

**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 July 13, 2014

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

No

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

**Class**

**Outstanding at August 12, 2014**

Common Stock, \$0.001 par value per share

14,346,630

**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)  
(Unaudited)

|  | July 13, 2014 | December 29, 2013 |
|--|---------------|-------------------|
| <b>Assets:</b>   |               |                   |
| Current assets:  |               |                   |
| Cash and cash equivalents  | \$ 60,543     | \$ 17,108         |
| Accounts receivable, net   | 14,409        | 22,568            |
| Inventories  | 22,781        | 21,992            |
| Prepaid expenses and other current assets  | 12,484        | 15,766            |
| Deferred tax asset and other   | 6,120         | 3,212             |
| Total current assets   | 116,337       | 80,646            |
| Property and equipment, net  | 467,426       | 444,727           |
| Goodwill   | 64,647        | 62,525            |
| Intangible assets, net   | 37,974        | 36,800            |
| Other assets, net  | 11,996        | 9,947             |
| Total assets   | \$ 698,380    | \$ 634,645        |
| <b>Liabilities and stockholders' equity:</b>   |               |                   |
| Current liabilities:   |               |                   |
| Trade accounts payable   | \$ 18,983     | \$ 19,117         |
| Construction related payables  | 16,276        | 14,682            |
| Accrued payroll and payroll-related liabilities  | 40,120        | 45,919            |
| Unearned revenue   | 26,748        | 35,740            |
| Accrued liabilities and other  | 28,690        | 24,454            |
| Total current liabilities  | 130,817       | 139,912           |
| Deferred rent  | 55,479        | 51,985            |
| Long-term debt   | 128,375       | 79,375            |
| Long-term portion of capital lease obligations   | 8,195         | 8,513             |
| Other non-current liabilities  | 9,319         | 7,457             |
| Total liabilities  | 332,185       | 287,242           |
| Stockholders' equity:  |               |                   |
| Common stock; \$0.001 par value; 30,000 shares authorized; 17,845 and 17,851 shares issued; 14,344 and 14,350 shares outstanding | 18            | 18                |
| Preferred stock, \$0.001 par value; 3,000 shares authorized; no shares issued and outstanding                                    | —             | —                 |
| Treasury stock 3,501 and 3,501 shares, at cost   | (114,759)     | (110,486)         |
| Paid-in capital  | 198,812       | 197,145           |
| Accumulated other comprehensive loss, net of tax   | (41)          | (25)              |
| Retained earnings  | 282,165       | 260,751           |
| Total stockholders' equity   | 366,195       | 347,403           |
| Total liabilities and stockholders' equity   | \$ 698,380    | \$ 634,645        |

See Notes to Condensed Consolidated Financial Statements.

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

|  | Twelve Weeks Ended |                  | Twenty-eight Weeks Ended |                  |
|--|--------------------|------------------|--------------------------|------------------|
|  | July 13, 2014      | July 14, 2013    | July 13, 2014            | July 14, 2013    |
| <b>Revenues:</b>   |                    |                  |                          |                  |
| Restaurant revenue   | \$ 251,818         | \$ 234,490       | \$ 586,813               | \$ 535,803       |
| Franchise royalties, fees and other revenues   | 4,315              | 3,809            | 9,804                    | 8,845            |
| Total revenues   | <u>256,133</u>     | <u>238,299</u>   | <u>596,617</u>           | <u>544,648</u>   |
| <b>Costs and expenses:</b>   |                    |                  |                          |                  |
| Restaurant operating costs (excluding depreciation and amortization shown separately below): |                    |                  |                          |                  |
| Cost of sales  | 63,689             | 58,024           | 147,909                  | 133,006          |
| Labor  | 82,572             | 76,648           | 193,493                  | 178,530          |
| Other operating  | 31,022             | 28,463           | 71,619                   | 65,553           |
| Occupancy  | 18,618             | 16,779           | 42,900                   | 39,352           |
| Depreciation and amortization  | 14,120             | 13,319           | 33,006                   | 31,153           |
| Selling, general and administrative expenses   | 30,320             | 28,386           | 72,743                   | 65,994           |
| Pre-opening and acquisition costs  | 2,326              | 1,291            | 4,439                    | 2,125            |
| Total costs and expenses   | <u>242,667</u>     | <u>222,910</u>   | <u>566,109</u>           | <u>515,713</u>   |
| Income from operations   | 13,466             | 15,389           | 30,508                   | 28,935           |
| <b>Other expense:</b>  |                    |                  |                          |                  |
| Interest expense, net and other  | 475                | 674              | 1,149                    | 1,763            |
| Income before income taxes   | 12,991             | 14,715           | 29,359                   | 27,172           |
| Provision for income taxes   | 3,521              | 3,576            | 7,945                    | 6,553            |
| Net income   | <u>\$ 9,470</u>    | <u>\$ 11,139</u> | <u>\$ 21,414</u>         | <u>\$ 20,619</u> |
| <b>Earnings per share:</b>   |                    |                  |                          |                  |
| Basic  | <u>\$ 0.66</u>     | <u>\$ 0.78</u>   | <u>\$ 1.49</u>           | <u>\$ 1.46</u>   |
| Diluted  | <u>\$ 0.65</u>     | <u>\$ 0.77</u>   | <u>\$ 1.47</u>           | <u>\$ 1.43</u>   |
| <b>Weighted average shares outstanding:</b>  |                    |                  |                          |                  |
| Basic  | <u>14,312</u>      | <u>14,209</u>    | <u>14,335</u>            | <u>14,134</u>    |
| Diluted  | <u>14,528</u>      | <u>14,475</u>    | <u>14,565</u>            | <u>14,415</u>    |

See Notes to Condensed Consolidated Financial Statements.

**RED ROBIN GOURMET BURGERS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(In thousands)**  
**(Unaudited)**

|   | Twelve Weeks Ended |                  | Twenty-eight Weeks Ended |                  |
|---|--------------------|------------------|--------------------------|------------------|
|   | July 13,<br>2014   | July 14,<br>2013 | July 13,<br>2014         | July 14,<br>2013 |
| Net income  | \$ 9,470           | \$ 11,139        | \$ 21,414                | \$ 20,619        |
| Cash flow hedges:   |                    |                  |                          |                  |
| Net change in fair value of interest rate swap                              | (7)                | 130              | (77)                     | 50               |
| Net loss reclassified into interest expense                                 | 22                 | 18               | 51                       | 38               |
| Total change in unrealized loss related to cash flow hedges                 | 15                 | 148              | (26)                     | 88               |
| Income tax expense (benefit) related to items of other comprehensive income | (6)                | (62)             | 10                       | (38)             |
| Other comprehensive income (loss), net of tax                               | 9                  | 86               | (16)                     | 50               |
| Total comprehensive income  | <u>\$ 9,479</u>    | <u>\$ 11,225</u> | <u>\$ 21,398</u>         | <u>\$ 20,669</u> |

See Notes to Condensed Consolidated Financial Statements.

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

|   | Twenty-eight Weeks Ended |               |
|---|--------------------------|---------------|
|   | July 13, 2014            | July 14, 2013 |
| Cash flows from operating activities:   |                          |               |
| Net income  | \$ 21,414                | \$ 20,619     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |               |
| Depreciation and amortization   | 33,006                   | 31,153        |
| Stock-based compensation expense  | 2,030                    | 2,242         |
| Other, net  | (1,338)                  | (1,319)       |
| Changes in operating assets and liabilities:                                      |                          |               |
| Accounts receivable   | 7,311                    | 3,374         |
| Trade accounts payable and accrued liabilities                                    | (415)                    | 15,591        |
| Unearned revenue  | (7,976)                  | (6,810)       |
| Other operating assets and liabilities, net                                       | 2,051                    | 6,155         |
| Net cash provided by operating activities   | 56,083                   | 71,005        |
| Cash flows from investing activities:   |                          |               |
| Purchases of property, equipment and intangible assets                            | (48,729)                 | (31,689)      |
| Acquisition of franchise restaurants, net of cash acquired                        | (7,942)                  | —             |
| Other investing activities  | 93                       | —             |
| Net cash used in investing activities   | (56,578)                 | (31,689)      |
| Cash flows from financing activities:   |                          |               |
| Borrowings of long-term debt  | 140,000                  | 78,500        |
| Payments of long-term debt and capital leases                                     | (91,404)                 | (131,379)     |
| Purchase of common stock  | (8,078)                  | —             |
| Debt issuance costs   | (690)                    | —             |
| Tax benefit from exercise of stock options  | 1,691                    | 1,335         |
| Proceeds from exercise of stock options and employee stock purchase plan          | 2,411                    | 6,333         |
| Net cash provided by (used in) financing activities                               | 43,930                   | (45,211)      |
| Net increase (decrease) in cash and cash equivalents                              | 43,435                   | (5,895)       |
| Cash and cash equivalents, beginning of period                                    | 17,108                   | 22,440        |
| Cash and cash equivalents, end of period  | \$ 60,543                | \$ 16,545     |
| Supplemental of cash flow information   |                          |               |
| Income taxes paid   | \$ 8,579                 | \$ 3,260      |
| Interest paid, net of amounts capitalized   | \$ 1,584                 | \$ 1,424      |

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”), develops and operates casual-dining restaurants. As of July 13, 2014, the Company owned and operated 372 restaurants located in 35 states. The Company also sells franchises, of which there were 130 restaurants, in 19 states and two Canadian provinces as of July 13, 2014. The Company operates its business as one operating and one reportable segment.

*Basis of Presentation*

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

The accompanying condensed consolidated financial statements of Red Robin have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in the Company’s annual consolidated financial statements on Form 10-K have been condensed or omitted. The condensed consolidated balance sheet as of December 29, 2013 has been derived from the audited consolidated financial statements as of that date, but does not include all disclosures required by generally accepted accounting principles. 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 29, 2013, filed with the SEC on February 24, 2014.

The Company’s quarter that ended July 13, 2014 is referred to as second quarter 2014, or the twelve weeks ended July 13, 2014; the first quarter ended April 20, 2014 is referred to as first quarter 2014, or the sixteen weeks ended April 20, 2014; and together the first and second quarters of 2014 are referred to as the twenty-eight weeks ended July 13, 2014. The Company’s quarter that ended July 14, 2013 is referred to as second quarter 2013, or the twelve weeks ended July 14, 2013; the first quarter ended April 21, 2013 is referred to as first quarter 2013, or the sixteen weeks ended April 21, 2013; and together the first and second quarters of 2013 are referred to as the twenty-eight weeks ended July 14, 2013.

*Recently Issued Accounting Standards*

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

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

## 2. Goodwill and Intangible Assets

The following table presents goodwill as of July 13, 2014 and December 29, 2013 (in thousands):

|                            |    |               |
|----------------------------|----|---------------|
| Balance, December 29, 2013 | \$ | 62,525        |
| Acquisition                |    | 2,122         |
| Balance, July 13, 2014     | \$ | <u>64,647</u> |

The Company has had no goodwill impairment losses in the periods presented in the above table or any prior periods. Refer to Note 5 *Acquisition of Red Robin Franchised Restaurants* for details of the acquisition.

The following table presents intangible assets as of July 13, 2014 and December 29, 2013 (in thousands):

|  | July 13, 2014         |                          |                     | December 29, 2013     |                          |                     |
|--|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|  | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Intangible assets subject to amortization: |                       |                          |                     |                       |                          |                     |
| Franchise rights                           | \$ 46,406             | \$ (19,008)              | \$ 27,398           | \$ 43,330             | \$ (17,622)              | \$ 25,708           |
| Leasehold interests                        | 12,476                | (5,251)                  | 7,225               | 12,476                | (4,875)                  | 7,601               |
| Liquor licenses                            | 9,942                 | (9,436)                  | 506                 | 9,924                 | (9,278)                  | 646                 |
|  | <u>\$ 68,824</u>      | <u>\$ (33,695)</u>       | <u>\$ 35,129</u>    | <u>\$ 65,730</u>      | <u>\$ (31,775)</u>       | <u>\$ 33,955</u>    |
| Indefinite-lived intangible assets:        |                       |                          |                     |                       |                          |                     |
| Liquor licenses                            | \$ 2,845              | \$ —                     | \$ 2,845            | \$ 2,845              | \$ —                     | \$ 2,845            |
| Intangible assets, net                     | <u>\$ 71,669</u>      | <u>\$ (33,695)</u>       | <u>\$ 37,974</u>    | <u>\$ 68,575</u>      | <u>\$ (31,775)</u>       | <u>\$ 36,800</u>    |

There were no impairments to intangible assets during the twenty-eight weeks ended July 13, 2014 and July 14, 2013. The aggregate amortization expense related to intangible assets subject to amortization was \$0.9 million and \$1.0 million for the twelve weeks ended July 13, 2014 and July 14, 2013, and \$1.9 million and \$2.3 million for the twenty-eight weeks ended July 13, 2014 and July 14, 2013.

The estimated aggregate future amortization expense as of July 13, 2014 is as follows, (in thousands):

|                   |    |               |
|-------------------|----|---------------|
| Remainder of 2014 | \$ | 1,642         |
| 2015              |    | 3,267         |
| 2016              |    | 3,036         |
| 2017              |    | 2,922         |
| 2018              |    | 2,769         |
| Thereafter        |    | 21,493        |
|                   | \$ | <u>35,129</u> |

## 3. Stock Incentive Plans

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



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

|  | Twelve Weeks Ended |               | Twenty-eight Weeks Ended |               |
|--|--------------------|---------------|--------------------------|---------------|
|  | July 13, 2014      | July 14, 2013 | July 13, 2014            | July 14, 2013 |
| Risk-free interest rate  | 1.5 %              | 1.0 %         | 1.7 %                    | 0.7 %         |
| Expected years until exercise  | 5.0                | 4.1           | 5.8                      | 4.2           |
| Expected stock volatility  | 46.1 %             | 44.2 %        | 44.8 %                   | 44.4 %        |
| Dividend yield   | — %                | — %           | — %                      | — %           |
| Weighted average Black-Scholes fair value per share at date of grant | \$ 30.05           | \$ 21.14      | \$ 31.43                 | \$ 15.19      |

The following table presents a summary of the Company's stock-based compensation activity for the twenty-eight weeks ended July 13, 2014 (in thousands):

|                                | Stock Options | Restricted Stock Units |
|--------------------------------|---------------|------------------------|
| Outstanding, December 29, 2013 | 491           | 139                    |
| Granted                        | 67            | 19                     |
| Forfeited/expired              | (6)           | (4)                    |
| Exercised/vested               | (42)          | (22)                   |
| Outstanding, April 20, 2014    | 510           | 132                    |
| Granted                        | 5             | 13                     |
| Forfeited/expired              | (3)           | (1)                    |
| Exercised/vested               | (19)          | (33)                   |
| Outstanding, July 13, 2014     | 493           | 111                    |

We recognized expense from stock-based compensation for twelve weeks and twenty-eight weeks ended July 13, 2014 and July 14, 2013 as follows (in thousands):

|   | Twelve Weeks Ended |               | Twenty-eight Weeks Ended |               |
|---|--------------------|---------------|--------------------------|---------------|
|   | July 13, 2014      | July 14, 2013 | July 13, 2014            | July 14, 2013 |
| Labor related                               | \$ 18              | \$ 34         | \$ 49                    | \$ 103        |
| Selling, general and administrative related | 1,003              | 1,016         | 1,981                    | 2,139         |
| Total stock-based compensation              | \$ 1,021           | \$ 1,050      | \$ 2,030                 | \$ 2,242      |

#### 4. Earnings Per Share

Basic earnings per share amounts are calculated by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share amounts are calculated based upon the weighted-average number of shares of common stock and potentially dilutive shares of common stock outstanding during the period. Potentially dilutive shares are excluded from the computation in periods in which they have an anti-dilutive effect. Diluted earnings per share reflect the potential dilution that could occur if holders of options exercised their options into common stock. During the twelve and twenty-eight weeks ended July 13, 2014, weighted average stock options outstanding of 67 thousand shares and 49 thousand shares were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented. During the twelve and twenty-eight weeks ended July 14, 2013, weighted average stock options outstanding of 125 thousand shares and four thousand shares were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented. The Company uses the treasury stock method to calculate the effect of outstanding stock options. The computations for basic and diluted earnings per share are as follows (in thousands, except per share data):

|   | Twelve Weeks Ended |               | Twenty-eight Weeks Ended |               |
|---|--------------------|---------------|--------------------------|---------------|
|   | July 13, 2014      | July 14, 2013 | July 13, 2014            | July 14, 2013 |
| Net income                                  | \$ 9,470           | \$ 11,139     | \$ 21,414                | \$ 20,619     |
| Basic weighted average shares outstanding   | 14,312             | 14,209        | 14,335                   | 14,134        |
| Dilutive effect of stock options and awards | 216                | 266           | 230                      | 281           |
| Diluted weighted average shares outstanding | 14,528             | 14,475        | 14,565                   | 14,415        |
| Earnings per share:                         |                    |               |                          |               |
| Basic                                       | \$ 0.66            | \$ 0.78       | \$ 1.49                  | \$ 1.46       |
| Diluted                                     | \$ 0.65            | \$ 0.77       | \$ 1.47                  | \$ 1.43       |

#### 5. Acquisition of Red Robin® Franchised Restaurants

On March 24, 2014, the Company acquired four restaurants from one of its franchisees. The purchase price was \$7.9 million in cash and the Company incurred acquisition costs of \$0.2 million for the twenty-eight weeks ended July 13, 2014. The condensed consolidated statements of income include the results of operations for the restaurants from the date of acquisition. The pro forma impact of the acquisition is not presented as the impact was not material to reported results.

The acquisition of the four restaurants was accounted for using the purchase method as defined in ASC 805, *Business Combination*. The goodwill generated by the acquisition is not amortizable for book purposes but is amortizable and deductible for tax purposes. The Company preliminarily allocated the purchase price to the fair value of the assets acquired and liabilities assumed as follows (in thousands):

|                                      | Fair Value at<br>March 24, 2014 |
|--------------------------------------|---------------------------------|
| Property, plant and equipment        | \$ 3,785                        |
| Intangible assets                    | 3,092                           |
| Goodwill                             | 2,122                           |
| Other current and non-current assets | 261                             |
| Gift card liabilities                | (59)                            |
| Unfavorable leases                   | (1,256)                         |
| Total purchase price                 | \$ 7,945                        |

Of the \$3.1 million of intangible assets, \$2.6 million are related to reacquired franchise rights, which will be amortized on a straight-line basis over a period of approximately 14 years, and \$0.5 million are related to a favorable lease and will be amortized on a straight-line basis over a life of 9 years. The unfavorable leases, which were included in Deferred rent in the accompanying condensed consolidated balance sheets, will be amortized on a straight-line basis over an average period of 14 years. The fair value measurement of tangible and intangible assets and liabilities as of the acquisition date is based on significant inputs not observed in the market and thus represents a level 3 measurement that is subject to change.

## 6. Restaurant Impairment and Restaurant Closures

The Company closed two restaurants during the first quarter 2014 and no restaurants were closed during the second quarter 2014. Both restaurants closed in the first quarter 2014 had been impaired in fiscal year 2013. The Company did not close any restaurants during the twenty-eight weeks ended July 14, 2013. No impairments to restaurants were recorded during the twenty-eight weeks ended July 13, 2014 and July 14, 2013.

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

## 7. Advertising Costs

Costs incurred in connection with the advertising and marketing of the Company are included in selling, general and administrative expenses. Advertising and marketing includes salaries and benefits of marketing personnel, advertising, media and marketing materials. Advertising production costs are expensed in the period when the advertising first takes place. Other advertising and marketing costs are expensed as incurred. Advertising and marketing costs were \$11.1 million and \$7.7 million for the twelve weeks ended July 13, 2014 and July 14, 2013, which included \$9.9 million and \$6.5 million related to selling expense. Advertising and marketing costs were \$23.4 million and \$18.6 million for the twenty-eight weeks ended July 13, 2014 and July 14, 2013, which included \$20.2 million and \$15.2 million related to selling expense.

## 8. Borrowings

Borrowings as of July 13, 2014 and December 29, 2013 are summarized below (in thousands):

|  | July 13, 2014 | December 29, 2013 |
|--|---------------|-------------------|
| Revolving credit facility and other long-term debt | \$ 128,375    | \$ 79,375         |
| Capital lease obligations                          | 8,935         | 9,339             |
| Total debt   | 137,310       | 88,714            |
| Less: Current portion                              | (740)         | (826)             |
| Long-term debt                                     | \$ 136,570    | \$ 87,888         |

On July 2, 2014, the Company replaced its existing credit facility ("Previous Credit Facility") with a new credit facility ("New Credit Facility") with the same lenders as the Previous Credit Facility. The New Credit Facility provides for a \$250 million revolving line of credit with a sublimit for the issuance of up to \$25 million in letters of credit and swingline loans up to \$15 million, and includes an option to increase the amount available under the credit facility up to an additional \$100 million in the aggregate, subject to the lenders' participation. The New Credit Facility also provides a Canadian Dollar borrowing sublimit equivalent to \$20 million. Borrowings under the New Credit Facility, if denominated in Dollars, are subject to rates based on the London Interbank Offered Rate ("LIBOR") plus a spread based on leverage or a base rate plus a spread based on leverage (base rate is the highest of (a) the Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) LIBOR for an Interest Period of one month plus 1%). Borrowings under the New Credit Facility, if denominated in Canadian Dollars, are subject to rates based on LIBOR plus a spread based on leverage or a base rate plus a spread based on leverage (base rate is the highest of (a) the Canadian Prime Rate and (b) the Canadian Dealer Offered Rate ("CDOR Rate") for an interest period of one month plus 1%).

The New Credit Facility matures on July 2, 2019. Borrowings under the New Credit Facility are secured by first priority liens and security interests in substantially all of the Company's assets, including the capital stock of certain Company subsidiaries, and are available for financing activities including restaurant construction costs, working capital and general corporate purposes, including, among other uses, to refinance certain indebtedness, permitted acquisitions, and redemption of capital stock. As of July 13, 2014, the Company had outstanding borrowings under the New Credit Facility of \$127.5 million, in addition to amounts issued under letters of credit of \$7.9 million, which reduce the amount available under the credit facility but are not recorded as debt. As of December 29, 2013, the Company had outstanding borrowings under the Previous Credit Facility of \$78.5 million, in addition to amounts issued under letters of credit of \$8.1 million.

Loan origination costs associated with the New Credit Facility are included as deferred costs in Other assets, net in the accompanying consolidated balance sheets. Unamortized debt issuance costs were \$2.0 million and \$1.4 million as of July 13, 2014 and December 29, 2013.

The Company has a pay fixed/receive variable interest rate swap agreement with Rabobank International, Utrecht ("Rabobank") to hedge the floating interest rate on its credit facilities. The terms of the Company's interest rate swap with

Rabobank were unaffected by the replacement of the Company's Previous Credit Facility with the New Credit Facility on July 2, 2014. The notional amount hedged pursuant to the agreement as of July 13, 2014 and December 29, 2013 was \$56.3 million and \$61.9 million. Refer to Note 9, *Derivative and Other Comprehensive Income*.

The Company is subject to a number of customary covenants under its New Credit Facility, including limitations on additional borrowings, acquisitions, capital expenditures, share repurchases, lease commitments, and dividend payments, and requirements to maintain certain financial ratios. The Company was in compliance with such covenants as of July 13, 2014.

## 9. Derivative and Other Comprehensive Income

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

The Company had one interest rate swap at July 13, 2014 and December 29, 2013 with Rabobank to hedge its floating interest rate borrowings. The Company entered into this variable-to-fixed interest rate swap agreement with Rabobank in August 2011 with an initial notional amount of \$74.1 million. The notional amount amortizes over time from \$74.1 million at inception to \$50.6 million at its maturity on June 30, 2015. The remaining notional amount as of July 13, 2014 and December 29, 2013 was \$56.3 million and \$61.9 million. Under the terms of the interest rate swap, the quarterly cash payment or receipt is equal to the net of (1) the fixed interest rate of .135% paid by the Company and (2) the 3 month LIBOR rate for the applicable interest period received by the Company multiplied by the remaining notional amount as of the payment date. Our hedging relationship with Rabobank was not affected by the replacement of the Previous Credit Facility with the New Credit Facility on July 2, 2014. The designation of the interest rate swap applied on the New Credit Facility as the hedging relationship is still highly effective. Changes in fair value of the interest rate swap are recorded, net of tax, as a component of Accumulated other comprehensive income ("AOCI"), in the accompanying consolidated balance sheets. The Company reclassifies the effective gain or loss from accumulated other comprehensive income, net of tax, to Interest expense on the Company's consolidated statements of income as the interest expense is recognized on the related debt. The ineffective portion of the change in fair value of the interest rate swap, if any, is recognized directly in earnings in Interest expense. The following table presents gains and losses on the interest rate swap designated as a cash flow hedge recognized in the Other comprehensive income ("OCI") and reclassifications from AOCI to earnings for the twelve and twenty-eight weeks ended July 13, 2014 and July 14, 2013 (in thousands):

|                          | Gains (Losses) recognized in OCI on derivative (effective portion) |               | Losses reclassified from AOCI into income (effective portion) |               | Gains (Losses) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing) |               |
|--------------------------|--|---------------|---|---------------|--|---------------|
|                          | July 13, 2014  | July 14, 2013 | July 13, 2014   | July 14, 2013 | July 13, 2014  | July 14, 2013 |
| Twelve Weeks Ended       | \$ (7)   | \$ 130        | \$ (22)   | \$ (18)       | \$ 2   | \$ (3)        |
| Twenty-Eight Weeks Ended | \$ (78)  | \$ 50         | \$ (51)   | \$ (38)       | \$ 2   | \$ 1          |

The following table summarizes the fair value and presentation of the interest rate swap in the accompanying consolidated balance sheets as hedging instruments as of July 13, 2014 and December 29, 2013 (in thousands):

| Balance Sheet Location        | Derivative Liability        |                                 |
|-------------------------------|-----------------------------|---------------------------------|
|                               | Fair Value at July 13, 2014 | Fair Value at December 29, 2013 |
| Accrued liabilities           | \$ 461                      | \$ 516                          |
| Other non-current liabilities | —                           | 271                             |
| Total derivatives             | \$ 461                      | \$ 787                          |

The components of accumulated other comprehensive income related to the interest rate swap being used to hedge cash flows as of July 13, 2014 and December 29, 2013 were as follows (in thousands):

|   | July 13, 2014  | December 29, 2013 |
|---|----------------|-------------------|
| Unrealized loss related to cash flow hedges, pretax | \$ (60)        | \$ (43)           |
| Tax benefit   | 19             | 13                |
| Accumulated other comprehensive loss, net           | <u>\$ (41)</u> | <u>\$ (30)</u>    |

The interest rate swap was highly effective during the twelve and twenty-eight weeks ended July 13, 2014. Amounts reclassified from accumulated other comprehensive loss into interest expense represent payments made to the counterparty for the effective portion of the interest rate swap. The Company expects the swap to continue to be highly effective during the next twelve months. Approximately \$60 thousand of the deferred losses included in accumulated other comprehensive loss on the accompanying consolidated balance sheets at July 13, 2014 is expected to be reclassified into earnings during the next twelve months. Additionally, the Company had no obligations as of July 13, 2014 to post collateral under the terms of the interest rate swap agreements. If the Company had breached any of its provisions at July 13, 2014, it could have been required to settle its obligations on the interest rate swap at a termination value of \$0.5 million.

## 10. Fair Value Measurements

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

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

The Company maintains a rabbi trust to fund obligations under a deferred compensation plan. Amounts in the rabbi trust are invested in mutual funds, which are designated as trading securities and carried at fair value, and are included in Other assets, net in the accompanying condensed consolidated balance sheets. Fair market value of mutual funds is measured using level 1 inputs (quoted prices for identical assets in active markets). The fair value of the investments in the rabbi trust was \$5.3 million and \$3.8 million as of July 13, 2014 and December 29, 2013. The value of the deferred compensation plan liability is dependent upon the fair values of the assets held in the rabbi trust and therefore is not measured at fair value.

The derivative liability associated with the interest rate swap is considered to be a level 2 instrument. The interest rate swap is a standard cash flow hedge whose fair value is estimated using industry-standard valuation models. Such models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. See Note 9, *Derivative and Other Comprehensive Income*, for the discussion of the derivative liability.

Other than disclosed in Note 5, *Acquisition of Red Robin Franchised Restaurants*, as of July 13, 2014 and December 29, 2013, the Company had no financial assets or liabilities that were measured using level 3 inputs. The Company also had no non-financial assets or liabilities that were required to be measured on a recurring basis.

### *Disclosures of Fair Value of Other Assets and Liabilities*

The Company's liabilities under its credit facility and capital leases are carried at historical cost in the accompanying consolidated balance sheets. For disclosure purposes, the Company estimated the fair value of the credit facility and capital lease obligations using discounted cash flow analysis based on market rates obtained from independent third parties for similar types of debt. Both the credit facility and the Company's capital lease obligations are considered to be level 2 instruments. The carrying value of the Company's credit facility as of July 13, 2014 and December 29, 2013 was \$127.5 million and \$78.5 million. The fair value of the Company's credit facility as of July 13, 2014 and December 29, 2013 was approximately \$127.4 million and \$78.4 million. There were \$8.9 million of outstanding borrowings recorded for the Company's capital leases as of July 13, 2014, which have an estimated fair value of \$10.5 million. At December 29, 2013, the carrying amount of the Company's capital lease obligations was \$9.3 million and the fair value was \$10.9 million.

## 11. Commitments and Contingencies

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

financial statements and that the ultimate resolution of these matters will not have a material effect on the Company's financial position and results of operations.

## **12. Related Party Transactions**

The former president and majority owner of one of the Company's former franchises served on the Company's board of directors from 2009 until his retirement in May 2013. The Company purchased 13 Red Robin® restaurants in Washington from this former franchisee in 2006. The retired board member is a principal of and holds, directly or indirectly, interests of between 45% and 100% in each of three privately-held entities that hold the leases for three of the acquired Washington restaurants. These leases were assumed by the Company in connection with the acquisition. Under these leases, the Company recognized rent and other related payments in the amounts of \$0.4 million and \$0.8 million for the twelve weeks and twenty-eight weeks ended July 13, 2014 and \$0.2 million and \$0.5 million for the twelve and twenty-eight weeks ended July 14, 2013. Future minimum lease commitments under these leases are \$2.7 million at July 13, 2014.

## **13. Subsequent Events**

On July 14, 2014, the Company completed the acquisition of 32 Red Robin franchised restaurants in the United States and Canada, for approximately \$40.0 million, from Mach Robin, LLC and its Canadian affiliate. The Company incurred approximately \$0.6 million and \$1.1 million in acquisition costs related to this acquisition for the twelve weeks and twenty-eight weeks ended July 13, 2014. As of July 13, 2014, we had an additional \$40.0 million borrowing from our credit facility to fund this acquisition and the borrowed funds are included in Cash and cash equivalent in the accompanying condensed consolidated balance sheets. Because of the timing of the acquisition close, the initial accounting for this acquisition is still in process, including determining the fair value of the net assets acquired and presentation of the pro-forma results.

## 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 2014 and 2013 refer to the twelve and twenty-eight week periods ending July 13, 2014 and July 14, 2013, unless otherwise indicated.

### Overview

Red Robin Gourmet Burgers, Inc., a Delaware corporation, together with its subsidiaries ("Red Robin," "we," "us," "our" or the "Company"), primarily develops, operates and franchises casual-dining restaurants with 502 locations as of July 13, 2014. The Company operated 372 Company-owned restaurants located in 35 states comprised of 365 Red Robin® restaurants and 7 Red Robin Burger Works®, a smaller non-traditional prototype with a limited menu and service. The Company also franchises restaurants, of which there were 130 restaurants in 19 states and two Canadian provinces as of July 13, 2014. The Company operates its business as one operating and one reportable segment.

The following summarizes the operational and financial highlights during the twelve and twenty-eight weeks ended July 13, 2014, and our outlook for the remainder of fiscal year 2014:

- *Financial performance.*
  - Total revenues increased \$17.8 million, or 7.5%, to \$256.1 million for the twelve weeks ended July 13, 2014 as compared to the twelve weeks ended July 14, 2013, primarily due to a \$2.8 million or 1.2% increase in comparable restaurant revenue and \$14.5 million revenue from new restaurant openings and acquired restaurants. For the twenty-eight weeks ended July 13, 2014, total revenue increased \$52.0 million, or 9.5%, to \$596.6 million as compared to the twenty-eight weeks ended July 14, 2013, primarily due to a \$18.8 million, or 3.6% increase in comparable restaurant revenue and \$32.2 million revenue from newly opened restaurants and acquired restaurants.
  - Restaurant operating costs, as a percentage of restaurant revenue, increased 110 basis points to 77.8% for the twelve weeks ended July 13, 2014 compared to 76.7% for the twelve weeks ended July 14, 2013, primarily due to an increase in food and beverage costs driven mostly by higher beef costs. For the twenty-eight weeks ended July 13, 2014, restaurant operating costs remained flat at 77.7% as compared to twenty-eight weeks ended July 14, 2013. Increases in food and beverage costs were offset by lower labor costs as a result of higher productivity and leverage from higher restaurant sales volumes on fixed costs.
  - Net income decreased 15.0% to \$9.5 million for the twelve weeks ended July 13, 2014 from \$11.1 million for the twelve weeks ended July 14, 2013. The decrease was primarily driven by increased food and beverage costs, costs associated with the acquisition of franchised restaurants, and increased income tax expense as a result of a higher effective tax rate anticipated for fiscal year 2014. Diluted earnings per share decreased 15.6% to \$0.65 for the twelve weeks ended July 13, 2014 as compared to \$0.77 for the twelve weeks ended July 14, 2013. For the twenty-eight weeks ended July 13, 2014, net income increased 3.9% to \$21.4 million from \$20.6 million for the twenty-eight weeks ended July 14, 2013, primarily due to leverage from higher restaurant sales volumes on the fixed expenses. Diluted earnings per share increased 2.8% to \$1.47 for the twenty-eight weeks ended July 13, 2014 as compared to \$1.43 for the twenty-eight weeks ended July 14, 2013.
- *Marketing.* Our Red Robin Royalty™ loyalty program operates in all of our U.S. Company-owned Red Robin restaurants and has been rolled out to a majority of franchised restaurants. We engage our guests through this program with offers designed to increase frequency of visits as a key part of our overall marketing strategy. We also let enrolled guests know early about new menu items to generate awareness and trial. In 2013, we changed our media buying approach to achieve greater continuity with less time off air between televised advertising windows. We also increased our use of digital, social and earned media to target and more effectively reach specific segments of our guest base. Our new "Million Reasons" advertising campaign features a female spokeswoman to appeal to our core target of female decision-makers and create continuity of branding across individual advertisements and media.
- *Brand Transformation Initiative.* In 2012, we began investing in our brand transformation program to enhance our service, menu, food presentation and other guest experiences. Key elements of the remodel include greater separation of the bar and family dining areas, new exteriors, and signage. As of July 13, 2014, we have remodeled the interiors of 52 Company-owned Red Robin restaurants to our new brand standards and continue to modify and refine aspects of the remodel. In August 2013, we rolled-out new plating and presentation standards and a new spiral menu format to all Company-owned and franchised restaurants. By the end of fiscal year 2014, we expect

to have a total of 95 Company-owned restaurants completely remodeled, including the exterior elements for the 52 restaurants remodeled to date.

- *Restaurant Development.* We opened three new Red Robin restaurants during the twelve weeks ended July 13, 2014. We plan to open an additional 13 Red Robin restaurants during the remainder of 2014. In addition, on July 14, 2014, we completed the acquisition of 32 Red Robin franchised restaurants in the United States and Canada. During the twelve weeks ended July 13, 2014, our franchisees opened one Red Robin restaurant.
- We opened two new Red Robin Burger Works restaurants, both located in the central business district of Chicago, during the twelve weeks ended July 13, 2014. We continue to evaluate the results of different types of trade areas as well as optimize operating performance. The underlying restaurant performance has been mixed with sales at our central business district and lifestyle trade areas performing as expected and our college campus locations performing below our expectations. For the remainder of 2014, we plan to open two to three additional Red Robin Burger Works restaurants in central business district locations.

#### Restaurant Data

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

|                                  | Twelve Weeks Ended |               | Twenty-eight Weeks Ended |               |
|----------------------------------|--------------------|---------------|--------------------------|---------------|
|                                  | July 13, 2014      | July 14, 2013 | July 13, 2014            | July 14, 2013 |
| Company-owned:                   |                    |               |                          |               |
| Beginning of period              | 367                | 342           | 361                      | 339           |
| Opened during the period         | 5                  | 2             | 9                        | 5             |
| Acquired from franchisee         | —                  | —             | 4                        | —             |
| Closed during the period         | —                  | —             | (2)                      | —             |
| End of period                    | 372                | 344           | 372                      | 344           |
| Franchised:                      |                    |               |                          |               |
| Beginning of period              | 129                | 133           | 134                      | 133           |
| Opened during the period         | 1                  | —             | 1                        | —             |
| Sold or closed during the period | —                  | —             | (5)                      | —             |
| End of period                    | 130                | 133           | 130                      | 133           |
| Total number of restaurants      | 502                | 477           | 502                      | 477           |



**Results of Operations**

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

This information has been prepared on a basis consistent with our audited 2013 annual financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. Our operating results may fluctuate significantly as a result of a variety of factors, and operating results for any period presented are not necessarily indicative of results for a full fiscal year.

|   | Twelve Weeks Ended |               | Twenty-eight Weeks ended |               |
|---|--------------------|---------------|--------------------------|---------------|
|   | July 13, 2014      | July 14, 2013 | July 13, 2014            | July 14, 2013 |
| <b>Revenues:</b>  |                    |               |                          |               |
| Restaurant revenue  | 98.3%              | 98.4%         | 98.4%                    | 98.4%         |
| Franchise royalties, fees and other revenues  | 1.7                | 1.6           | 1.6                      | 1.6           |
| Total revenues  | 100.0              | 100.0         | 100.0                    | 100.0         |
| <b>Costs and expenses:</b>  |                    |               |                          |               |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): |                    |               |                          |               |
| Cost of sales   | 25.3               | 24.7          | 25.2                     | 24.8          |
| Labor   | 32.8               | 32.7          | 33.0                     | 33.3          |
| Other operating   | 12.3               | 12.1          | 12.2                     | 12.2          |
| Occupancy   | 7.4                | 7.2           | 7.4                      | 7.3           |
| Total restaurant operating costs  | 77.8               | 76.7          | 77.7                     | 77.7          |
| Depreciation and amortization   | 5.5                | 5.6           | 5.5                      | 5.7           |
| Selling, general and administrative   | 11.8               | 11.9          | 12.2                     | 12.1          |
| Pre-opening and acquisition costs   | 0.9                | 0.5           | 0.7                      | 0.4           |
| Income from operations  | 5.3                | 6.5           | 5.1                      | 5.3           |
| Interest expense, net and other   | 0.2                | 0.3           | 0.2                      | 0.3           |
| Income before income taxes  | 5.1                | 6.2           | 4.9                      | 5.0           |
| Provision for income taxes  | 1.4                | 1.5           | 1.3                      | 1.2           |
| Net income  | 3.7%               | 4.7%          | 3.6%                     | 3.8%          |

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

**Revenues**

| <b>(Revenues in thousands)</b>                                   | <b>Twelve Weeks Ended</b> |                      |                       | <b>Twenty-eight Weeks Ended</b> |                      |                       |
|--|---------------------------|----------------------|-----------------------|---------------------------------|----------------------|-----------------------|
|  | <b>July 13, 2014</b>      | <b>July 14, 2013</b> | <b>Percent Change</b> | <b>July 13, 2014</b>            | <b>July 14, 2013</b> | <b>Percent Change</b> |
| Restaurant revenue   | \$ 251,818                | \$ 234,490           | 7.4 %                 | \$ 586,813                      | \$ 535,803           | 9.5%                  |
| Franchise royalties, fees and other revenue                      | 4,315                     | 3,809                | 13.3 %                | 9,804                           | 8,845                | 10.8%                 |
| <b>Total revenues</b>  | <b>\$ 256,133</b>         | <b>\$ 238,299</b>    | <b>7.5 %</b>          | <b>\$ 596,617</b>               | <b>\$ 544,648</b>    | <b>9.5%</b>           |
| Average weekly net sales volumes in Company-owned restaurants(1) | \$ 57,549                 | \$ 57,699            | (0.3)%                | \$ 58,021                       | \$ 56,719            | 2.4%                  |
| Total operating weeks  | 4,424                     | 4,111                | 7.6 %                 | 10,234                          | 9,555                | 7.1%                  |
| Net sales per square foot  | \$ 108                    | \$ 107               | 0.9 %                 | \$ 253                          | \$ 246               | 2.8%                  |

(1) Excludes Red Robin Burger Works.

Restaurant revenue for the twelve weeks ended July 13, 2014, which is comprised almost entirely of food and beverage sales, increased by \$17.3 million, or 7.4%, as compared to second quarter 2013. Comparable restaurant revenue grew \$2.8 million or 1.2% in the twelve weeks ended July 13, 2014 as a result of a 3.7% increase in average guest check and a 2.5% decrease in guest counts. The increase in average guest check resulted from a combination of menu price increases and increased mix of our Finest line of half-pound angus burgers, combined with higher sales of alcoholic beverages and desserts. Revenue from our non-comparable restaurants, which includes newly acquired restaurants and restaurants opened after the fourth quarter of fiscal 2012 or closed since the beginning of 2013, contributed an increase of \$14.5 million in the twelve weeks ended July 13, 2014.

Restaurant revenue for the twenty-eight weeks ended July 13, 2014 increased by \$51.0 million, or 9.5%, compared to the twenty-eight weeks ended July 14, 2013. Comparable restaurant revenue grew \$18.8 million or 3.6% in the twenty-eight weeks ended July 13, 2014 primarily as a result of a 4.4% increase in average guest check due to a combination of higher prices, increased items sold per guest, and product mix. Our non-comparable restaurants contributed the remaining \$32.2 million increase in restaurant revenue.

Average weekly net 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.

Franchise royalties and fees increased \$0.1 million or 3.0%, and \$0.4 million or 5.4% for the twelve and twenty-eight weeks ended July 13, 2014. The twelve and twenty-eight week increase is primarily attributable to the increased sales at franchise locations. Our franchisees reported that comparable restaurant revenue increased 2.9% for U.S. restaurants and increased 0.2% for Canadian restaurants for the twelve weeks ended July 13, 2014 compared to the twelve weeks ended July 14, 2013. For the twenty-eight weeks ended July 13, 2014, our franchises reported that comparable restaurant sales for U.S. restaurants increased 5.1% and Canadian restaurants increased 0.3%.

Other revenue consists primarily of gift card breakage and licensing royalty. Other revenue increased \$0.4 million or 91.6%, and \$0.5 million or 52.6% for the twelve and twenty-eight weeks ended July 13, 2014. The twelve and twenty-eight week increase is primarily attributable to the increase in gift card breakage revenue.

**Cost of Sales**

| <b>(In thousands, except percentages)</b> | <b>Twelve Weeks Ended</b> |                      |                       | <b>Twenty-eight Weeks Ended</b> |                      |                       |
|---|---------------------------|----------------------|-----------------------|---------------------------------|----------------------|-----------------------|
|   | <b>July 13, 2014</b>      | <b>July 14, 2013</b> | <b>Percent Change</b> | <b>July 13, 2014</b>            | <b>July 14, 2013</b> | <b>Percent Change</b> |
| Cost of sales                             | \$ 63,689                 | \$ 58,024            | 9.8%                  | \$ 147,909                      | \$ 133,006           | 11.2%                 |
| As a percent of restaurant revenue        | 25.3%                     | 24.7%                | 0.6%                  | 25.2%                           | 24.8%                | 0.4%                  |

Cost of sales, which is comprised of food and beverage costs, is variable and generally fluctuates with sales volume. Cost of sales as a percentage of restaurant revenue increased 60 basis points for the twelve weeks ended July 13, 2014 compared to the same period in 2013. This increase as a percentage of restaurant revenue was caused by an increase in the cost of ground beef, seafood, and bar supplies, partially offset by a decrease in the cost of poultry, fry oil, and prepared food items.

For the twenty-eight weeks ended July 13, 2014, cost of sales as a percentage of restaurant revenue increased 40 basis points compared to the twenty-eight weeks ended July 14, 2013. The increase as a percentage of restaurant revenue was caused by an increase in the cost of ground beef, seafood, and prepared food items, partially offset by a decrease in the cost of produce and poultry.

**Labor**

| (In thousands, except percentages) | Twelve Weeks Ended |               |                | Twenty-eight Weeks Ended |               |                |
|------------------------------------|--------------------|---------------|----------------|--------------------------|---------------|----------------|
|                                    | July 13, 2014      | July 14, 2013 | Percent Change | July 13, 2014            | July 14, 2013 | Percent Change |
| Labor                              | \$ 82,572          | \$ 76,648     | 7.7%           | \$ 193,493               | \$ 178,530    | 8.4 %          |
| As a percent of restaurant revenue | 32.8%              | 32.7%         | 0.1%           | 33.0%                    | 33.3%         | (0.3)%         |

Labor costs include restaurant-level hourly wages and management salaries as well as related taxes and benefits. For the twelve weeks ended July 13, 2014, labor as a percentage of restaurant revenue increased 10 basis points compared to the same period in 2013. This increase was primarily driven by an increase in workers' compensation costs and increased minimum wages, partially offset by a decrease in controllable labor costs. Labor costs increased \$5.9 million or 7.7% primarily due to the additional restaurants opened since the second quarter 2013.

For the twenty-eight weeks ended July 13, 2014, labor as a percentage of restaurant revenue decreased 30 basis points compared to the same period in 2013. This decrease primarily resulted from increased hourly productivity, the leverage of fixed labor on higher sales, and a reduction in payroll taxes, partially offset by increased workers' compensation costs, restaurant management salary and minimum wages. Labor costs increased \$15.0 million or 8.4% primarily due to the additional restaurants opened since the first quarter 2013.

**Other Operating**

| (In thousands, except percentages) | Twelve Weeks Ended |               |                | Twenty-eight Weeks Ended |               |                |
|------------------------------------|--------------------|---------------|----------------|--------------------------|---------------|----------------|
|                                    | July 13, 2014      | July 14, 2013 | Percent Change | July 13, 2014            | July 14, 2013 | Percent Change |
| Other operating                    | \$ 31,022          | \$ 28,463     | 9.0%           | \$ 71,619                | \$ 65,553     | 9.3 %          |
| As a percent of restaurant revenue | 12.3%              | 12.1%         | 0.2%           | 12.2%                    | 12.3%         | (0.1)%         |

Other operating costs include costs such as restaurant supplies, utilities, and other costs such as service repairs and maintenance costs. For the twelve weeks ended July 13, 2014, other operating costs as a percentage of restaurant revenue increased 20 basis points over the prior year due primarily to increased credit card costs and utility costs, partially offset by lower supply costs and services and maintenance costs. Other operating costs increased \$2.6 million or 9.0%, primarily due to the increase in utilities, services and maintenance, and other miscellaneous operating costs related to the additional restaurants opened since the second quarter 2013.

For the twenty-eight weeks ended July 13, 2014, other operating costs as a percentage of restaurant revenue decreased 10 basis points compared to the same period in 2013 primarily due to the lower supply costs. Other operating costs increased \$6.1 million or 9.3%, primarily due to the increase in utilities, services and maintenance and other miscellaneous operating costs related to the additional restaurants opened since the first quarter 2013 as well as the impact of more inclement weather increasing utility and maintenance costs in the first quarter 2014.

**Occupancy**

| (In thousands, except percentages) | Twelve Weeks Ended |               |                | Twenty-eight Weeks Ended |               |                |
|------------------------------------|--------------------|---------------|----------------|--------------------------|---------------|----------------|
|                                    | July 13, 2014      | July 14, 2013 | Percent Change | July 13, 2014            | July 14, 2013 | Percent Change |
| Occupancy                          | \$ 18,618          | \$ 16,779     | 11.0%          | \$ 42,900                | \$ 39,352     | 9.0%           |
| As a percent of restaurant revenue | 7.4%               | 7.2%          | 0.2%           | 7.3%                     | 7.3%          | —%             |

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 weeks ended July 13, 2014, occupancy costs as a percentage of restaurant revenue increased 20 basis points over the prior year, primarily due to higher fixed rents as a percentage of revenue for newly opened and acquired restaurants. Occupancy costs increased \$1.8 million or 11.0%, primarily due to the increase in rents, common area maintenance costs, and real estate taxes related to the additional restaurants opened and acquired since the second quarter 2013. Our fixed rents for the twelve weeks ended July 13, 2014 and July 14, 2013 were \$12.0 million and \$10.9 million.

For the twenty-eight weeks ended July 13, 2014, occupancy costs increased \$3.5 million or 9.0% compared to the same period in 2013 primarily due to the increase in fixed rents, common area maintenance costs and real estate taxes related to the additional restaurants opened since the first quarter 2013. Our fixed rents for the twenty-eight weeks ended July 13, 2014 and July 14, 2013 were \$27.7 million and \$25.3 million.

**Depreciation and Amortization**

| <b>(In thousands, except percentages)</b> | <b>Twelve Weeks Ended</b> |                      |                       | <b>Twenty-eight Weeks Ended</b> |                      |                       |
|---|---------------------------|----------------------|-----------------------|---------------------------------|----------------------|-----------------------|
|   | <b>July 13, 2014</b>      | <b>July 14, 2013</b> | <b>Percent Change</b> | <b>July 13, 2014</b>            | <b>July 14, 2013</b> | <b>Percent Change</b> |
| Depreciation and amortization             | \$ 14,120                 | \$ 13,319            | 6.0 %                 | \$ 33,006                       | \$ 31,153            | 5.9 %                 |
| As a percent of total revenues            | 5.5%                      | 5.6%                 | (0.1)%                | 5.5%                            | 5.7%                 | (0.2)%                |

Depreciation and amortization includes depreciation on capital expenditures for restaurants and corporate assets as well as amortization of acquired franchise rights, leasehold interests and certain liquor licenses. For the twelve weeks ended July 13, 2014, depreciation and amortization expense increased \$0.8 million or 6.0% over the prior year, primarily related to new restaurants opened and acquired since the second quarter 2013 and the restaurants remodeled under our brand transformation initiative. Depreciation and amortization expenses as a percentage of restaurant revenue decreased 10 basis points over prior year, primarily due to leverage from higher restaurant sales volumes on the fixed expenses.

For the twenty-eight weeks ended July 13, 2014, depreciation and amortization increased \$1.9 million or 5.9% compared to the same period in 2013 primarily related to new restaurants opened and acquired since the first quarter 2013 and the restaurants remodeled under our brand transformation initiative. Depreciation and amortization expenses as a percentage of restaurant revenue decreased 20 basis points over prior year, primarily due to leverage from higher restaurant sales volumes on the fixed expenses.

**Selling, General and Administrative**

| <b>(In thousands, except percentages)</b> | <b>Sixteen Weeks Ended</b> |                      |                       | <b>Twenty-eight Weeks ended</b> |                      |                       |
|---|----------------------------|----------------------|-----------------------|---------------------------------|----------------------|-----------------------|
|   | <b>July 13, 2014</b>       | <b>July 14, 2013</b> | <b>Percent Change</b> | <b>July 13, 2014</b>            | <b>July 14, 2013</b> | <b>Percent Change</b> |
| Selling, general and administrative       | \$ 30,320                  | \$ 28,386            | 6.8 %                 | \$ 72,743                       | \$ 65,994            | 10.2 %                |
| As a percent of total revenues            | 11.8%                      | 11.9%                | (0.1)%                | 12.2%                           | 12.1%                | 0.1%                  |

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

Selling, general and administrative costs in the twelve weeks ended July 13, 2014 increased \$1.9 million or 6.8% as compared to the same period in 2013. The increase was driven by a \$3.4 million increase in selling costs primarily due to additional television advertising and gift card costs, partially offset by a decrease in incentive-based compensation.

For the twenty-eight weeks ended July 13, 2014, selling, general and administrative costs increased \$6.7 million or 10.2% compared to the same period in 2013. The increase was driven primarily by a \$5.0 million increase in selling costs, an increase in salaries and benefits and an increase in professional and outside services, partially offset by a decrease in incentive-based compensation.

**Pre-opening and Acquisition Costs**

| (In thousands, except percentages) | Sixteen Weeks Ended |               |                | Twenty-eight Weeks Ended |               |                |
|------------------------------------|---------------------|---------------|----------------|--------------------------|---------------|----------------|
|                                    | July 13, 2014       | July 14, 2013 | Percent Change | July 13, 2014            | July 14, 2013 | Percent Change |
| Pre-opening and acquisition costs  | \$ 2,326            | \$ 1,291      | 80.2%          | \$ 4,439                 | \$ 2,125      | 108.9%         |
| As a percent of total revenues     | 0.9%                | 0.5%          | 0.4%           | 0.7%                     | 0.4%          | 0.3%           |

Pre-opening costs, which are expensed as incurred, consist of the costs of labor, hiring and training the initial work force for our new restaurants, occupancy costs incurred prior to opening, travel expenses for our training teams, the cost of food and beverages used in training, marketing and supplies costs and other direct costs related to the opening of new restaurants. Our pre-opening costs fluctuate from period to period, depending upon, but not limited to, the number of restaurant openings, the size of the restaurants being opened and the location of the restaurants. Pre-opening expenses for any given quarter will typically include expenses associated with restaurants opened during the quarter as well as expenses related to restaurants opened towards the end of the prior quarter and restaurants opening in subsequent quarters. Pre-opening costs increased \$0.4 million and \$1.1 million for the twelve and twenty-eight weeks ended July 13, 2014 primarily due to the four additional Company-owned restaurants opened during the first two quarters 2014 compared to the same period in 2013.

We also incurred approximately \$0.7 million and \$1.2 million during the twelve and twenty-eight weeks ended July 13, 2014 related to acquisitions of franchised restaurants. No acquisition costs were recognized for the twelve and twenty-eight weeks ended July 14, 2013.

**Interest Expense, Net and Other**

Interest expense, net and other was \$0.5 million for the twelve weeks ended July 13, 2014, a decrease of \$0.2 million or 29.5% from the same period in 2013. The decrease was primarily related to a \$0.1 million gain recognized from the investments held in the rabbi trust for our deferred compensation plan assets. No investment gain was recognized during the twelve weeks ended July 14, 2013.

Interest expense, net and other was \$1.1 million for the twenty-eight weeks ended July 13, 2014, a decrease of \$0.6 million or 34.8% from the same period in 2013. The decrease was primarily related to a lower average debt balance. Our weighted average interest rate was 3% and 2.9% for the twelve and twenty-eight weeks ended July 13, 2014, compared to 2.8% and 2.7% for the twelve and twenty-eight weeks ended July 14, 2013.

**Provision for Income Taxes**

The effective income tax rate for the twelve weeks ended July 13, 2014 was 27.1% compared to 24.3% for the twelve weeks ended July 14, 2013. The effective income tax rate for the twenty-eight weeks ended July 13, 2014 and July 14, 2013 was 27.1% and 24.1%. We anticipate that our full year fiscal 2014 effective tax rate will be approximately 26%.

**Liquidity and Capital resources**

Cash and cash equivalents increased \$43.4 million to \$60.5 million at July 13, 2014, from \$17.1 million at the beginning of the fiscal year. During the twenty-eight weeks ended July 13, 2014, we borrowed an additional \$40.0 million from our credit facility to fund our acquisitions of franchised restaurants. We expect to continue to reinvest available cash flows from operations to develop new restaurants or invest in existing restaurants and infrastructure, including the remodeling of our restaurants as part of our brand transformation initiative, purchase franchised restaurants, pay down debt, and maintain the flexibility to use excess cash to opportunistically repurchase our common stock and execute our long term strategic initiatives.

**Cash Flows**

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

|  | Twenty-eight Weeks Ended |               |
|--|--------------------------|---------------|
|  | July 13, 2014            | July 14, 2013 |
| Net cash provided by operating activities            | \$ 56,083                | \$ 71,005     |
| Net cash used in investing activities                | (56,578)                 | (31,689)      |
| Net cash provided by (used in) financing activities  | 43,930                   | (45,211)      |
| Net increase (decrease) in cash and cash equivalents | \$ 43,435                | \$ (5,895)    |

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### *Operating Cash Flows*

Net cash flows provided by operating activities were \$56.1 million for the twenty-eight weeks ended July 13, 2014, compared to \$71.0 million for the same period in 2013. Of the \$14.9 million decrease, approximately \$11.3 million relates to payouts of fiscal 2013 annual and long-term incentive compensation, \$5.5 million relates to additional tax payments made during the twelve weeks ended July 13, 2014, \$4.3 million relates to an increase in contribution to marketing and national media advertising funds, \$2.2 million relates to increase in salaries and benefits, and \$1.0 million relates to acquisition-related costs. The decrease in operating cash flows was partially offset by an \$11.5 million increase related to profit from restaurant operations due to increased sales.

### *Investing Cash Flows*

Net cash flows used in investing activities were \$56.6 million for the twenty-eight weeks ended July 13, 2014, compared to \$31.7 million for the same period in 2013. The increase over prior year is due to increased capital expenditures, including investments in acquired franchised restaurants, new restaurants, restaurant remodels, restaurant maintenance, and technology infrastructure. The following table lists the components of our capital expenditures for the twenty-eight weeks ended July 13, 2014 (in thousands):

|   | <b>Twenty-eight Weeks<br/>Ended July 13, 2014</b> |
|---|---|
| New restaurants                                   | \$ 28,299   |
| Restaurant remodels                               | 12,798  |
| Acquisition of franchised restaurants             | 7,942   |
| Restaurant maintenance capital                    | 4,874   |
| Investment in technology infrastructure and other | 2,758   |
| Net cash used in capital expenditures             | <u>\$ 56,671</u>                                  |

### *Financing Cash Flows*

Cash provided by our financing activities increased \$89.1 million to \$43.9 million for the twenty-eight weeks ended July 13, 2014 compared to the same period in 2013. This increase was primarily due to a \$101.5 million increase in net debt borrowings, partially offset by \$8.1 million cash used to repurchase the Company's common stock and a \$3.9 million decrease in cash proceeds from the exercise of employee stock options and employee stock purchases.

### *Credit Facility*

On July 2, 2014, we replaced our existing credit facility ("Previous Credit Facility") with a new credit facility ("New Credit Facility") with the same lenders of the Previous Credit Facility. The New Credit Facility provides for a \$250 million revolving line of credit with a sublimit for the issuance of up to \$25 million in letters of credit and swingline loans up to \$15 million, and includes an option to increase the amount available under the credit facility up to an additional \$100 million in the aggregate, subject to the lenders' participation. The New Credit Facility also provides a Canadian Dollar borrowing sublimit equivalent to \$20 million. Borrowings under the New Credit Facility, if denominated in Dollars, are subject to rates based on the London Interbank Offered Rate ("LIBOR") plus a spread based on leverage or a base rate plus a spread based on leverage (base rate is the highest of (a) the Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) LIBOR for an Interest Period of one month plus 1%). Borrowings under the New Credit Facility, if denominated in Canadian Dollars, are subject to rates based on LIBOR plus a spread based on leverage or a base rate plus a spread based on leverage (base rate is the highest of (a) the Canadian Prime Rate and (b) the Canadian Dealer Offered Rate ("CDOR Rate") for an interest period of one month plus 1%). The New Credit Facility matures on July 2, 2019. Borrowings under the New Credit Facility are secured by first priority liens and security interests in substantially all of the Company's assets, including the capital stock of certain Company subsidiaries, and are available for financing activities including restaurant construction costs, working capital and general corporate purposes, including, among other uses, to refinance certain indebtedness, permitted acquisitions and redemption of capital stock. We do not believe that any of our lenders will be unable to fulfill their lending commitments under our New Credit Facility. Loan origination costs associated with the New Credit Facility are included as deferred costs in other assets, net in the accompanying consolidated balance sheet. As of July 13, 2014, the Company had outstanding borrowings under the New Credit Facility of \$127.5 million.

We had one interest rate swap with Rabobank International, Utrecht ("Rabobank") to hedge the floating interest rate on our credit facilities. The interest rate swap had an effective date of August 5, 2011 with an initial notional amount of \$74.1 million. The notional amount amortizes over time from \$74.1 million at inception to \$50.6 million at its maturity on June 30, 2015. The remaining notional amount as of July 13, 2014 was \$56.3 million. Under the swap, we are required to make quarterly

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payments based on a fixed interest rate of 1.135%, calculated based on the remaining notional amount. In exchange, we receive interest on the notional amount at a variable rate that is based on the 3-month spot LIBOR rate quarterly.

*Covenants.* We are subject to a number of customary covenants under our New Credit Facility, including limitations on additional borrowings, acquisitions, stock repurchases, sales of assets, and dividend payments. As of July 13, 2014, we were in compliance with all debt covenants.

*Debt Outstanding.* Total debt and capital lease obligations outstanding increased \$48.6 million to \$137.3 million at July 13, 2014, from \$88.7 million at December 29, 2013, primarily due to the additional borrowings under the New Credit Facility to fund restaurant acquisitions.

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

### **Inflation**

The primary inflationary factors affecting our operations are food, labor costs, energy costs, and materials used in the construction of new restaurants. A large number of our restaurant personnel are paid at rates based on the applicable minimum wage, and increases in the minimum wage have directly affected our labor costs in recent years. Many of our leases require us to pay taxes, maintenance, repairs, insurance, and utilities, all of which are generally subject to inflationary increases. We believe inflation had a negative impact on our financial condition and results of operations during the twenty-eight weeks ended July 13, 2014, due primarily to higher wages, costs for certain supplies, and commodity prices for certain foods we purchased at market rates. Uncertainties related to fluctuations in costs, including energy costs, commodity prices, annual indexed wage increases and construction materials make it difficult to predict what impact, if any, inflation may have on our business during 2014, but it is anticipated that inflation will continue to have a negative impact in fiscal year 2014.

### **Seasonality**

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

### **Off Balance Sheet Arrangements**

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

### **Contractual Obligations**

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 29, 2013

### **Critical Accounting Policies and Estimates**

Critical accounting policies and estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, including our estimates of future restaurant level cash flows, which are subject to the current economic environment, and we might obtain different results if we used different assumptions or conditions. 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 29, 2013.

### **Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance requires an entity to

recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. The guidance is effective for reporting periods beginning after December 15, 2016. We are currently evaluating the impact this guidance will have on our consolidated financial position or results of operations.

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

### **Forward-Looking Statements**

Certain information and statements contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA") codified at Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This statement is included for purposes of complying with the safe harbor provisions of the PSLRA. Forward-looking statements include statements regarding our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. These statements may be identified, without limitation, by the use of forward-looking terminology such as "anticipate," "assume," "believe," "estimate," "expect," "intend," "plan," "project," "may," "will," "would" and similar expressions. Certain forward-looking 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 marketing strategy, brand transformation initiative and planned restaurant remodeling; anticipated number of new restaurants; anticipated Red Robin Burger Works® development efforts; expected uses for available cash flow; anticipated funding for new restaurant openings; expectations about our interest-rate swaps; anticipated effective tax rate for 2014; beliefs about inflation and commodity and utility costs; and the effect of the adoption of new accounting standards on our financial and accounting systems and analysis programs.

Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those we express in these forward-looking statements. These risks and uncertainties include, but are not limited to, the following: the effectiveness of our business improvement initiatives; effectiveness of our marketing campaign; uncertainty regarding general economic conditions and economic recovery; concentration of restaurants in certain markets and lack of market awareness in new markets; changes in consumer disposable income, consumer spending trends and habits; ineffectiveness of our information technology efforts; regional mall and lifestyle center traffic trends; increased competition and discounting in the casual-dining restaurant market; costs and availability of food and beverage inventory; changes in commodity prices, particularly ground beef; changes in labor and energy costs; limitations on the Company's ability to execute stock repurchases due to lack of available shares or acceptable stock price levels or other market or Company-specific conditions; our ability to attract qualified managers and team members; changes in the availability of capital or credit facility borrowings; costs and other effects of legal claims by team members, franchisees, customers, vendors, stockholders and others, including settlement of those claims; effectiveness of management strategies and decisions; the ability to fulfill planned expansion and restaurant remodeling; weather conditions and related events in regions where our restaurants are operated; changes in accounting standards policies and practices or related interpretations by auditors or regulatory entities; and other risk factors described from time to time in our SEC reports, including the Company's most recent Annual Report on Form 10-K for the fiscal year ended December 29, 2013, filed with the SEC on February 24, 2014.

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



**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Under our New Credit Facility, we are exposed to market risk from changes in interest rates on borrowings, which bear interest at one of the following rates we select: if our borrowings are denominated in U.S. Dollars, an Alternate Base Rate (“ABR”), based on the Prime Rate plus 0.00% to 1.00%, or the London Interbank Offered Rate (“LIBOR”), based on the relevant one, three or six-month LIBOR, at our discretion, plus 1.00% to 2.00%; if our borrowings are denominated in Canadian Dollars, an ABR based on the Canadian Prime Rate plus 0.00% to 1.00%, or the London Interbank Offered Rate (“LIBOR”), based on the relevant one, three or six-month LIBOR, at our discretion, plus 1.00% to 2.00%. The spread, or margin, for ABR and LIBOR loans under the New Credit Facility is subject to quarterly adjustment based on our leverage ratio, as defined by the credit agreement. As of July 13, 2014, we had \$69.4 million of borrowings subject to variable interest rates. A 1.0% change in the effective interest rate applied to these loans would have resulted in pre-tax interest expense fluctuation of \$0.7 million on an annualized basis.

Our objective in managing exposure to interest rate changes is to limit the effect of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve this objective, we have used an interest rate swap and may use other means such as caps to manage our net exposure to interest rate changes related to our borrowings. As appropriate, on the date derivative contracts are entered into, we designate derivatives as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Refer to Note 9, *Derivative and Other Comprehensive Income*, of Notes to Condensed Consolidated Financial Statements of this report.

As of July 13, 2014, primarily all of our transactions are conducted, and our accounts are denominated, in United States dollars. Accordingly, we are not exposed to significant foreign currency risk.

Many of the food products we purchase are affected by changes in weather, production, availability, seasonality, and other factors outside our control. In an effort to mitigate some of this risk, we have entered into fixed price agreements on some of our food and beverage products, including certain proteins, produce and cooking oil. As of July 13, 2014, approximately 66.8% of our estimated annual food and beverage purchases were covered by fixed price contracts, most of which are scheduled to expire at various times through the end of fiscal year 2014. These contracts may exclude related expenses such as fuel surcharges and other fees. In addition, we believe that almost all of our food and supplies are available from several sources, which helps to reduce or mitigate these risks.

#### ITEM 4. Controls and Procedures

##### *Evaluation of Disclosure Controls and Procedures*

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

##### *Changes in Internal Control Over Financial Reporting*

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

### PART II — OTHER INFORMATION

#### ITEM 1. Legal Proceedings

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

#### 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 29, 2013 filed with the SEC on February 24, 2014. There have been no material changes to our Risk Factors disclosed in our 2013 Annual Report on Form 10-K, except for the addition of the following Risk Factor:

***We are subject to economic, political, regulatory, and other risks related to our international operations.***

We recently acquired 18 Red Robin franchised restaurants in Canada and may have further international expansion in the future. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, and political risks that are different from and incremental to those in the United States. In addition to the risks that we face in the United States, our international operations involve risks that could adversely affect our business, including:

- the need to adapt our brand for specific cultural and language differences;
- new and different sources of competition;
- difficulties and costs associated with staffing and managing foreign operations;
- difficulties in adapting and sourcing product specifications for international restaurant locations;
- fluctuations in currency exchange rates, which could impact revenues and expenses of our international operations and expose us to foreign currency exchange rate risk;
- difficulties in complying with local laws, regulations and customs in foreign jurisdictions;
- unexpected changes in regulatory requirements;
- political or social unrest and economic instability; compliance with U.S. laws such as the Foreign Corrupt Practices Act, and similar laws in foreign jurisdictions;

- differences in enforceability of intellectual property and contract rights;
- adverse tax consequences;
- profit repatriation and other restrictions on the transfer of funds; and
- different and more stringent user protection, data protection, privacy and other laws.

Our failure to manage any of these risks successfully could harm our future international operations and our overall business, and results of our operations.

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

During the twelve weeks ended July 13, 2014, 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. The table below provides a summary of the Company's purchases of its own common stock during the second quarter of fiscal year 2014.

| Period <sup>(1)</sup>   | Total Number of Shares (or Units) Purchases | 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 |
|---|---|--|---|--|
| 4/21/14 - 5/18/14   | 9,239                                       | \$ 61.61                               | 186,339   | \$ 36,933,524  |
| 5/19/14 - 6/15/14   | 200   | \$ 61.18                               | 186,539   | \$ 36,921,288  |
| Pursuant to Publicly Announced Plans or Programs <sup>(2)</sup> | 9,439                                       |  |   |  |

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

(2) In November 2012, the Company's board of directors re-authorized a repurchase of up to \$50 million of the Company's common stock. This authorization became effective January 1, 2013, and will terminate upon completing the repurchase of \$50 million of common stock unless earlier terminated by the Company's board of directors. 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 may be suspended or discontinued at any time. Since January 1, 2013, the Company has purchased 186,539 shares for a total of \$13.1 million. As of July 13, 2014, there was approximately \$36.9 million remaining under the current board authorization for future stock repurchases.

**ITEM 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 10.1                  | Credit Agreement, dated July 2, 2014. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on July 10, 2014.  |
| 10.2                  | Security Agreement, dated July 2, 2014. Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on July 10, 2014.  |
| 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 July 13, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at July 13, 2014 and December 29, 2013; (ii) Condensed Consolidated Statements of Operations for the twelve and twenty-eight weeks ended July 13, 2014 and July 14, 2013; (iii) Condensed Consolidated Statements of Comprehensive Income for the twelve and twenty-eight weeks ended July 13, 2014 and July 14, 2013; (iv) Condensed Consolidated Statements of Cash Flows for the twenty-eight weeks ended July 13, 2014 and July 14, 2013; 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.

RED ROBIN GOURMET BURGERS, INC.  
(Registrant)

\_\_\_\_\_  
August 15, 2014  
(Date)

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

## CEO CERTIFICATION

I, Stephen E. Carley, 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.

August 15, 2014

(Date)

/s/ Stephen E. Carley

Stephen E. Carley  
*Chief Executive Officer*

## CFO CERTIFICATION

I, Stuart B. Brown, 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.

August 15, 2014

(Date)

/s/ Stuart B. Brown

Stuart B. Brown  
*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 July 13, 2014, as filed with the Securities and Exchange Commission on August 15, 2014 (the "Report"), the undersigned, Stephen E. Carley, Chief Executive Officer, and Stuart B. Brown, 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 July 13, 2014 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: August 15, 2014

/s/ Stephen E. Carley

\_\_\_\_\_  
Stephen E. Carley  
*Chief Executive Officer*

Dated: August 15, 2014

/s/ Stuart B. Brown

\_\_\_\_\_  
Stuart B. Brown  
*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.