency average weekly sales per unit to U.S. dollars based on current quarter average exchange rates. The Company considers non-GAAP constant currency average weekly sales per unit to be a useful metric to investors and management as they facilitate a more useful comparison of current performance to historical performance.

Restaurant revenue for the twelve weeks ended October 6, 2019, which comprises primarily food and beverage sales, decreased \$0.4 million, or 0.1%, as compared to second quarter 2018. The decrease was due to a \$4.8 million decrease from closed restaurants, partially offset by a \$4.4 million, or 1.6%, increase in comparable restaurant revenue. The comparable restaurant revenue increase was driven by a 4.7% increase in average guest check partially offset by a 3.1% decrease in guest count. The increase in average guest check comprised a 1.5% increase in pricing and a 3.2% increase in menu mix. The increase in menu mix was primarily driven by the Company's current menu and promotional strategy, resulting in lower Tavern burger sales and higher Finest burger and entrée sales.

Restaurant revenue for the forty weeks ended October 6, 2019, decreased \$22.5 million or 2.2%, as compared to the forty weeks ended October 7, 2018. The decrease was due to a \$12.0 million, or 1.2%, decrease in comparable restaurant revenue, a \$9.5 million, or 0.9% decrease from closed restaurants, and a \$1.0 million unfavorable foreign currency exchange impact. The comparable restaurant revenue decrease was driven by a 5.1% decrease in guest counts partially offset by a 3.9% increase in average guest check. The increase in average guest check resulted from a 1.7% increase in pricing and a 2.2% increase in menu mix. The increase in menu mix was primarily driven by our current menu and promotional strategy, resulting in lower Tavern burger sales and higher Finest burger and entrée sales.

We are focusing on opportunities to improve our service execution, which we believe will drive increased guest counts and comparable restaurant revenue.

Average weekly sales volumes represent the total restaurant revenue for all Company-owned Red Robin 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 not included in the comparable category because they have not 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 footage of our restaurants.

Franchise and other revenue decreased \$0.3 million for the twelve weeks ended October 6, 2019 compared to the twelve weeks ended October 7, 2018 primarily due to a decrease in franchise fees and licensing royalties. Franchise and other revenue increased \$2.8 million for the forty weeks ended October 6, 2019 compared to the forty weeks ended October 7, 2018, primarily due to an increase in gift card breakage. Our franchisees reported a comparable restaurant revenue increase of 3.3% for the twelve weeks ended October 6, 2019 compared to the twelve weeks ended October 7, 2018 and an increase of 0.3% for the forty weeks ended October 6, 2019 compared to the forty weeks ended October 7, 2018.

Cost of Sales

| <u>(In thousands, except percentages)</u> | Twelve Weeks Ended | | | Forty Weeks Ended | | |
|---|--------------------|-----------------|----------------|-------------------|-----------------|----------------|
| | October 6, 2019 | October 7, 2018 | Percent Change | October 6, 2019 | October 7, 2018 | Percent Change |
| Cost of sales | \$ 69,017 | \$ 69,003 | —% | \$ 235,119 | \$ 242,392 | (3.0)% |
| As a percent of restaurant revenue | 23.8% | 23.8% | —% | 23.7% | 23.9% | (0.2)% |

Cost of sales, which comprises food and beverage costs, is variable and generally fluctuates with sales volume. Cost of sales as a percentage of restaurant revenue remained flat for the twelve weeks ended October 6, 2019 as compared to the same period in 2018, and decreased 20 basis points for the forty weeks ended October 6, 2019 as compared to the same period in 2018. The decrease in the latter period was mainly driven by a reduction in alcohol related costs.

Labor

| <u>(In thousands, except percentages)</u> | Twelve Weeks Ended | | | Forty Weeks Ended | | |
|---|--------------------|-----------------|----------------|-------------------|-----------------|----------------|
| | October 6, 2019 | October 7, 2018 | Percent Change | October 6, 2019 | October 7, 2018 | Percent Change |
| Labor | \$ 104,870 | \$ 102,322 | 2.5% | \$ 354,302 | \$ 351,813 | 0.7% |
| As a percent of restaurant revenue | 36.2% | 35.3% | 0.9% | 35.7% | 34.7% | 1.0% |

Labor costs include restaurant-level hourly wages and management salaries as well as related taxes and benefits. For the twelve weeks ended October 6, 2019, labor as a percentage of restaurant revenue increased 90 basis points compared to the same period in 2018. The increase was primarily driven by higher average wage rates and increased manager staffing levels within the restaurants.

For the forty weeks ended October 6, 2019, labor as a percentage of restaurant revenue increased 100 basis points compared to the same period in 2018. The increase was primarily driven by higher average wage rates and increased manager staffing levels within the restaurants.

Other Operating

| <u>(In thousands, except percentages)</u> | Twelve Weeks Ended | | | Forty Weeks Ended | | |
|---|--------------------|-----------------|----------------|-------------------|-----------------|----------------|
| | October 6, 2019 | October 7, 2018 | Percent Change | October 6, 2019 | October 7, 2018 | Percent Change |
| Other operating | \$ 44,317 | \$ 43,612 | 1.6% | \$ 142,882 | \$ 141,305 | 1.1% |
| As a percent of restaurant revenue | 15.3% | 15.0% | 0.3% | 14.4% | 13.9% | 0.5% |

Other operating costs include costs such as equipment repairs and maintenance costs, restaurant supplies, utilities, restaurant technology, and other miscellaneous costs. For the twelve week period ended October 6, 2019, other operating costs as a percentage of restaurant revenue increased 30 basis points as compared to the same period in 2018. The increase was primarily due to higher third-party delivery expense driven by increasing volumes, partially offset by a decrease in utilities and other restaurant expenses.

For the forty week period ended October 6, 2019, other operating costs as a percentage of restaurant revenue increased 50 basis points as compared to the same period in 2018. The increase was primarily due to higher third-party delivery expense driven by increasing volumes, partially offset by a decrease in utilities and other restaurant expenses.

Occupancy

| <u>(In thousands, except percentages)</u> | Twelve Weeks Ended | | | Forty Weeks Ended | | |
|---|--------------------|-----------------|----------------|-------------------|-----------------|----------------|
| | October 6, 2019 | October 7, 2018 | Percent Change | October 6, 2019 | October 7, 2018 | Percent Change |
| Occupancy | \$ 24,942 | \$ 26,629 | (6.3)% | \$ 85,420 | \$ 88,099 | (3.0)% |
| As a percent of restaurant revenue | 8.6% | 9.2% | (0.6)% | 8.6% | 8.7% | (0.1)% |

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 twelve week period ended October 6, 2019, occupancy costs as a percentage of restaurant revenue decreased 60 basis points over the same periods in 2018 primarily due to restaurant closures. For the forty week period ended October 6, 2019, occupancy costs as a percentage of restaurant revenue remained flat.

Our fixed rents for the twelve weeks ended October 6, 2019 and October 7, 2018 were \$16.9 million and \$17.7 million, a decrease of \$0.8 million due to a net decrease in store count resulting from two locations permanently closed during the period. Our fixed rents for the forty weeks ended October 6, 2019 and October 7, 2018 were \$57.1 million and \$58.9 million, a decrease of \$1.8 million due to a net decrease in store count resulting from thirteen locations permanently closed during the period.

Depreciation and Amortization

| (In thousands, except percentages) | Twelve Weeks Ended | | | Forty Weeks Ended | | |
|------------------------------------|--------------------|-----------------|----------------|-------------------|-----------------|----------------|
| | October 6, 2019 | October 7, 2018 | Percent Change | October 6, 2019 | October 7, 2018 | Percent Change |
| Depreciation and amortization | \$ 21,280 | \$ 21,819 | (2.5)% | \$ 71,087 | \$ 73,335 | (3.1)% |
| As a percent of total revenues | 7.2% | 7.4% | (0.2)% | 7.0% | 7.1% | (0.1)% |

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 twelve and forty week periods ended October 6, 2019, depreciation and amortization expense as a percentage of revenue remained flat over the same periods in 2018.

Selling, General, and Administrative

| (In thousands, except percentages) | Twelve Weeks Ended | | | Forty Weeks Ended | | |
|--------------------------------------|--------------------|-----------------|----------------|-------------------|-----------------|----------------|
| | October 6, 2019 | October 7, 2018 | Percent Change | October 6, 2019 | October 7, 2018 | Percent Change |
| Selling, general, and administrative | \$ 36,776 | \$ 28,780 | 27.8% | \$ 120,126 | \$ 110,715 | 8.5% |
| As a percent of total revenues | 12.5% | 9.8% | 2.7% | 11.8% | 10.7% | 1.1% |

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

Selling, general, and administrative costs in the twelve weeks ended October 6, 2019 increased \$8.0 million, or 27.8%, as compared to the same period in 2018. The increase was primarily due to interim CEO expenses, lower incentive based costs in 2018, and higher local and national media spend to support the launch of the Company's new creative brand campaign, partially offset by decreases in professional services and travel. For the forty weeks ended October 6, 2019, selling, general, and administrative costs increased \$9.4 million, or 8.5%, as compared to the same period in 2018. The increase was primarily related to an increase in local and national media spend to support the launch of the Company's new creative brand campaign as well as higher professional services fees, interim CEO expenses, and lower incentive based costs in 2018.

Pre-opening Costs

| (In thousands, except percentages) | Twelve Weeks Ended | | | Forty Weeks Ended | | |
|------------------------------------|--------------------|-----------------|----------------|-------------------|-----------------|----------------|
| | October 6, 2019 | October 7, 2018 | Percent Change | October 6, 2019 | October 7, 2018 | Percent Change |
| Pre-opening costs | \$ — | \$ 387 | (100.0)% | \$ 319 | \$ 2,093 | (84.8)% |
| As a percent of total revenues | —% | 0.1% | (0.1)% | —% | 0.2% | (0.2)% |

Pre-opening costs, which are expensed as incurred, comprise the costs of labor, hiring, and training the initial work force for our new restaurants and new initiatives; occupancy costs incurred prior to opening; travel expenses for our training teams; the cost of food and beverages used in training; licenses and marketing; 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 costs 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.

We incurred no pre-opening costs during the twelve weeks ended October 6, 2019, which is a decrease of \$0.4 million as compared to the same period in 2018. The decrease was due to no new restaurant openings during the twelve week period ended October 6, 2019 as compared to two restaurant openings during the same period in 2018. Pre-opening costs decreased \$1.8 million for the forty weeks ended October 6, 2019 as compared to the same period in 2018. The decrease was due to no new restaurant openings during the forty week period ended October 6, 2019 as compared to eight new restaurant openings during the same period in 2018.

Interest Expense, Net and Other

Interest expense, net and other was \$1.8 million for the twelve weeks ended October 6, 2019, a decrease of \$0.5 million, or 21.0%, from the same period in 2018. Interest expense, net and other was \$7.2 million for the forty weeks ended October 6, 2019, a decrease of \$0.9 million, or 10.9%, from the same period in 2018. The decrease was primarily related to recognizing a larger gain on the Company's deferred compensation plan assets and a lower weighted average outstanding line of credit balance compared to the same period in 2018. Our weighted average interest rate was 5.1% and 5.0% for the twelve weeks and forty weeks ended October 6, 2019, respectively, as compared to 4.4% and 4.1% for the twelve weeks and forty weeks ended October 7, 2018, respectively.

Provision for Income Taxes

The effective tax benefit for the twelve weeks ended October 6, 2019 was 74.1%, compared to 448.3% benefit for the twelve weeks ended October 7, 2018. The effective tax benefit for the forty weeks ended October 6, 2019 and October 7, 2018 was 99.1% and 221.2%, respectively. The change in both the twelve weeks and forty weeks ended October 6, 2019 is primarily due to the decrease in income compared to the same periods in 2018.

Liquidity and Capital Resources

Cash and cash equivalents increased \$1.6 million to \$20.2 million at October 6, 2019, from \$18.6 million at the beginning of the fiscal year. We expect to continue to reinvest available cash flows from operations to pay down debt, maintain existing restaurants and infrastructure, execute our long-term strategic initiatives, and repurchase our common stock.

Cash Flows

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

| | Forty Weeks Ended | |
|---|-------------------|-----------------|
| | October 6, 2019 | October 7, 2018 |
| Net cash provided by operating activities | \$ 41,617 | \$ 88,780 |
| Net cash used in investing activities | (32,900) | (39,577) |
| Net cash used in financing activities | (7,156) | (45,657) |
| Effect of currency translation on cash | 81 | (892) |
| Net increase in cash and cash equivalents | <u>\$ 1,642</u> | <u>\$ 2,654</u> |

Operating Cash Flows

Net cash flows provided by operating activities decreased \$47.2 million to \$41.6 million for the forty weeks ended October 6, 2019. The changes in net cash provided by operating activities are primarily attributable to a \$16.4 million decrease in profit from operations for the forty weeks ended October 6, 2019 compared to the same period in 2018, as well as changes in working capital as presented in the condensed consolidated statements of cash flows.

Investing Cash Flows

Net cash flows used in investing activities decreased \$6.7 million to \$32.9 million for the forty weeks ended October 6, 2019, as compared to \$39.6 million for the same period in 2018. The decrease is primarily due to decreased investment in new restaurant openings.

The following table lists the components of our capital expenditures, net of currency translation effect, for the forty weeks ended October 6, 2019 (in thousands):

| | Forty Weeks Ended October 6, 2019 | |
|---|-----------------------------------|---------------|
| Investment in technology infrastructure and other | \$ | 16,832 |
| Restaurant maintenance capital and other | | 13,128 |
| Restaurant remodels | | 3,118 |
| Total capital expenditures | <u>\$</u> | <u>33,078</u> |

Financing Cash Flows

Cash used in financing activities decreased \$38.5 million to \$7.2 million for the forty weeks ended October 6, 2019, as compared to the same period in 2018. The decrease primarily resulted from a \$40.6 million decrease in net repayments made on long-term debt, offset by an increase of \$2.1 million of cash used to repurchase the Company's common stock.

Credit Facility

On June 30, 2016, the Company entered into a credit facility (the "Credit Facility"), which provides for a \$400 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. On August 19, 2019, the Company entered into a second amendment (the "Amendment") to the Credit Facility. The Amendment increases the lease adjusted leverage ratio to 5.0x through December 29, 2019 before returning to 4.75x thereafter. In addition, the Amendment revises the definition of permitted acquisitions under the Credit Facility to correspond with the change to the lease adjusted leverage ratio and clarifies the classification of existing capital and operating leases. The Company's lease adjusted leverage ratio was 4.55x as of October 6, 2019. The lease adjusted leverage ratio is defined in Section 1.1 of the Credit Facility, which is filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 5, 2016, as further amended by the Amendment filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 23, 2019.

The Credit Facility matures on June 30, 2021. Borrowings under the 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. Borrowings 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 any of our lenders will be unable to fulfill their lending commitments under our Credit Facility. Loan origination costs associated with the Credit Facility are included as deferred costs in Other assets, net in the accompanying condensed consolidated balance sheets. As of October 6, 2019, the Company had outstanding borrowings under the Credit Facility of \$188.0 million, in addition to amounts issued under letters of credit of \$7.5 million. Amounts issued under letters of credit reduce the amount available under the Credit Facility but are not recorded as debt. As of October 6, 2019, we had unused borrowing capacity under the Credit Facility of approximately \$204.5 million.

Covenants

We are subject to a number of customary covenants under our Credit Facility, including limitations on additional borrowings, acquisitions, stock repurchases, sales of assets, and dividend payments. As of October 6, 2019, we were in compliance with all debt covenants.

Debt Outstanding

Total debt outstanding decreased \$4.5 million to \$188.9 million at October 6, 2019, from \$193.4 million at December 30, 2018, due to net repayments of \$4.5 million on the Credit Facility during the forty weeks ended October 6, 2019.

Working Capital

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 Credit Facility to satisfy short-term liquidity requirements. We believe our future cash flows generated from restaurant operations combined with our remaining borrowing capacity under the Credit Facility will be sufficient to satisfy any working capital deficits and our planned capital expenditures.

Share Repurchase

On August 9, 2018, the Company's board of directors authorized the Company's current share repurchase program of up to a total of \$75 million of the Company's common stock. The share repurchase authorization was effective as of August 9, 2018, and will terminate upon completing repurchases of \$75 million of common stock unless otherwise terminated by the board. Pursuant to the repurchase program, purchases may be made from time to time at the Company's discretion and the Company is not obligated to acquire any particular amount of common stock. From the date of the current program approval through October 6, 2019, we have repurchased a total of 119,600 shares at an average price of \$32.77 per share for an aggregate amount of \$3.9 million. Accordingly, as of October 6, 2019, we had \$71.1 million of availability under the current share repurchase program. Our ability to repurchase shares could be limited to conditions set forth by our lenders in the Credit Facility.

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 rates 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 labor cost inflation had a negative impact on our financial condition and results of operations during the twelve and forty weeks ended October 6, 2019. Uncertainties related to fluctuations in costs, including energy costs, commodity prices, annual indexed or potential minimum wage increases, and construction materials make it difficult to predict what impact, if any, inflation may continue to have on our business, but it is anticipated inflation will have a negative impact on labor costs for the remainder of 2019.

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 and lower during the fall 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.

Contractual Obligations

There were no 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 30, 2018.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those 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 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 use different assumptions or conditions. We had no significant changes in our critical accounting policies and estimates which were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

Recently Issued and Recently Adopted Accounting Standards

See Note 1, *Basis of Presentation and Recent Accounting Pronouncements*, of Notes to Condensed Consolidated Financial Statements of this report.

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,” “could,” “expect,” “future,” “intend,” “may,” “plan,” “project,” “will,” “would,” and similar expressions. Certain forward-looking statements are included in this Quarterly Report on Form 10-Q, principally in the sections captioned “Financial Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements in this report include, among other things: our financial performance, strategic initiatives, marketing strategy and promotions; expected uses for available cash flow; capital investments; beliefs about the ability of our lenders to fulfill their lending commitments under our Credit Facility and about the sufficiency of future cash flows to satisfy any working capital deficit and planned capital expenditures; the anticipated effects of inflation on labor and commodity costs; and the effect of the adoption of new accounting standards on our financial and accounting systems.

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 strategy and improvement initiatives, including the effectiveness of our overall value proposition, service improvement, technology, and off-premise initiatives to drive traffic and sales; the effectiveness of our marketing campaigns; our ability to effectively use and monitor social media; uncertainty regarding general economic and industry conditions; concentration of restaurants in certain markets; changes in consumer disposable income, consumer spending trends and habits; the effectiveness of our information technology and new technology systems, including cyber security with respect to those systems; regional mall and lifestyle center traffic trends or other trends affecting traffic at our restaurants; 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, and distribution costs; changes in energy and labor costs, including due to changes in health care and market wage levels; changes in federal, state, or local laws and regulations affecting the operation of our restaurants, including but not limited to, minimum wages, consumer health and safety, health insurance coverage, nutritional disclosures, and employment eligibility-related documentation requirements; our franchising strategy; limitations on our ability to execute stock repurchases at all or at the times or in the amounts we currently anticipate due to lack of available share or acceptable stock price levels or other market or Company-specific conditions, including limitations in our Credit Facility, or to otherwise achieve anticipated benefits of a share repurchase program; our ability to attract and retain qualified managers and Team Members; the adequacy of cash flows or available access to capital or debit resources under our Credit Facility or otherwise to fund operations and growth opportunities; costs and other effects of legal claims by team members, franchisees, customers, vendors, stockholders, including relating to fluctuations in our stock price, and others, including settlement of those claims or negative publicity regarding food safety or cyber security; the impact of our adoption of a shareholder rights plan; 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 30, 2018, filed with the SEC on February 27, 2019.

Although we believe 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

There has been no material change in the interest rate risk, foreign currency exchange risk, or commodity price risk since the filing of the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

We continue to monitor our interest rate risk on an ongoing basis and may use interest rate swaps or similar instruments in the future to manage our exposure to interest rate changes related to our borrowings as the Company deems appropriate. As of October 6, 2019, we had \$188.0 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 \$1.9 million on an annualized basis.

The Company's restaurant menus are highly dependent upon a few select commodities, including ground beef, poultry, and potatoes. We may or may not have the ability to increase menu prices, or vary menu items, in response to commodity price increases. A 1.0% increase in food and beverage costs would negatively impact cost of sales by approximately \$3.1 million on an annualized basis.

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 were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

For a description of our legal proceedings, see Note 9, *Commitments and Contingencies*, of Notes to Condensed Consolidated Financial Statements of this report.

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 30, 2018 filed with the SEC on February 27, 2019. There have been no material changes to our risk factors disclosed in our 2018 Annual Report on Form 10-K.

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

During the twelve weeks ended October 6, 2019, 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 August 9, 2018, the Company's board of directors authorized the Company's current share repurchase program of up to a total of \$75 million of the Company's common stock. The share repurchase authorization became effective on August 9, 2018 and will terminate upon completing repurchases of \$75 million of common stock unless otherwise terminated by the board. Purchases under the repurchase program may be made in open market or privately negotiated transactions and may include transactions pursuant to a repurchase plan administered in accordance with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended. 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 the Company may suspend or discontinue the repurchase program at any time. The table below provides a summary of the Company's purchases of its own common stock during the third quarter of 2019.

| Period ⁽¹⁾ | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plan (in thousands) |
|---|--|---|---|--|
| 7/15/19-8/11/19 | 9,400 | 32.76 | 100.1 | 71,743 |
| 8/12/19-9/8/19 | 9,300 | 32.79 | 109.4 | 71,438 |
| 9/9/19-10/6/19 | 10,200 | 33.88 | 119.6 | 71,092 |
| Pursuant to Publicly Announced Plans or Programs ⁽²⁾ | 28,900 | | | |

(1) The reported periods conform to the Company's fiscal calendar composed of thirteen 28-day periods.

(2) Since August 9, 2018, when the current share repurchase program of \$75 million of the Company's common stock was authorized, the Company has purchased 119,600 shares for a total of \$3.9 million.

ITEM 6. Exhibits

| Exhibit Number | Description |
|-----------------------|---|
| 10.1 | Employment Agreement, by and between Red Robin Gourmet Burgers, Inc. and Paul Murphy, dated September 2, 2019. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on September 5, 2019. |
| 10.2 | Second Amendment to Credit Agreement, dated August 19, 2019. Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on August 23, 2019. |
| 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 October 6, 2019 formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at October 6, 2019 and December 30, 2018; (ii) Condensed Consolidated Statements of Operations and Comprehensive Income for the twelve and forty weeks ended October 6, 2019 and October 7, 2018; (iii) Condensed Consolidated Statements of Stockholders' Equity at October 6, 2019 and December 30, 2018; (iv) Condensed Consolidated Statements of Cash Flows for the forty weeks ended October 6, 2019 and October 7, 2018; and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. |

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.

November 5, 2019

(Date)

RED ROBIN GOURMET BURGERS, INC.
(Registrant)

By:

/s/ Lynn S. Schweinfurth

Lynn S. Schweinfurth
(Chief Financial Officer)

CEO CERTIFICATION

I, Paul Murphy, certify that:

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

November 5, 2019

(Date)

/s/ Paul Murphy

Paul Murphy

Chief Executive Officer

CFO CERTIFICATION

I, Lynn S. Schweinfurth, certify that:

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

November 5, 2019

(Date)

/s/ Lynn S. Schweinfurth

Lynn S. Schweinfurth
Chief Financial Officer

**Written Statement
Pursuant To
18 U.S.C. Section 1350**

In connection with the Quarterly Report of Red Robin Gourmet Burgers, Inc. (the "Company") on Form 10-Q for the period ended October 6, 2019, as filed with the Securities and Exchange Commission on November 5, 2019 (the "Report"), the undersigned, Paul Murphy, Chief Executive Officer, and Lynn S. Schweinfurth, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Quarterly Report on Form 10-Q for the period ended October 6, 2019 of the Company (the "Periodic Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2019

/s/ Paul Murphy

Paul Murphy
Chief Executive Officer

Dated: November 5, 2019

/s/ Lynn S. Schweinfurth

Lynn S. Schweinfurth
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Red Robin Gourmet Burgers, Inc. and will be retained by Red Robin Gourmet Burgers, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.