

RED ROBIN GOURMET BURGERS INC

Form 10-Q

November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 7, 2018

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

84-1573084

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

Greenwood Village, CO

80111

(Address of principal executive offices) (Zip Code)

(303) 846-6000

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

Edgar Filing: RED ROBIN GOURMET BURGERS INC - Form 10-Q

Exchange Act.

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

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 November 6, 2018
Common Stock, \$0.001 par value per share	12,978,127

Table of Contents

RED ROBIN GOURMET BURGERS, INC.
TABLE OF CONTENTS

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>2</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>11</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>22</u>
<u>Item 4. Controls and Procedures</u>	<u>23</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>24</u>
<u>Item 1A. Risk Factors</u>	<u>25</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>26</u>
<u>Item 6. Exhibits</u>	<u>27</u>

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

RED ROBIN GOURMET BURGERS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	(Unaudited)	
	October 7, 2018	December 31, 2017
Assets:		
Current assets:		
Cash and cash equivalents	\$ 20,368	\$ 17,714
Accounts receivable, net	12,801	26,499
Inventories	29,197	29,553
Prepaid expenses and other current assets	21,503	31,038
Total current assets	83,869	104,804
Property and equipment, net	595,429	638,151
Goodwill	96,548	96,979
Intangible assets, net	35,632	38,273
Other assets, net	43,337	32,408
Total assets	\$ 854,815	\$ 910,615
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	\$ 28,161	\$ 35,347
Accrued payroll and payroll-related liabilities	35,248	32,777
Unearned revenue	38,237	55,915
Accrued liabilities and other	40,579	36,300
Total current liabilities	142,225	160,339
Deferred rent	77,234	74,980
Long-term debt	220,875	266,375
Long-term portion of capital lease obligations	9,611	10,197
Other non-current liabilities	10,698	11,289
Total liabilities	460,643	523,180
Stockholders' equity:		
Common stock, \$0.001 par value: 45,000 shares authorized; 17,851 and 17,851 shares issued; 12,996 and 12,954 shares outstanding	18	18
Preferred stock, \$0.001 par value: 3,000 shares authorized; no shares issued and outstanding	—	—
Treasury stock 4,855 and 4,897 shares, at cost	(200,748)	(202,485)
Paid-in capital	212,002	210,708
Accumulated other comprehensive loss, net of tax	(4,075)	(3,566)
Retained earnings	386,975	382,760
Total stockholders' equity	394,172	387,435
Total liabilities and stockholders' equity	\$ 854,815	\$ 910,615

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsRED ROBIN GOURMET BURGERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Twelve Weeks Ended		Forty Weeks Ended	
	October 7, 2018	October 1, 2017	October 7, 2018	October 1, 2017
Revenues:				
Restaurant revenue	\$290,218	\$301,100	\$1,015,312	\$1,026,902
Franchise and other revenues	4,659	4,600	16,472	16,737
Total revenues	294,877	305,700	1,031,784	1,043,639
Costs and expenses:				
Restaurant operating costs (excluding depreciation and amortization shown separately below):				
Cost of sales	69,003	71,642	242,392	240,152
Labor	102,322	106,205	351,813	360,146
Other operating	43,612	41,454	141,305	133,575
Occupancy	26,629	25,868	88,099	84,127
Depreciation and amortization	21,819	21,258	73,335	70,475
Selling, general, and administrative expenses	28,780	33,714	110,715	117,965
Pre-opening costs	387	1,503	2,093	4,735
Other charges	520	—	17,422	1,584
Total costs and expenses	293,072	301,644	1,027,174	1,012,759
Income from operations	1,805	4,056	4,610	30,880
Other expense:				
Interest expense, net and other	2,295	2,032	8,087	7,469
(Loss) income before income taxes	(490)) 2,024	(3,477)) 23,411
Income tax (benefit) provision	(2,199)) (690)) (7,692)) 2,199
Net income	\$1,709	\$2,714	\$4,215	\$21,212
Earnings per share:				
Basic	\$0.13	\$0.21	\$0.32	\$1.65
Diluted	\$0.13	\$0.21	\$0.32	\$1.63
Weighted average shares outstanding:				
Basic	12,994	12,927	12,977	12,888
Diluted	13,054	13,023	13,064	12,986

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

RED ROBIN GOURMET BURGERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Twelve Weeks Ended		Forty Weeks Ended	
	October 7, 2018	October 1, 2017	October 7, 2018	October 1, 2017
Net income	\$1,709	\$2,714	\$4,215	\$21,212
Foreign currency translation adjustment	260	611	(510)	1,578
Other comprehensive income (loss), net of tax	260	611	(510)	1,578
Total comprehensive income	\$1,969	\$3,325	\$3,705	\$22,790

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Forty Weeks Ended	
	October	October
	7, 2018	1, 2017
Cash flows from operating activities:		
Net income	\$4,215	\$21,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73,335	70,475
Other charges - asset impairment and unpaid other charges	13,925	1,584
Deferred income tax (benefit) provision	(11,569)	1,707
Stock-based compensation expense	3,101	3,588
Other, net	(1,177)	(2,385)
Changes in operating assets and liabilities:		
Accounts receivable	15,268	12,978
Prepaid expenses and other current assets	10,156	(819)
Trade accounts payable and accrued liabilities	(4,127)	22,615
Unearned revenue	(15,450)	(9,663)
Other operating assets and liabilities, net	1,103	272
Net cash provided by operating activities	88,780	121,564
Cash flows from investing activities:		
Purchases of property, equipment, and intangible assets	(39,842)	(61,033)
Proceeds from sales of real estate and property, plant, and equipment and other investing activities	265	114
Net cash used in investing activities	(39,577)	(60,919)
Cash flows from financing activities:		
Borrowings of long-term debt	194,500	148,250
Payments of long-term debt and capital leases	(240,553)	(208,340)
Purchase of treasury stock	(337)	—
Debt issuance costs	—	(664)
Proceeds from exercise of stock options and employee stock purchase plan	733	2,616
Net cash used in financing activities	(45,657)	(58,138)
Effect of exchange rate changes on cash	(892)	745
Net change in cash and cash equivalents	2,654	3,252
Cash and cash equivalents, beginning of period	17,714	11,732
Cash and cash equivalents, end of period	\$20,368	\$14,984
Supplemental disclosure of cash flow information		
Income taxes paid	\$1,286	\$3,189
Interest paid, net of amounts capitalized	\$7,638	\$7,964
Change in construction related payables	\$(1,084)	\$(1,166)
See Notes to Condensed Consolidated Financial Statements.		

Table of Contents

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Recent Accounting Pronouncements

Red Robin Gourmet Burgers, Inc., a Delaware corporation, together with its subsidiaries (“Red Robin” or the “Company”), primarily develops, operates, and franchises full-service restaurants in North America. As of October 7, 2018, the Company owned and operated 485 restaurants located in 39 states and two Canadian provinces. The Company also had 89 franchised full-service restaurants in 16 states as of October 7, 2018. The Company operates its business as one operating and one reportable segment.

Basis of Presentation

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

The accompanying condensed consolidated financial statements of Red Robin have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), including the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in the Company’s annual consolidated financial statements on Form 10-K have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2017 has been derived from the audited consolidated financial statements as of that date, but does not include all disclosures required for audited annual financial statements. For further information, please refer to and read these interim condensed consolidated financial statements in conjunction with the Company’s audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 27, 2018.

The Company’s quarter that ended October 7, 2018 is referred to as third quarter 2018, or the twelve weeks ended October 7, 2018; the second quarter ended July 15, 2018 is referred to as second quarter 2018, or the twelve weeks ended July 15, 2018; the first quarter ended April 22, 2018 is referred to as first quarter 2018, or the sixteen weeks ended April 22, 2018; and together, the first, second, and third quarters of 2018 are referred to as the forty weeks ended October 7, 2018. The quarter ended October 1, 2017 is referred to as third quarter 2017, or the twelve weeks ended October 1, 2017; the second quarter ended July 9, 2017 is referred to as the twelve weeks ended July 9, 2017; the first quarter ended April 16, 2017 is referred to as first quarter 2017, or the sixteen weeks ended April 16, 2017; and together, the first, second, and third quarters of 2017 are referred to as the forty weeks ended October 1, 2017. The Company’s fiscal year 2018 comprises 52 weeks and will end on December 30, 2018.

Reclassifications

Certain amounts presented in prior periods have been reclassified to conform with the current period presentation. For the twelve weeks ended October 1, 2017, the Company reclassified local marketing costs of \$3.3 million from Other operating to Selling, general, and administrative expenses on the condensed consolidated statements of operations. For the forty weeks ended October 1, 2017, the Company reclassified local marketing costs of \$8.7 million. Management believes this presentation better reflects marketing expenses subject to corporate, rather than restaurant-level, decision making.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Update 2016-02, Leases (“Topic 842”), subsequently amended by various standard updates. This guidance requires the recognition of liabilities for lease obligations and corresponding right-of-use assets on the balance sheet and disclosure of key information about leasing arrangements. This guidance is effective for annual and interim reporting periods beginning after December 15, 2018

using a modified retrospective adoption method with the option of applying the guidance either retrospectively to each prior comparative reporting period presented or retrospectively at the beginning of the period of adoption. Early adoption is permitted. The Company will adopt this guidance beginning with its fiscal first quarter 2019 and will apply it retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment to retained earnings. We will elect to apply the practical

6

Table of Contents

expedients that do not require us to reassess existing contracts for embedded leases or to reassess lease classification or initial direct costs. The Company selected and began implementing a new lease management system during 2017. Once the transition to the new system is completed in 2018, this software will enable us to quantify the full impact Topic 842 will have on our consolidated financial statements. We expect adoption of Topic 842 will result in a significant increase in the assets and liabilities on our consolidated balance sheet.

2. Revenue

In May 2014, the FASB issued Revenue from Contracts with Customers (“Topic 606”), subsequently amended by various standard updates. 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 Company adopted Topic 606 in first quarter 2018 and applied the guidance retrospectively to all prior periods presented. Topic 606 impacts the accounting treatment of the Company’s advertising contribution funds, and the Company’s financial statements, as outlined below.

Advertising Fund Contributions

Under Red Robin franchise agreements, the Company and its franchisees are required to contribute a certain percentage of revenues to two national media advertising funds. The Company’s national advertising services are provided on a system-wide basis and, therefore, not considered distinct performance obligations for individual franchisees. The Company previously recorded the advertising contributions from franchisees as a reduction to advertising expense under Selling, general, and administrative expenses. In accordance with Topic 606, the Company recognizes these sales-based advertising contributions from franchisees as franchise revenue when the underlying franchisee sales occur. The Company records the related advertising expenses as incurred under Selling, general, and administrative expenses. When an advertising fund is over-spent at year end, advertising expenses will be reported on the consolidated statement of operations in an amount that is greater than the revenue recorded for advertising contributions. Conversely, when an advertising fund is under-spent at year end, the Company will accrue advertising costs up to advertising contributions recorded in revenue. All prior periods presented have been retrospectively adjusted for this change in accounting policy. The adoption of this standard did not impact previously reported amounts of net income.

Impacts on Financial Statements

Franchise and other revenue for the twelve weeks ended October 1, 2017 were previously reported as \$3.1 million with adjustments of \$1.5 million, resulting in an adjusted amount of \$4.6 million. Franchise and other revenue for the forty weeks ended October 1, 2017 were previously reported as \$11.7 million with adjustments of \$5.1 million, resulting in an adjusted amount of \$16.8 million.

Selling, general, and administrative expenses were previously reported as \$28.9 million prior to the reclassification of \$3.3 million of local marketing costs and adjustments of \$1.5 million, resulting in an adjusted amount of \$33.7 million for third quarter 2017. Selling, general, and administrative expenses were previously reported as \$104.2 million prior to the reclassification of \$8.7 million of local marketing costs and adjustments of \$5.1 million, resulting in an adjusted amount of \$118.0 million for forty weeks ended October 1, 2017. See “Reclassifications” under Note 1, Basis of Presentation and Recent Accounting Pronouncements.

Revenue recognition

Revenues consist of sales from restaurant operations; franchise revenue; and other revenue, including gift card breakage and miscellaneous revenue. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a restaurant guest, franchisee, or other customer.

Restaurant revenue

The Company recognizes revenues from restaurant sales when payment is tendered at the point of sale, as the Company’s performance obligation to provide food and beverage to the customer has been satisfied.

The Company sells gift cards which do not have an expiration date, and it does not deduct dormancy fees from outstanding gift card balances. We recognize revenue from gift cards as either: (i) Restaurant revenue, when the Company’s performance obligation to provide food and beverage to the customer is satisfied upon redemption of the

gift card, or (ii) gift card breakage, as discussed in Other revenue below.

Red Robin Royalty™ deferred revenue primarily relates to a program in which registered members earn an award for a free entrée for every nine entrées purchased. We recognize the current sale of an entrée and defer a portion of the revenue to

7

Table of Contents

reflect partial pre-payment for the future entrée the member is entitled to receive. We estimate the future value of the award based on the historical average value of redemptions. We also estimate what portion of registered members are not likely to reach the ninth purchase based on historical activity and recognize the deferred revenue related to those purchases. We recognize the deferred revenue in restaurant revenue on earned rewards when the Company satisfies its performance obligation at redemption, or upon expiration. We compare the estimate of the value of future awards to historical redemptions to evaluate the reasonableness of the deferred amount.

Franchise revenue

Revenues we receive from our franchise arrangements include sales-based royalties and advertising fund contributions, area development fees, and franchise fees. Red Robin franchisees are required to remit 4.0% to 5.0% of their revenues as royalties to the Company and contribute up to 3.0% of revenues to two national advertising funds. The Company recognizes these sales-based royalties and advertising fund contributions as the underlying franchisee sales occur.

The Company also provides its franchisees with management expertise, training, pre-opening assistance, and restaurant operating assistance in exchange for area development fees and franchise fees. The Company capitalizes these fees upon collection from the franchisee, which then amortize over the contracted franchise term as the services comprising the performance obligation are satisfied. The Company typically grants franchise rights to franchisees for a term of 20 years, with the right to extend the term for an additional ten years if various conditions are satisfied by the franchisee.

Other revenue

Gift card breakage is recognized when the likelihood of a gift card being redeemed by the customer is remote and the Company determines that there is not a legal obligation to remit the unredeemed gift card balance to the relevant jurisdiction. The determination of the gift card breakage rate is based upon the Company's specific historical redemption patterns. The Company recognizes gift card breakage by applying its estimate of the rate of gift card breakage on a pro rata basis over the period of estimated redemption.

Other revenue also consists of miscellaneous revenues considered insignificant to the Company's business.

Disaggregation of revenue

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

	Twelve Weeks Ended		Forty Weeks Ended	
	October 7, 2018	October 1, 2017	October 7, 2018	October 1, 2017
Restaurant revenue	\$290,218	\$301,100	\$1,015,312	\$1,026,902
Franchise revenue	3,914	3,855	13,363	13,506
Other revenue	745	745	3,109	3,231
Total revenues	\$294,877	\$305,700	\$1,031,784	\$1,043,639

Contract liabilities

Unearned gift card revenue at October 7, 2018 and December 31, 2017 was \$28.3 million and \$45.4 million. Deferred loyalty revenue, which was also included in Unearned revenue in the accompanying condensed consolidated balance sheets, was \$10.0 million and \$10.6 million at October 7, 2018 and December 31, 2017.

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

	Forty Weeks Ended	
	October 7, 2018	October 1, 2017
Gift card revenue	\$16,842	\$16,873

Table of Contents

3. Goodwill and Intangible Assets

The following table presents goodwill as of October 7, 2018 and December 31, 2017 (in thousands):

Balance, December 31, 2017	\$96,979
Foreign currency translation adjustment	(431)
Balance, October 7, 2018	\$96,548

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

The following table presents intangible assets as of October 7, 2018 and December 31, 2017 (in thousands):

	October 7, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Franchise rights	\$54,430	\$ (32,368)	\$ 22,062	\$54,447	\$ (29,685)	\$ 24,762
Favorable leases	13,001	(7,992)	5,009	13,001	(7,459)	5,542
Liquor licenses and other	10,854	(9,752)	1,102	10,148	(9,667)	481
	\$78,285	\$ (50,112)	\$ 28,173	\$77,596	\$ (46,811)	\$ 30,785
Indefinite-lived intangible assets:						
Liquor licenses and other	\$7,459	\$ —	\$ 7,459	\$7,488	\$ —	\$ 7,488
Intangible assets, net	\$85,744	\$ (50,112)	\$ 35,632	\$85,084	\$ (46,811)	\$ 38,273

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.

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

	Twelve Weeks Ended		Forty Weeks Ended	
	October 7, 2018	October 1, 2017	October 7, 2018	October 1, 2017
Basic weighted average shares outstanding	12,994	12,927	12,977	12,888
Dilutive effect of stock options and awards	60	96	87	98
Diluted weighted average shares outstanding	13,054	13,023	13,064	12,986
Awards excluded due to anti-dilutive effect on diluted earnings per share	548	209	428	324

Table of Contents

5. Other Charges

Other charges consist of the following (in thousands):

	Twelve Weeks Ended		Forty Weeks Ended	
	October 7, 2018	October 1, 2017	October 7, 2018	October 1, 2017
Asset impairment	\$ —	\$ —	\$9,643	\$ 1,584
Litigation contingencies	—	—	4,000	—
Spiral menu disposal	—	—	506	—
Reorganization costs	520	—	3,273	—
Other charges	\$ 520	\$ —	\$17,422	\$ 1,584

In second quarter 2018, the Company determined eight Company-owned restaurants were impaired and recognized a non-cash impairment charge of \$9.6 million. In the second quarter of 2017, the Company determined five Company-owned restaurants were impaired and recognized a non-cash impairment charge of \$1.6 million. The Company recognized the impairment charges resulting from the continuing and projected future results of these restaurants, primarily through projected cash flows.

6. Borrowings

Borrowings as of October 7, 2018 and December 31, 2017 are summarized below (in thousands):

	October 7, 2018	December 31, 2017
Revolving credit facility and other long-term debt	\$220,875	\$266,375
Capital lease obligations	10,385	10,938
Total debt	231,260	277,313
Less: Current portion	(774)	(741)
Long-term debt	\$230,486	\$276,572

On June 30, 2016, the Company entered into a credit facility (the “Credit Facility”), which provides for a \$400 million revolving line of credit with a sublimit for the issuance of up to \$25 million in letters of credit and swingline loans up to \$15 million. On April 13, 2017, the Company entered into the first amendment (the “Amendment”) to the Credit Facility. The Amendment increased the lease adjusted leverage ratio to 5.25x through October 1, 2017 before stepping down to 5.0x through July 15, 2018 and returning to 4.75x thereafter. The Amendment also provides for additional pricing tiers that increase LIBOR spread rates and commitment fees to the extent the Company’s lease adjusted leverage ratio exceeds 4.75x, in addition to revising terms for permitted acquisitions and investments. The Amendment was effective through October 7, 2018 and was cancelable at the Company’s discretion. Upon termination of the Amendment, the terms of the Credit Facility executed on June 30, 2016 remain effective.

The Credit Facility matures on June 30, 2021. As of October 7, 2018, the Company had outstanding borrowings under the Credit Facility of \$220.0 million, in addition to amounts issued under letters of credit of \$7.6 million, which reduced the amount available under the facility but were not recorded as debt. As of December 31, 2017, the Company had outstanding borrowings under the Credit Facility of \$265.5 million, in addition to amounts issued under letters of credit of \$7.6 million.

Loan origination costs associated with the Credit Facility are included as deferred costs in Other assets, net in the accompanying condensed consolidated balance sheets. Unamortized debt issuance costs were \$1.8 million and \$2.4 million as of October 7, 2018 and December 31, 2017.

7. 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.

Table of Contents

The following tables present the Company's assets measured at fair value on a recurring basis as of October 7, 2018 and December 31, 2017 (in thousands):

	October 7, 2018	Level 1	Level 2	Level 3
Assets:				
Investments in rabbi trust	\$ 8,792	\$8,792	\$ —	—
Total assets measured at fair value	\$ 8,792	\$8,792	\$ —	—

	December 31, 2017	Level 1	Level 2	Level 3
Assets:				
Investments in rabbi trust	\$ 9,292	\$9,292	\$ —	—
Total assets measured at fair value	\$ 9,292	\$9,292	\$ —	—

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

As of October 7, 2018 and December 31, 2017, the Company measured non-financial assets for impairment using continuing and projected future cash flows, as discussed in Note 5, Other Charges, which were based on significant inputs not observable in the market and thus represented a level 3 fair value measurement.

Disclosures of Fair Value of Other Assets and Liabilities

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

The following table presents the carrying value and estimated fair value of the Company's capital lease obligations as of October 7, 2018 and December 31, 2017 (in thousands):

	October 7, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Capital lease obligations	\$10,385	\$10,633	\$10,938	\$11,563

8. Commitments and Contingencies

In the normal course of business, there are various claims in process, matters in litigation, and other contingencies. These include employment-related claims and claims alleging illness, injury, or other food quality, health, or operational issues. Evaluating contingencies related to litigation is a complex process involving subjective judgment on the potential outcome of future events, and the ultimate resolution of litigated claims may differ from our current analysis. We review the adequacy of accruals and disclosures pertaining to litigation matters each quarter in consultation with legal counsel, and we assess the probability and range of possible losses associated with contingencies for potential accrual in the consolidated financial statements. While it is not possible to predict the outcome of these claims with certainty, management is of the opinion that adequate provision for potential losses associated with these matters has been made in the financial statements.

During the forty weeks ended October 7, 2018, the Company recorded \$4.0 million of litigation contingencies for employment-related claims. Refer to Note 5, Other Charges.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations provides a narrative of our financial performance and condition that should be read in conjunction with the accompanying condensed consolidated financial statements. All comparisons under this heading between 2018 and 2017 refer to the twelve and forty week periods ending October 7, 2018 and October 1, 2017, unless otherwise indicated.

Table of Contents

Overview

Red Robin Gourmet Burgers, Inc., a Delaware corporation, together with its subsidiaries (“Red Robin,” “we,” “us,” “our” or the “Company”), primarily develops, operates, and franchises full-service restaurants with 574 locations in North America. As of October 7, 2018, the Company operated 485 Company-owned restaurants located in 39 states and two Canadian provinces. The Company also had 89 franchised full-service restaurants in 16 states as of October 7, 2018. The Company operates its business as one operating and one reportable segment.

The following summarizes the operational and financial highlights during the twelve and forty weeks ended October 7, 2018:

Financial performance.

Restaurant revenue decreased \$10.9 million, or 3.6%, to \$290.2 million for the twelve weeks ended October 7, 2018, as compared to the twelve weeks ended October 1, 2017, primarily due to a \$9.9 million, or 3.4%, decrease in comparable restaurant revenue, a \$1.5 million decrease from closed restaurants, and a \$0.4 million unfavorable foreign currency exchange impact, partially offset by a \$0.9 million increase in revenue from newly opened restaurants. Restaurant revenue decreased \$11.6 million, or 1.1% to \$1.0 billion for the forty weeks ended October 7, 2018, as compared to the forty weeks ended October 1, 2017, primarily due to a \$21.1 million, or 2.1% decrease in comparable restaurant revenue and a \$3.8 million decrease from closed restaurants, partially offset by a \$12.8 million increase in revenue from newly opened restaurants and a \$0.5 million favorable foreign currency exchange impact. Restaurant operating costs, as a percentage of restaurant revenue, increased 170 basis points to 83.2% for the twelve weeks ended October 7, 2018, as compared to 81.5% for the twelve weeks ended October 1, 2017. For the forty weeks ended October 7, 2018, restaurant operating costs, as a percentage of revenue, increased 140 basis points to 81.1%, as compared to 79.7% for the same period in 2017. The increases were due to higher food and beverage costs, other operating costs, and occupancy costs, as a percentage of restaurant revenue, offset by a decrease in labor costs as a percentage of restaurant revenue.

Net income was \$1.7 million for the twelve weeks ended October 7, 2018 compared to \$2.7 million net income for the twelve weeks ended October 1, 2017. Diluted earnings per share were \$0.13 for the twelve weeks ended October 7, 2018, as compared to diluted earnings per share of \$0.21 for the twelve weeks ended October 1, 2017. Excluding the impact of \$0.03 per diluted share for reorganization costs, net income per diluted share for the twelve weeks ended October 7, 2018 was \$0.16. Net income was \$4.2 million for the forty weeks ended October 7, 2018 compared to \$21.2 million for the forty weeks ended October 1, 2017. Diluted earnings per share were \$0.32 for the forty weeks ended October 7, 2018, as compared to diluted earnings per share of \$1.63 for the same period in 2017. Excluding the impact of \$0.55 per diluted share for asset impairment, \$0.23 per diluted share for litigation contingencies, \$0.18 per diluted share for reorganization costs, and \$0.03 per diluted share for the disposal of spiral menus, net income per diluted share for the forty weeks ended October 7, 2018 was \$1.31. Excluding the impact of \$0.08 per diluted share for asset impairment, net income per diluted share for the forty weeks ended October 1, 2017 was \$1.71. For the full year 2018, we expect earnings per diluted share to range from \$1.60 to \$1.80.

Marketing. Our Red Robin Royalty™ loyalty program operates in all our U.S. and Canadian Company-owned Red Robin restaurants and has been rolled out to most of our franchised restaurants. We engage our guests through Red Robin Royalty with offers designed to increase frequency of visits as a key part of our overall marketing strategy. We also inform enrolled guests early about new menu items to generate awareness and trial of these offerings. Our media buying approach is concentrated on generating significant reach and frequency while on-air. In addition, we use digital, social, and earned media to target and more effectively reach specific segments of our guest base.

Table of Contents

Restaurant Data

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

	Twelve Weeks Ended October 1, 2018		Forty Weeks Ended October 1, 2017	
Company-owned:				
Beginning of period	484	472	480	465
Opened during the period	2	7	8	16
Acquired from franchisees	—	—	—	—
Closed during the period	(1)	—	(3)	(2)
End of period	485	479	485	479
Franchised:				
Beginning of period	88	86	86	86
Opened during the period	1	—	3	1
Sold or closed during the period	—	—	—	(1)
End of period	89	86	89	86
Total number of restaurants	574	565	574	565

Table of Contents

Results of Operations

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

This information has been prepared on a basis consistent with our audited 2017 annual financial statements, with the exception of changes made due to the adoption of Topic 606, 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 October 7, 2018		Forty Weeks Ended October 1, 2017	
Revenues:				
Restaurant revenue	98.4	% 98.5	% 98.4	% 98.4
Franchise royalties, fees, and other revenues	1.6	1.5	1.6	1.6
Total revenues	100.0	100.0	100.0	100.0
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	23.8	23.8	23.9	23.4
Labor	35.3	35.3	34.7	35.1
Other operating	15.0	13.8	13.9	13.0
Occupancy	9.2	8.6	8.7	8.2
Total restaurant operating costs	83.2	81.5	81.1	79.7
Depreciation and amortization	7.4	7.0	7.1	6.8
Selling, general, and administrative	9.8	11.1	10.8	11.3
Pre-opening costs	0.1	0.5	0.2	0.5
Other charges	0.2	—	1.7	0.2
Income from operations	0.6	1.3	0.4	3.0
Interest expense, net and other	0.8	0.7	0.8	0.7
Income before income taxes	(0.2)	0.7	(0.3)	2.2
Income tax (benefit) provision	(0.7)	(0.2)	(0.7)	0.2
Net income	0.6	% 0.9	% 0.4	% 2.0

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

Table of Contents

Revenues

(Revenues in thousands)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Restaurant revenue	\$290,218	\$301,100	(3.6)%	\$1,015,312	\$1,026,902	(1.1)%
Franchise and other revenue	4,659	4,600	1.3%	16,472	16,737	(1.6)%
Total revenues	\$294,877	\$305,700	(3.5)%	\$1,031,784	\$1,043,639	(1.1)%
Average weekly sales volumes in Company-owned restaurants ⁽¹⁾	\$49,995	\$52,877	(5.5)%	\$52,482	\$54,640	(3.9)%
Total operating weeks	5,805	5,686	2.1%	19,346	18,803	2.9%
Restaurant revenue per square foot	\$98	\$101	(3.0)%	\$340	\$348	(2.3)%

Calculated using constant currency rates. Using historical currency rates, the average weekly sales per unit for the twelve and forty weeks ended October 1, 2017 for Company-owned restaurants was \$52,955 and \$54,614. The Company calculates non-GAAP constant currency average weekly sales per unit by translating prior year local currency average weekly sales per unit to U.S. dollars based on current quarter average exchange rates. The Company considers non-GAAP constant currency average weekly sales per unit to be a useful metric to investors and management as they facilitate a more useful comparison of current performance to historical performance.

(1)

Restaurant revenue for the twelve weeks ended October 7, 2018, which comprises primarily food and beverage sales, decreased \$10.9 million, or 3.6%, as compared to third quarter 2017. The decrease was due to a \$9.9 million, or 3.4% decrease in comparable restaurant revenue, a \$1.5 million decrease from closed restaurants, and a \$0.4 million unfavorable foreign currency exchange impact, offset by a \$0.9 million increase in revenue from newly opened restaurants. The comparable restaurant revenue decrease was driven by a 1.5% decrease in average guest check and a 1.9% decrease in guest counts. The decrease in average guest check resulted from a 3.0% decrease in menu mix offset by a 1.5% increase in pricing. The decrease in menu mix is the result of our differentiated strategy to drive traffic growth through everyday affordability. We are focusing on opportunities to improve our service execution, which we believe will drive increased guest counts and comparable restaurant revenue.

Restaurant revenue for the forty weeks ended October 7, 2018 decreased \$11.6 million, or 1.1% as compared to the same period in 2017. The decrease was due to a \$21.1 million, or 2.1%, decrease in comparable sales and a \$3.8 million decrease from closed restaurants, offset by a \$12.8 million increase in revenue from newly opened restaurants and a \$0.5 million favorable foreign currency exchange impact. The comparable restaurant revenue decrease was driven by a 1.5% decrease in average guest check and a 0.6% decrease in guest counts. The decrease in average guest check resulted from a 2.5% decrease in menu mix offset by a 1.0% increase in pricing.

Average weekly sales volumes represent the total restaurant revenue for all Company-owned Red Robin restaurants for each time period presented, divided by the number of operating weeks in the period. Comparable restaurant revenues include those restaurants that are in the comparable base at the end of each period presented. New restaurants are restaurants that are open but not included in the comparable category because they have not operated for five full quarters. Fluctuations in average weekly net sales volumes for Company-owned restaurants reflect the effect of comparable restaurant revenue changes as well as the performance of new and acquired restaurants during the period and the average square footage of our restaurants.

Franchise and other revenue increased \$0.1 million for the twelve weeks ended October 7, 2018 compared to the twelve weeks ended October 1, 2017. Franchise and other revenue decreased \$0.3 million for the forty weeks ended October 7, 2018 compared to the forty weeks ended October 1, 2017, primarily due to a decrease in gift card breakage. Our franchisees reported a comparable restaurant revenue decrease of 0.6% for the twelve weeks ended October 7, 2018 compared to the twelve weeks ended October 1, 2017 and remained flat for the forty weeks ended October 7, 2018 compared to the forty weeks ended October 1, 2017.

Cost of Sales

Twelve Weeks Ended

Forty Weeks Ended

Edgar Filing: RED ROBIN GOURMET BURGERS INC - Form 10-Q

(In thousands, except percentages)	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Cost of sales	\$69,003	\$71,642	(3.7)%	\$242,392	\$240,152	0.9 %
As a percent of restaurant revenue	23.8	% 23.8	% —	23.9	% 23.4	% 0.5 %

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

15

Table of Contents

sales as a percentage of restaurant revenue remained flat for the twelve weeks ended October 7, 2018 as compared to the same period in 2017. For the forty weeks ended October 7, 2018, cost of sales as a percentage of revenue increased 50 basis points as compared to the forty weeks ended October 1, 2017. The increase was mainly driven by the higher tavern mix and lower non-alcoholic beverage mix, and the higher cost of steak fries.

Labor

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Labor	\$102,322	\$106,205	(3.7)%	\$351,813	\$360,146	(2.3)%
As a percent of restaurant revenue	35.3%	35.3%	—%	34.7%	35.1%	(0.4)%

Labor costs include restaurant-level hourly wages and management salaries as well as related taxes and benefits. For the twelve weeks ended October 7, 2018, labor as a percentage of restaurant revenue remained flat compared to the same period in 2017. For the forty weeks ended October 7, 2018, labor as a percentage of restaurant revenue decreased 40 basis points compared to the same period in 2017. The decrease was primarily driven by labor model changes, partially offset by increases in minimum wage rates in certain jurisdictions and management salaries.

Other Operating

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Other operating	\$43,612	\$41,454	5.2%	\$141,305	\$133,575	5.8%
As a percent of restaurant revenue	15.0%	13.8%	1.2%	13.9%	13.0%	0.9%

Other operating costs include costs such as equipment repairs and maintenance costs, restaurant supplies, utilities, restaurant technology, and other miscellaneous costs. For the twelve weeks ended October 7, 2018, other operating costs as a percentage of restaurant revenue increased 120 basis points as compared to the same period in 2017. The increase was primarily due to higher costs of equipment repairs and maintenance and third-party delivery fees, partially offset by a decrease in janitorial costs. For the forty weeks ended October 7, 2018, other operating costs as a percentage of revenue increased 90 basis points. The increases were primarily due to higher costs of restaurant supplies, restaurant technology, and third-party delivery fees, partially offset by a decrease in janitorial costs.

Occupancy

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Occupancy	\$26,629	\$25,868	2.9%	\$88,099	\$84,127	4.7%
As a percent of restaurant revenue	9.2%	8.6%	0.6%	8.7%	8.2%	0.5%

Occupancy costs include fixed rents, property taxes, common area maintenance charges, general liability insurance, contingent rents, and other property costs. Occupancy costs incurred prior to opening our new restaurants are included in pre-opening costs. For the twelve and forty weeks ended October 7, 2018, occupancy costs as a percentage of restaurant revenue increased 60 basis points and 50 basis points over the prior year. The increases were primarily driven by an increase in fixed rents, property taxes, and general liability insurance costs. Our fixed rents for the twelve weeks ended October 7, 2018 and October 1, 2017 were \$17.7 million and \$17.4 million, an increase of \$0.3 million due to nine net additional locations opened since third quarter 2017. Our fixed rents for the forty weeks ended October 7, 2018 and October 1, 2017 were \$58.9 million and \$57.1 million, an increase of \$1.8 million due to 15 net additional locations opened since the fourth quarter of 2016.

Table of Contents

Depreciation and Amortization

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Depreciation and amortization	\$21,819	\$21,258	2.6 %	\$73,335	\$70,475	4.1 %
As a percent of total revenues	7.4 %	7.0 %	0.4 %	7.1 %	6.8 %	0.3 %

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 October 7, 2018, depreciation and amortization expense increased \$0.6 million, or 2.6%, over the prior year. For the forty weeks ended October 7, 2018, depreciation and amortization expense increased \$2.9 million or 4.1% over the prior year. The increases were primarily related to new restaurants opened and new restaurant technology implemented since third quarter 2017.

Selling, General, and Administrative

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Selling, general, and administrative	\$28,780	\$33,714	(14.6)%	\$110,715	\$117,965	(6.1)%
As a percent of total revenues	9.8 %	11.1 %	(1.3)%	10.7 %	11.3 %	(0.6)%

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

Selling, general, and administrative costs in the twelve weeks ended October 7, 2018 decreased \$4.9 million or 14.6% as compared to the same period in 2017. The decrease was primarily due to decreases in local marketing, incentive compensation, and salaries related to the reorganization in first quarter 2018. For the forty weeks ended October 7, 2018, selling, general, and administrative costs decreased \$7.3 million or 6.1%. The decrease was primarily due to decreases in incentive compensation, salaries related to the reorganization in first quarter 2018, and professional services.

Pre-opening Costs

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Pre-opening costs	\$387	\$1,503	(74.3)%	\$2,093	\$4,735	(55.8)%
As a percent of total revenues	0.1 %	0.5 %	(0.4)%	0.2 %	0.5 %	(0.3)%

Pre-opening costs, which are expensed as incurred, comprise 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; licenses and marketing; supply costs; and other direct costs related to the opening of new restaurants. Our pre-opening costs fluctuate from period to period, depending upon, but not limited to, the number of restaurant openings, the size of the restaurants being opened, and the location of the restaurants.

Pre-opening costs for any given quarter will typically include expenses associated with restaurants opened during the quarter as well as expenses related to restaurants opening in subsequent quarters.

Pre-opening costs decreased \$1.1 million for the twelve weeks ended October 7, 2018, and decreased \$2.6 million for the forty weeks ended October 7, 2018. The decreases were primarily due to fewer restaurant openings during the twelve and forty week periods ended October 7, 2018 as compared to the same periods in 2017.

Interest Expense, Net and Other

Interest expense, net and other was \$2.3 million for the twelve weeks ended October 7, 2018, an increase of \$0.3 million, or 12.9%, from the same period in 2017. Interest expense, net and other was \$8.1 million for the forty weeks ended October 7, 2018, an increase of \$0.6 million, or 8.3%, from the same period in 2017. The increase was primarily related to recognizing a loss on the Company's deferred compensation plan assets during first quarter 2018

compared to a gain in the same period a year ago. Our weighted average interest rate was 4.4% and 4.1% for the twelve and forty weeks ended October 7, 2018, as compared to 3.5% and 3.6% for the twelve weeks and forty weeks ended October 1, 2017.

Table of Contents

Provision for Income Taxes

The effective tax rate for the twelve weeks ended October 7, 2018 was a 448.3% benefit, compared to a 34.1% benefit for the twelve weeks ended October 1, 2017. The effective tax rate for the forty weeks ended October 7, 2018 and October 1, 2017 was a 221.2% benefit and a 9.4% expense. The change in both the twelve and forty week effective tax rates are primarily due to the decrease in income as well as the decrease in the federal statutory rate from 35% to 21% in the first quarter of 2018.

18

Table of Contents

Liquidity and Capital Resources

Cash and cash equivalents increased \$2.7 million to \$20.4 million at October 7, 2018, from \$17.7 million at the beginning of the fiscal year. We expect to continue to reinvest available cash flows from operations to pay down debt, maintain existing restaurants and infrastructure, repurchase our common stock, develop new restaurants, 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):

	Forty Weeks Ended	
	October 7, 2018	October 1, 2017
Net cash provided by operating activities	\$88,780	\$121,564
Net cash used in investing activities	(39,577)	(60,919)
Net cash used in financing activities	(45,657)	(58,138)
Effect of exchange rate changes on cash	(892)	745
Net change in cash and cash equivalents	\$2,654	\$3,252

Operating Cash Flows

Net cash flows provided by operating activities decreased \$32.8 million to \$88.8 million for the forty weeks ended October 7, 2018. The decrease was primarily driven by a \$17.0 million decrease in cash generated from restaurant operations, a \$14.4 million increase in payments to vendors, a \$7.5 million increase in bonus payout, and a \$3.3 million increase in reorganization costs, partially offset by a \$5.4 million returned vendor deposit, a \$1.9 million decrease in income taxes paid, and a \$1.7 million decrease in corporate salaries.

Investing Cash Flows

Net cash flows used in investing activities decreased \$21.3 million to \$39.6 million for the forty weeks ended October 7, 2018, as compared to \$60.9 million for the same period in 2017. The decrease is primarily due to decreased investment in new restaurant openings and restaurant remodels.

The following table lists the components of our capital expenditures, net of currency translation effect, for the forty weeks ended October 7, 2018 (in thousands):

	Forty Weeks Ended October 7, 2018
Investment in technology infrastructure and other	\$20,705
New restaurants	9,650
Restaurant maintenance capital and other	9,487
Total capital expenditures	\$39,842

Financing Cash Flows

Cash used in financing activities decreased \$12.5 million to \$45.7 million for the forty weeks ended October 7, 2018, as compared to the same period in 2017. The decrease primarily resulted from a \$14.0 million decrease in net repayments made on long-term debt and a \$0.7 million decrease in debt issuance costs offset by a \$1.9 million decrease in net cash proceeds received from the exercise of employee stock options and purchase plan and \$0.3 million cash used to repurchase the Company's common stock.

Credit Facility

On June 30, 2016, the Company entered into a credit facility (the "Credit Facility"), which provides for a \$400 million revolving line of credit with a sublimit for the issuance of up to \$25 million in letters of credit and swingline loans up to \$15 million. On April 13, 2017, the Company entered into a first amendment (the "Amendment") to the Credit Facility. The Amendment increased the lease adjusted leverage ratio to 5.25x through October 1, 2017 before stepping down to 5.0x through July 15, 2018 and returning to 4.75x thereafter. The Amendment also provides for

additional pricing tiers that increase LIBOR spread rates and commitment fees to the extent the Company's lease adjusted leverage ratio exceeds 4.75x, in addition to revising terms for permitted acquisitions and investments. The Amendment was effective through October 7, 2018 and was

Table of Contents

cancelable at the Company's discretion. Upon termination of the Amendment, the terms of the Credit Facility executed on June 30, 2016 remain effective. As of October 7, 2018, the Company's lease adjusted leverage ratio was 4.03x. The Credit Facility matures on June 30, 2021. Borrowings under the Credit Facility are secured by first priority liens and security interests in substantially all of the Company's assets, including the capital stock of certain Company subsidiaries. Borrowings are available for financing activities including restaurant construction costs, working capital, and general corporate purposes, including, among other uses, to refinance certain indebtedness, permitted acquisitions, and redemption of capital stock. We do not believe any of our lenders will be unable to fulfill their lending commitments under our Credit Facility. Loan origination costs associated with the Credit Facility are included as deferred costs in Other assets, net in the accompanying condensed consolidated balance sheets. As of October 7, 2018, the Company had outstanding borrowings under the Credit Facility of \$220.0 million, in addition to amounts issued under letters of credit of \$7.6 million, which reduce the amount available under the Credit Facility but are not recorded as debt.

Covenants. We are subject to a number of customary covenants under our Credit Facility, including limitations on additional borrowings, acquisitions, stock repurchases, sales of assets, and dividend payments. As of October 7, 2018, we were in compliance with all debt covenants.

Debt Outstanding. Total debt and capital lease obligations outstanding decreased \$46.1 million to \$231.3 million at October 7, 2018, from \$277.3 million at December 31, 2017, primarily due to net repayments of \$45.5 million on the Credit Facility during the forty weeks ended October 7, 2018.

Share Repurchase. On August 9, 2018, the Company's board of directors authorized an increase to the Company's share repurchase program of approximately \$21 million to a total of \$75 million of the Company's common stock. The share repurchase authorization was effective as of August 9, 2018, and will terminate upon completing repurchases of \$75 million of common stock unless otherwise terminated by the board. Pursuant to the repurchase program, purchases may be made from time to time at the Company's discretion and the Company is not obligated to acquire any particular amount of common stock.

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

Inflation

The primary inflationary factors affecting our operations are food, labor costs, energy costs, and materials used in the construction of new restaurants. A large number of our restaurant personnel are paid at rates based on the applicable minimum wage, and increases in the minimum wage rates have directly affected our labor costs in recent years. Many of our leases require us to pay taxes, maintenance, repairs, insurance, and utilities, all of which are generally subject to inflationary increases. We believe labor cost inflation along with food cost inflation due primarily to potatoes and ground beef had a negative impact on our financial condition and results of operations during the forty weeks ended October 7, 2018. Uncertainties related to fluctuations in costs, including energy costs, commodity prices, annual indexed or potential minimum wage increases, and construction materials make it difficult to predict what impact, if any, inflation may continue to have on our business, but it is anticipated inflation will have a negative impact on labor costs for the remainder of 2018.

Seasonality

Our business is subject to seasonal fluctuations. Historically, sales in most of our restaurants have been higher during the summer months and winter holiday season and lower during the fall season. As a result, our quarterly and annual operating results and comparable restaurant revenue may fluctuate significantly as a result of seasonality.

Accordingly, results for any one quarter or year are not necessarily indicative of results to be expected for any other quarter or for any year, and comparable restaurant sales for any particular future period may decrease.

Off Balance Sheet Arrangements

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

Table of Contents

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 31, 2017.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those we believe are both significant and that require us to make difficult, subjective, or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors we believe to be appropriate under the circumstances. Actual results may differ from these estimates, including our estimates of future restaurant level cash flows, which are subject to the current economic environment, and we might obtain different results if we use different assumptions or conditions. We had no significant changes in our critical accounting policies and estimates which were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Recently Issued and Recently Adopted Accounting Standards

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

Forward-Looking Statements

Certain information and statements contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA") codified at Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This statement is included for purposes of complying with the safe harbor provisions of the PSLRA. Forward-looking statements include statements regarding our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, or performance and underlying assumptions and other statements which are other than statements of historical facts. These statements may be identified, without limitation, by the use of forward-looking terminology such as "anticipate," "assume," "believe," "estimate," "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 financial performance, including anticipated revenues, earnings per share, and outlook, and comparable restaurant revenue; our marketing strategy and promotions; expected uses for available cash flow; capital investments; beliefs about the ability of our lenders to fulfill their lending commitments under our Credit Facility and about the sufficiency of future cash flows to satisfy any working capital deficit and planned capital expenditures; the anticipated effects of inflation on labor and commodity costs for 2018; and the effect of the adoption of new accounting standards on our financial and accounting systems.

Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those we express in these forward-looking statements. These risks and uncertainties include, but are not limited to, the following: the effectiveness of our business improvement initiatives, including the effectiveness of our affordability, service improvement, and off-site initiatives; the ability to fulfill planned expansion; the effectiveness of our marketing campaigns; uncertainty regarding general economic and industry conditions; concentration of restaurants in certain markets; changes in consumer disposable income, consumer spending trends and habits; the effectiveness of our information technology and new technology systems, including cyber security with respect to those systems; regional mall and lifestyle center traffic trends or other trends affecting traffic at our restaurants; increased competition and discounting in the casual-dining restaurant market; costs and availability of food and beverage inventory; changes in commodity prices, particularly ground beef; changes in labor and energy costs; the success of our refranchising efforts; limitations on the Company's ability to execute stock repurchases due to lack of available share 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 under our Credit Facility or other access to capital; minimum wage increases; changes in health care and insurance costs; costs and other effects of legal claims by team members, franchisees, customers, vendors, stockholders, including relating to fluctuations in our stock price, and others, including settlement of those claims; effectiveness of management strategies and decisions; 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 31, 2017, filed with the SEC on February 27, 2018.

Although we believe the expectations reflected in our forward-looking statements are based on reasonable assumptions, such expectations may prove to be materially incorrect due to known and unknown risks and uncertainties. All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law,

Table of Contents

we undertake no obligation to update any forward-looking statement to reflect events or circumstances arising after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the interest rate risk, foreign currency exchange risk, or commodity price risk since the filing of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

We continue to monitor our interest rate risk on an ongoing basis and may use interest rate swaps or similar instruments in the future to manage our exposure to interest rate changes related to our borrowings as the Company deems appropriate. As of October 7, 2018, we had \$220.0 million of borrowings subject to variable interest rates. A 1.0% change in the effective interest rate applied to these loans would have resulted in pre-tax interest expense fluctuation of \$2.2 million on an annualized basis.

The Company's restaurant menus are highly dependent upon a few select commodities, including ground beef, poultry, and potatoes. We may or may not have the ability to increase menu prices, or vary menu items, in response to food commodity price increases. A 1.0% increase in food costs would negatively impact cost of sales by approximately \$3.2 million on an annualized basis.

Table of Contents

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

Table of Contents

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

For a description of our legal proceedings, see Note 8, Commitments and Contingencies, of Notes to Condensed Consolidated Financial Statements of this report.

24

Table of Contents

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 31, 2017 filed with the SEC on February 27, 2018. There have been no material changes to our Risk Factors disclosed in our 2017 Annual Report on Form 10-K.

25

Table of Contents

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

During the twelve weeks ended October 7, 2018, the Company did not have any sales of securities in transactions that were not registered under the Securities Act of 1933, as amended, that have not been reported in a Current Report on Form 8-K. On August 9, 2018, the Company's board of directors authorized an increase to the Company's share repurchase program of approximately \$21 million to a total of \$75 million of the Company's common stock. The increased share repurchase authorization became effective on August 9, 2018, and will terminate upon completing repurchases of \$75 million of common stock unless otherwise terminated by the board. Purchases under the repurchase program may be made in open market or privately negotiated transactions, and may include transactions pursuant to a repurchase plan administered in accordance with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended. Purchases may be made from time to time at the Company's discretion and the timing and amount of any share repurchases will be determined based on share price, market conditions, legal requirements, and other factors. The repurchase program does not obligate the Company to acquire any particular amount of common stock, and the Company may suspend or discontinue the repurchase program at any time.

Period ⁽¹⁾	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plan (in thousands)
9/10/18-10/7/18	8,600	\$ 39.13	8,600	\$ 74,585
Pursuant to Publicly Announced Plans or Programs ⁽²⁾	8,600			

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

(2) Since February 11, 2016, when the share repurchase program was originally authorized, the Company has purchased 940,034 shares for a total of \$46.1 million. Prior to the increase in the share repurchase authorization, the program had a remaining authorized purchase limit of \$53.9 million as of October 7, 2018 and on August 9, 2018. The table below provides a summary of the Company's purchases of its own common stock during the third quarter 2018.

Table of Contents

ITEM 6. Exhibits

Exhibit
Number Description

- 10.1 Red Robin Gourmet Burgers, Inc. Executive Change in Control Severance Plan dated August 14, 2018. Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
- 10.2 Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Denny Marie Post, dated August 20, 2018. Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
- 10.3 Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Guy J. Constant, dated August 20, 2018. Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
- 10.4 Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Jonathan A. Muhtar, dated August 20, 2018. Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
- 10.5 Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Carin L. Stutz, dated August 20, 2018. Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
- 10.6 Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Michael L. Kaplan, dated August 20, 2018. Incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer

101 The following financial information from the Quarterly Report on Form 10-Q of Red Robin Gourmet Burgers, Inc. for the quarter ended October 7, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at October 7, 2018 and December 31, 2017; (ii) Condensed Consolidated Statements of Operations for the twelve and forty weeks ended October 7, 2018 and October 1, 2017; (iii) Condensed Consolidated Statements of Comprehensive Income for the twelve and forty weeks ended October 7, 2018 and October 1, 2017; (iv) Condensed Consolidated Statements of Cash Flows for the forty weeks ended October 7, 2018 and October 1, 2017; and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

Table of Contents

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)

November 7, 2018 By: /s/ Guy J. Constant

(Date) Guy J. Constant
(Chief Financial Officer)