

RED ROBIN GOURMET BURGERS INC
Form 10-K
February 28, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

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 0-49916

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 200N
Greenwood Village, CO
(Address of Principal Executive Offices)

80111
(Zip Code)

(303) 846-6000

(Registrant s Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act: **None**

Securities Registered Pursuant to Section 12(g) of the Act: **Common Stock, \$0.001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates (based on the closing price on the last business day of the registrant's most recently completed second fiscal quarter on The NASDAQ National Market) was \$610.1 million. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be affiliates of the registrant.

There were 16,614,393 shares of common stock outstanding as of February 26, 2007.

Certain information required for Items 10, 11, 12, 13 and 14 of Part III of this annual report on Form 10-K is incorporated by reference to the registrant's definitive proxy statement for the 2007 annual meeting of stockholders.

RED ROBIN GOURMET BURGERS, INC.
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PART I

ITEM 1. Business

Overview

Red Robin Gourmet Burgers, Inc., together with its subsidiaries, is a casual dining restaurant chain focused on serving an imaginative selection of high quality gourmet burgers in a family-friendly atmosphere. Unless otherwise provided in this annual report on Form 10-K, references to Red Robin, we, us, our and the Company refer to Red Robin Gourmet Burgers, Inc. and our consolidated subsidiaries. In fiscal 2006, Red Robin Gourmet Burgers, Inc. generated total revenues of \$618.7 million. As of the end of our fiscal year on December 31, 2006, the system included 347 restaurants, of which 208 were company-owned and 139 were franchisee-operated. As of December 31, 2006, there were Red Robin® restaurants in 38 states and two Canadian provinces.

History

The first Red Robin® restaurant was opened in Seattle, Washington in September 1969. In 1979, the first franchised Red Robin® restaurant was opened in Yakima, Washington. In 1996, the Company began implementing a number of strategic initiatives, including strengthening our gourmet burger concept, recruiting a new management team, upgrading management information systems, streamlining operations and improving guest service. In 2000, we completed a series of financing transactions that helped position our company for growth. In 2001, we formed Red Robin Gourmet Burgers, Inc., a Delaware corporation, to facilitate a reorganization of the company. The reorganization was consummated in August 2001, and since that time, Red Robin Gourmet Burgers, Inc. has owned all of the outstanding capital stock of Red Robin International, Inc., and our other operating subsidiaries through which our company-owned restaurants are operated. We completed an initial public offering of our common stock in July 2002. Since 1979, we have also franchised our concept. As of December 31, 2006, we had 26 franchisees operating 139 restaurants. Our franchisees are independent organizations to whom we provide support. See Restaurant Franchises and Licensing Arrangements for additional information about our franchise program.

Business Strategy

Our objective is to be the most respected restaurant company in the world for the way we treat our team members, guests and shareholders. To achieve our objective, we have developed the following strategies to profitably grow the business and build an infrastructure that will enable us to support that growth and deliver a high-quality and imaginative dining experience to our guests.

- **New Restaurant Growth.** We are pursuing a disciplined growth strategy focusing on the addition of company-owned restaurants in both new and existing markets. We opened 32 new company-owned restaurants in 2006 and 26 in 2005. We have taken a measured approach to new unit growth in 2007 and reduced our planned openings from 2006 levels as we focus on implementing our operational and marketing strategies to quickly grow and stabilize revenues in new restaurants and build brand awareness in our new markets. In fiscal 2007, we plan to open between 24 and 27 new company-owned restaurants. We expect approximately 60% of these new restaurants will be located in new markets. Total non-comparable operating weeks in 2007 will be made up of approximately 60% in new markets. New and existing markets are defined using several criteria including proximity and the number of restaurants already open in the market and the age of those restaurants.

New restaurant openings (NROs), whether in new or existing markets, present specific challenges. Generally, new restaurants open with higher sales volumes than the average sales volumes of comparable restaurants (honeymoon period) but level off at a revenue volume lower than the average level of comparable restaurant sales. While new restaurants generally achieve a level of profitability within several

months, they can take up to three years or more to achieve the average unit sales volumes and profitability of comparable restaurants. We are focused on implementing operational and marketing strategies that accelerate or normalize profits and sales volumes of new restaurants more quickly than our historical experience. See *Operations Training* for more information on our training programs to be implemented in 2007. In addition, we believe our new market restaurants will benefit from the national media strategy we are implementing in fiscal 2007 as discussed further below.

Existing Markets. We will continue to further expand our presence in existing markets. We believe this enables us to gain operating efficiencies, to increase brand awareness and to provide more dining locations for our guests to choose from, all of which we believe leads to significant repeat business and increased profitability. Strategically placing multiple restaurants in key trade areas enables Red Robin to reduce costs associated with regional supervision of restaurant operations, reduces training costs for managers and leverages expenditures on local marketing. We also believe this approach reduces the risks involved with opening new restaurants given that we better understand the competitive conditions, consumer tastes, demographics and discretionary spending patterns in our existing markets. In addition, our ability to hire qualified team members is enhanced in markets in which the brand is well known.

Development agreements with our franchise partners, which preclude us from building in certain defined territories, may limit our expansion in markets with existing locations, and therefore, limit our growth in those markets. In 2006, we reacquired a territory in an existing market in Washington State through the acquisition of 13 restaurants from one of our franchise partners. In January 2007, we announced our intent to acquire the assets of 17 franchised Red Robin® restaurants in the state of California. The territory covered by the proposed California acquisition generally encompasses the area of Los Angeles County north of Interstate 10, the California counties of San Luis Obispo, Santa Barbara, Ventura, Fresno, Kings, Tulare and Kern, as well as a portion of Riverside County. As opportunities arise, we may pursue additional franchise acquisitions to acquire franchise restaurants and development rights in strategic existing markets.

New Markets. New markets present new operational challenges as we expand into markets where we have less brand recognition, lower concentration of trained team members and generally higher operating costs. We will continue to selectively enter new markets to increase our presence as a national restaurant company. As we continue to expand into new markets, we will evaluate and plan for new development and operating cost structures that may not follow our experiences when opening restaurants in existing markets. Such factors include costs related to site development and working with new developers and contractors, increased costs for pre-opening and team member training as well as strategic marketing activities to build brand recognition in areas where we may not be well-known. As these restaurants begin to operate in new markets, performance may be less predictable than our experiences in existing markets.

- **Comparable Restaurant Growth.** We aim to increase comparable restaurant revenues by attracting new guests and maintaining our already loyal guests by offering gourmet quality burgers, superior guest service and a strong price-to-value relationship. Because of our recent growth, with the inclusion of less mature restaurants, we are experiencing slower growth in our average unit volumes for comparable restaurants. As discussed above, our new restaurants generally achieve average unit sales volumes of comparable restaurants in three or more years; however, these restaurants enter our comparable restaurant base after only five full quarters of operations. As of December 31, 2006, approximately 41% of our restaurants (excluding acquired restaurants in 2006) have been opened less than three years. As these less mature restaurants enter the comparable restaurant base, our comparable restaurant sales volumes could continue to be negatively affected. We expect our national media strategy will help the growth of our comparable restaurant revenue by improving our guest counts in 2007.
- **Build awareness of the Red Robin America's Gourmet Burgers and Spirits® brand.** We believe that the Red Robin name has achieved substantial brand equity among guests and has become well

known for our signature menu items within our existing markets. In 2007, we will expand our marketing activities through a national media strategy that will include cable television and internet advertising. We believe a national media campaign will increase revenue, expand our presence as a national restaurant company and provide support for our efforts to enter new markets where our brand has less recognition. We also intend to continue to support our marketing and advertising activities at the local restaurant marketing level. We will continue to promote restaurant openings, support local communities and to place advertising in local media outlets.

- **Managing Restaurant Operating Costs.** We are focused on managing our restaurant operating costs including food and other commodities, labor and benefits, restaurant supplies, utilities and other operating costs. Typically, our less mature restaurants initially experience higher operating costs in both dollars and percentage of revenues when compared to restaurants open three years or more. Accordingly, sales volume, timing of openings and initial operating margins of our less mature restaurants, particularly in new markets, have had an impact on our overall profitability until the number of more mature restaurants is large enough to mitigate the impact of less mature restaurant performance. In addition, macroeconomic and external factors, such as increases in state minimum wage requirements and weather related commodity price increases, will continue to put pressure on our costs. We are pursuing strategies to mitigate the impact of these external factors, including future price increases.
- **Developing Our Infrastructure to Support Growth.** To support our planned growth and increase overall profitability, we will strategically invest in infrastructure projects that will enable us to maximize the efficiencies of our centralized corporate support functions and improve guest service in our restaurants. Our strategic projects will include both short- and long-term objectives to meet the needs of our growing restaurant base and will potentially include projects that may initially increase costs and offset leverage in our general and administrative, marketing, franchise development and restaurant operating costs.

Restaurant Concept

Our menu features our signature product, the gourmet burger, which we make from premium quality beef, chicken, veggie patties, pot roast, pork, fish or turkey and serve in a variety of recipes. We offer a wide selection of toppings for our gourmet burgers, including fresh guacamole, honey mustard sauce, grilled pineapple, crispy onion straws, sautéed mushrooms, a choice of seven different cheeses, and even a fried egg. In addition to gourmet burgers, which accounted for approximately 50% of our total food sales in 2006, Red Robin serves an array of other items that appeal to a broad range of guests. These items include a variety of appetizers, salads, soups, pastas, seafood, other entrees, desserts and the Company's signature Mad Mixology® alcoholic and non-alcoholic specialty beverages. All of our gourmet burgers are served with our all-you-can-eat Bottomless Steak Fries®.

Red Robin® restaurants are designed to create a fun and memorable dining experience in an exciting, high-energy, family-friendly atmosphere. Our concept attracts a broad guest base by appealing to the entire family, particularly women, teens, kids ages 8 to 12 to whom Red Robin refers to as tweens, and younger children.

We believe in giving our guests the gift of time. All of Red Robin's menu items are designed to be delivered to guests in a time-efficient manner. Our service sequence is designed to consistently prepare every menu item in less than eight minutes, which allows guests to enjoy time-efficient lunches and dinners. We strive to provide guests with a 37-minute dining experience at lunch and a 42-minute dining experience at dinner.

We also strive to provide our guests with exceptional dining value. We have a per person average check of approximately \$10.70, including beverages. We believe this price-to-value relationship differentiates us from our competitors, many of whom have significantly higher average guest checks, and it allows us to appeal to a broad base of consumers with a wide range of income levels. This low average

guest check, combined with the swift service and fun-filled atmosphere which management believes contributes to an industry-leading guest frequency rate.

Red Robin was founded on four core values: *Honor, Integrity, Continually Seeking Knowledge* and *Having Fun*. These core values are the foundation for every Red Robin decision, from creating our gourmet burgers to hiring energetic team members and even to deciding new restaurant locations. They also are the foundation for how we treat our team members, guests and communities. These core values can be found embroidered on the sleeve of every team member's shirt, which serve as a constant reminder of what makes our company unique and special. Red Robin also has an unparalleled and extraordinary approach to guest service known as Unbridled Acts®. We have catalogued thousands of stories of Red Robin team members who live our values through random acts of kindness they bestow upon restaurant guests and other team members. Many of our Unbridled Acts® can be found on our website, www.redrobin.com.

Restaurant Site Selection

Red Robin believes that site selection is critical to its success and thus, devotes substantial time and effort evaluating each prospective site. Our site selection criteria focuses on identifying markets, trade areas and other specific sites that are likely to yield the greatest density of desirable demographic characteristics, heavy retail traffic and a highly visible site. Approved sites generally have a population of at least 70,000 people within a three-mile radius and at least 100,000 people within a five-mile radius. Sites generally require a strong daytime and evening population, adequate parking and a visible and easy entrance and exit. In addition, Red Robin typically selects locations with a demographic profile that includes a household income average of \$70,000 or greater and have a high population of families.

In order to maximize our market penetration potential, Red Robin has developed a flexible physical site format that allows us to operate in a range of real estate venues located near high activity areas, such as regional malls, lifestyle centers, big box shopping centers and entertainment centers. Our current prototype restaurant is a free-standing building with approximately 6,350 square feet, approximately 213 seats and patio seating. Based on this prototype, our average cash investment for a restaurant is approximately \$2.4 million, excluding land and pre-opening costs. We typically operate our restaurants under operating leases for land on which we build our restaurants. In 2006, we began designing what may become a new prototype restaurant that reduces the square footage to approximately 5,600 and substantially reduces the costs to build but retains the seating capacity and, therefore, has the same sales volume potential as the current building. This new smaller design will be tested in limited markets during 2007.

Operations

Restaurant Management

Our restaurant operations are divided into four distinct geographic regions, each of which is overseen by a regional vice president of operations who reports directly to our vice president of operations. In general, we staff each geographic region with five to nine regional operations directors, one to three regional recruiters, a regional training manager and one to three regional kitchen managers. Our regional directors oversee five to eight company-owned restaurants each, which we believe enables them to support the general managers and achieve sales and cash flow targets for each restaurant within their region. In certain instances, regional operations directors invest a limited portion of their time on franchised operations in their respective regions.

Our typical restaurant management team consists of a general manager, an assistant general manager, a kitchen manager and one or two assistant managers. Most of our restaurants employ approximately 85 hourly team members, many of whom work part-time. The management team of each restaurant is responsible for the day-to-day operation of that restaurant, including hiring, training and development of

team members, as well as operating results. The kitchen manager is responsible for product quality, daily production, shift execution, food costs and kitchen labor costs.

Training

Team members in a new restaurant complete a robust training process to ensure the smooth and efficient operation of the restaurant from the first day it opens to the public. In 2007, we will focus our training in new restaurants, particularly restaurants opened in new markets, on key proficiencies that will improve initial and sustained efficiencies. These training initiatives include re-defining and strengthening our hourly team member training during new restaurant openings. We have increased the number of trainers that we send to each opening and have enhanced our manager training curriculum to better prepare new managers for the challenging environment a new restaurant creates so they can confidently execute our processes, systems and values.

Prior to opening a new restaurant, our training and opening team travels to the location to prepare for an intensive training program for all team members hired for the new restaurant opening. Part of the training team stays on-site during the first week of operation and an additional team of training support arrives for on-site support during the second and third weeks.

We strive to maintain quality and consistency in each of our restaurants through the careful training and supervision of team members and the establishment of, and adherence to, high standards relating to personnel performance, food and beverage preparation and maintenance of our restaurants. Each restaurant has eight to ten certified trainers who provide classroom and on-the-job instruction for new team members who must be certified for their positions by passing a series of tests. These trainers participate in a training seminar that provides them with knowledge and tactics to enable them to effectively coach our team members to meet our high standards.

Restaurant managers are required to complete an intensive training program in an existing restaurant that includes guest service, kitchen and management responsibilities. Newly trained managers are then assigned to their home restaurant where they obtain additional training with their general manager. We place a high priority on our continuing management development programs in order to ensure that qualified managers are available for future restaurant openings. We conduct semi-annual performance reviews with each manager to discuss prior performance and future performance goals. Annually, we hold a leadership conference in which certain of our managers receive additional training on food preparation, hospitality and other relevant topics on a rotating basis.

We have recently developed a leadership selection process to improve our selection and retention of team members that will thrive and prosper in the Red Robin culture. We try to identify our leadership teams 12 months ahead of our new restaurant openings, especially those in new markets.

Food Preparation, Quality Control and Purchasing

Our honest-to-goodness food safety and quality assurance programs help manage our commitment to quality ingredients and food preparation. Our systems are designed to protect our food supply throughout the preparation process. We provide detailed specifications to suppliers for our food ingredients, products and supplies. We inspect specific qualified manufacturers and growers. Our purchasing team and restaurant managers are certified in a comprehensive safety and sanitation course by the National Restaurant Association. Minimum cook temperature requirements and quality assurance checks ensure the safety and quality of burgers and other ingredients we use in our restaurants.

To maximize our purchasing efficiencies and obtain the lowest possible prices for our ingredients, products and supplies, while maintaining the highest quality, our centralized purchasing team generally negotiates fixed price agreements with terms between one month and one year or monthly commodity pricing formulas. Chicken represented approximately 17.6% and hamburger represented approximately 12.1% of our food purchases in 2006. We enter into annual contracts with our beef and chicken suppliers. Our contracts for chicken are fixed price contracts. Our contracts for beef are generally based on current market prices plus a processing fee. In order to provide the freshest ingredients and products, and to maximize operating efficiencies between purchase and usage, each restaurant's management team determines the restaurant's daily usage requirements for food ingredients, products and supplies, and, accordingly, orders from approved local suppliers and our national master distributor. The management team inspects all deliveries to ensure that the items received meet our quality specifications and negotiated prices. We believe that competitively priced, high quality alternative manufacturers, suppliers, growers and distributors are available should the need arise.

Restaurant Franchise and Licensing Arrangements

As of December 31, 2006, we had 26 franchisees operating 139 restaurants in 24 states and two Canadian provinces, and we had 18 exclusive franchise area development arrangements with these franchisees. In 2006, our franchisees opened 16 new restaurants and we expect our franchisees to open between 15 and 17 new restaurants in 2007. Our two largest franchisees are Ansara Restaurant Group with 19 restaurants and Red Robin Restaurants of Canada, Ltd., which is owned by an affiliate of Mach Robin, LLC, also a Red Robin franchisee, with 18 restaurants throughout Alberta and British Columbia, Canada. We are not actively seeking new franchisees.

Our typical franchise arrangement consists of an area development agreement and a separate franchise agreement for each restaurant. Our current form of area development agreement grants exclusive rights to a franchisee to develop a minimum number of restaurants in a defined area, usually over a five-year period. Individual franchise agreements relate to the operation of each restaurant opened and typically have a term of 20 years with a renewal option for an additional ten years if the franchisee satisfies certain conditions. Our current form of franchise agreement gives our franchisees the right to use our trademarks, service marks, trade dress and our recipes, systems, manuals, processes and related items.

Under our current form of area development agreement, at the time we enter into such agreements, we collect a \$10,000 area development fee for each restaurant the franchisee agrees to develop. When a franchisee opens a new restaurant, we collect an additional franchise fee of \$25,000. Under earlier forms of area development agreements with certain of our franchisees, these fees may be lower. We recognize area development fees and franchise fees as income when we have performed all of our material obligations and initial services, which is generally upon the opening of the restaurant. Until earned, we account for these fees as deferred income, an accrued liability. Our current form of franchise agreement requires the franchisee to pay a royalty fee equal to 4.0% of adjusted restaurant sales. However, certain franchisees pay royalty fees ranging from 3.0% to 3.5% under agreements we negotiated with those franchisees in prior years.

Franchise Compliance Assurance

We actively work with and monitor our franchisees to ensure successful franchise operations as well as compliance with Red Robin systems and procedures. During the development phase, we assist the franchisee in the selection of restaurant sites and provide them with our prototype building plans, which they adapt to their site, including all changes that local municipalities and developers require. After construction is completed, we review the building for compliance with our standards and provide trainers to assist in the opening of the restaurant. We advise the franchisee on menu, management training, and equipment and food purchases. At least once a year, we review all menu items and descriptions to ensure

compliance with our requirements and standards. We require all suppliers of ground beef, if different from ours, to pay for and pass an annual inspection performed by third party auditors. Finally, on an ongoing basis, we conduct brand equity reviews on all franchise restaurants to determine their level of effectiveness in executing our concept at a variety of operational levels. Reviews are conducted by seasoned operations teams, last approximately two to three days, and focus on seven key areas including health, safety, brand foundation, and execution proficiency.

To continuously improve our operations, we maintain a franchise marketing advisory council, a franchise business advisory council and a food and beverage committee. The councils advise us on issues of concern to our franchisees, and the food and beverage committee helps determine which items we select for menu testing and which items will be featured in future promotions. The councils and the committee are each comprised of three franchisees and three members of Red Robin's management team. In addition, several times each year we solicit feedback and insights on specific topics from the broad group of franchisees and then get together with them to discuss their views. These gatherings are an effort to attain a high level of franchisee buy-in and to assure the system is evolving in a positive direction through the exchange of best practices.

Management Information Systems

We have centralized financial and accounting systems for company-owned restaurants, which we believe are important in analyzing and improving profit margins and accumulating marketing information for analysis. Our restaurants use computerized management information systems, which are designed to report daily, weekly and period-to-date information including sales, inventory and labor data. Specifically, we use Menulink, a Windows-based product, to perform our restaurant-level bookkeeping, electronic ordering and food cost and management functions. Our Radiant Systems (formally Aloha Technologies) point-of-sale system facilitates the supply of data to Menulink and also assists with labor scheduling and credit card authorizations. Our internally developed Scheduling Team Members and Reporting System (NuSTaRs) helps our managers schedule the optimal amount of team members at any time.

We utilize a customized food and beverage analysis program that determines the optimal food and beverage costs for each restaurant and provides additional tools and reports to help us identify opportunities, such as waste management, which we believe affords us lower than industry average food and beverage costs.

We employ several additional operational tools. For example, each week every general manager performs a systems check that tracks and measures our guests' experiences based upon key criteria. This systems check evaluates our speed of service, food preparation times, seating utilization measures and guest feedback. Our regional operations directors utilize these and other reports to determine which restaurants in their region may need additional support to address any problems.

Marketing and Advertising

We build brand awareness through our marketing, public relations and advertising programs and initiatives. These initiatives are funded primarily by contractual contributions from all company and franchised restaurants based on a percentage of sales. During 2006, we spent an aggregate of 2.7% of restaurant sales on marketing efforts.

We use in-restaurant merchandising materials that feature new food and beverage items several times a year to communicate with our guests. The core of our strategy revolves around keeping our menu items fresh, with innovative gourmet burgers and other offerings.

Public relations and local restaurant marketing are integral components to our marketing strategy. We are heavily involved with local schools and organizations in the communities where our restaurants are

located to support events and programs that help build brand awareness at the grassroots level. Additionally, we garner media coverage with new restaurant opening announcements, charity partnerships and community activities such as Special Olympics Tip-a-Cop programs. The Tip-a-Cop event involves members of local law enforcement who trade in their handcuffs and badges for serving aprons at Red Robin® restaurants as part of the annual Law Enforcement Torch Run campaign. During the Tip-A-Cop fundraiser, law enforcement representatives collect tips from restaurant guests, which are used to benefit Special Olympics. The Tip-a-Cop program raised over \$400,000 system wide for Special Olympics in 2006 from events held in Washington, Oregon, Nevada, and Colorado.

In 2006, we launched a national Kid's Recipe Contest in Search for the Next Gourmet Burger. We received over 16,000 recipe entries in this inaugural year. The top 50 burger recipes will be featured in a cookbook we will produce and sell in our restaurants in the summer of 2007. Proceeds from the sales of these cookbooks will go to benefit the National Center for Exploited and Missing Children. The winning burger, the Spicy Asian Burger, will be featured in our restaurants during our summer promotion, as well.

Another tool we use to communicate to our guests is the Red Robin eClub. The eClub is an on-line membership where our guests register their email addresses and provide their birthday information. In 2006, our eClub membership exceeded more than 700,000 members. Guests who sign-up for the eClub receive a special Welcome offer and a yearly free Birthday burger offer. In addition, we communicate to our eClub members several times a year by sending promotional messages to their email accounts. These messages include announcements of new menu items and enter-to-win contests. We have one of the lowest email opt-out rates and highest click through rates in the restaurant industry.

We conducted extensive independent guest research in 2005 and 2006 to determine more about our loyal guests and potential guests' perception of our brand and our competitors. The research results showed that we have high guest loyalty, retaining four guests for every one we lose; our loyal guests recognize and appreciate our key brand attributes of gourmet burgers, food quality, gift of time and value. According to the research, our focus on our gourmet burgers is our strength and we continue to lead our advertising message with our core burgers, which our research shows creates variety and excitement for our guests.

The research also showed that the Red Robin brand is viable and strong in existing markets. We believe one of the keys to growing our business is to increase brand awareness in new markets. As a result of the feedback from our research, in 2007 the Company is implementing a national media strategy, including cable television advertising and internet advertising, to expand its presence on a national basis and to help grow brand awareness and improve guest traffic across the country.

Team Members

As of December 31, 2006, we had 21,535 employees, whom we refer to as team members, consisting of 21,293 team members at company-owned restaurants and 242 team members at our corporate headquarters and our regional offices. None of our team members are covered by a collective bargaining agreement. We consider our team member relations to be good.

We support our team members by offering competitive wages and benefits, including a 401(k) plan, an employee stock purchase plan, medical insurance, and stock options for corporate team members and general managers and above. We motivate and prepare our team members by providing them with opportunities for increased responsibilities and advancement, as well as significant performance-based incentives tied to sales, profitability, certain qualitative measures and length of service.

Executive Officers

The following table sets forth information about our executive officers:

Name	Age	Position
Dennis B. Mullen	63	Chairman of the Board and Chief Executive Officer
Eric C. Houseman	39	President and Chief Operating Officer
Katherine L. Scherping	47	Senior Vice President and Chief Financial Officer
Todd A. Brighton	49	Senior Vice President and Chief Development Officer
Annita M. Menogan	52	Senior Vice President, Chief Legal Officer and Secretary
Michael E. Woods	57	Senior Vice President and Chief Knowledge Officer

Dennis B. Mullen. Mr. Mullen was appointed Chief Executive Officer and Chairman of Red Robin in August 2005. Prior to August 2005, Mr. Mullen served as a Director for Red Robin beginning in December 2002. Since January 2004, Mr. Mullen has served as the Chairman of the Board and a trustee of the Janus Investment Fund, Janus Adviser Series and Janus Aspen Series, and as a director of Janus World Funds PLC (a Dublin, Ireland based non-US fund). Mr. Mullen has more than 30 years experience as a corporate executive in the restaurant industry and has served as Chief Executive Officer for several restaurant chains, including Cork n Cleaver Restaurants of Denver, Colorado; Pedro Verde s Mexican Restaurants, Inc. of Boulder, Colorado; Garcia s Restaurants, Inc. of Phoenix, Arizona and BCNW, a franchise of Boston Chicken, Inc. in Seattle, Washington.

Eric C. Houseman. Mr. Houseman joined Red Robin in 1993. He was appointed President and Chief Operating Officer of Red Robin in August 2005. He previously served as Vice President of Operations from March 2000 until August 2005, Director of Operations Oregon/Washington from January 2000 to March 2000, Senior Regional Operations Director from September 1998 to January 2000, and General Manager from January 1995 to September 1998.

Katherine L. Scherping. Ms. Scherping joined Red Robin as Vice President and Chief Financial Officer in June 2005 and was promoted to Senior Vice President in 2007. From August 2004 until her employment with Red Robin, Ms. Scherping was the Controller for Policy Studies in Denver, Colorado. From August 2002 until June 2003, she served as Chief Financial Officer and Treasurer of Tanning Technology Corporation in Denver, Colorado. From April 1999 until August 2002, Ms. Scherping served as Director of Finance and Treasurer of Tanning Technology Corporation. Ms. Scherping has over 24 years experience serving in various finance and accounting roles. Ms. Scherping is a Certified Public Accountant.

Todd A. Brighton. Mr. Brighton joined Red Robin in April 2001 as Vice President of Development. He was appointed Senior Vice President and Chief Development Officer in August 2005. From August 1999 until his employment with Red Robin, Mr. Brighton worked for RTM Restaurant Group in Atlanta, Georgia as Director of Real Estate.

Annita M. Menogan. Ms. Menogan joined Red Robin in January 2006 as Vice President, Chief Legal Officer and Secretary and was promoted to Senior Vice President in 2007. From August 1999 to September 2005, Ms. Menogan was employed by Coors Brewing Company, serving most recently as Vice President, Secretary and Deputy General Counsel of Adolph Coors Company and of Molson Coors Brewing Company, following the merger with Molson Inc. in February 2005. Ms. Menogan was engaged in the private practice of law from 1983 to 1999.

Michael E. Woods. Mr. Woods joined Red Robin in January 1997 as Vice President of Franchise Development and was appointed Senior Vice President in January 1999 and Chief Knowledge Officer in November 2005. Mr. Woods also served as Vice President of Design & Construction from February 2000

to April 2001. From 1992 to June 1999, Mr. Woods also served The Snyder Group Company as Director of Corporate Development.

Competition

The restaurant industry is highly competitive. We compete on the basis of the taste, quality, price of food offered, guest service, ambiance, location and overall dining experience. We believe that our guest demographics, our gourmet burger concept, attractive price-value relationship, and the quality of our food and service enable us to differentiate ourselves from our competitors. Although we believe we compete favorably with respect to each of these factors, many of our competitors are well-established national, regional or local chains, and when compared to us, may have substantially greater financial, marketing, and other resources than do we. We also compete with many other restaurant and retail establishments for site locations and team members.

Seasonality

Our restaurant sales are subject to seasonal fluctuations and are typically higher during the summer months and winter holiday season because of factors such as warmer weather, school holidays and the holiday shopping season.

Trademarks

Our registered trademarks and service marks include, among others, the marks Red Robin®, America's Gourmet Burgers & Spirits®, Mad Mixology® and our logo. We have registered these marks with the United States Patent and Trademark Office and the Canadian Intellectual Property Office. In order to better protect our brand, we have also registered the Internet domain name www.redrobin.com. We believe that our trademarks, service marks, and other proprietary rights have significant value and are important to our brand-building efforts and the marketing of our restaurant concept.

Government Regulation

Our restaurants are subject to licensing and regulation by state and local health, safety, fire and other authorities, including licensing requirements and regulations for the sale of alcoholic beverages and food. To date, we have not experienced an inability to obtain or maintain any necessary licenses, permits or approvals. The development and construction of additional restaurants will also be subject to compliance with applicable zoning, land use, and environmental regulations. We are also subject to federal regulation and state laws that regulate the offer and sale of franchises and substantive aspects of a franchisor-franchisee relationship. Various federal and state labor laws govern our relationship with our team members and affect operating costs. These laws include minimum wage requirements, overtime, child-labor regulations, unemployment tax rates, workers' compensation rates, citizenship requirements, pay practices and sales taxes.

Available Information

We maintain a link to investor relations information on our website, www.redrobin.com, where we make available, free of charge, our Securities and Exchange Commission (SEC) filings, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website and the information contained on or connected to our website is not incorporated by reference herein and our web address is included as an inactive textual reference only.

Forward-Looking Statements

From time-to-time the Company makes oral and written statements that reflect the Company's current expectations regarding future results of operations, economic performance, financial condition and achievements of the Company. We try, whenever possible, to identify these forward-looking statements by using words such as anticipate, assume, believe, estimate, expect, intend, plan, project, may, will, or similar expressions. Certain forward-looking statements are included in this Form 10-K, principally in the sections captioned Business, Legal Proceedings, Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements relate to, among other things:

- business objectives and strategic plans, including our long-term growth strategy;
- operating strategies;
- our ability to open and operate additional restaurants in both new and existing markets profitably, the anticipated number of new restaurants and the timing of such openings;
- restaurant and franchise acquisitions, including the acquisition of the 17 Red Robin franchised restaurants in California;
- anticipated price increases;
- expected future revenues and earnings, comparable and non-comparable restaurant sales, results of operations, and future restaurant growth (both company-owned and franchised);
- estimated costs of opening and operating new restaurants, including general and administrative, marketing, franchise development and restaurant operating costs;
- anticipated selling, general and administrative expenses and restaurant operating costs, including commodity prices, labor and energy costs;
- future capital expenditures and the anticipated amounts of such capital expenditures;
- our expectation that we will have adequate cash from operations and credit facility borrowings to meet all future debt service, capital expenditure and working capital requirements in fiscal year 2007;
- the sufficiency of the supply of commodities and labor pool to carry on our business;
- success of advertising and marketing activities and the planned national media campaign, including the anticipated effect on revenue and guest counts;
- the absence of any material adverse impact arising out of the formal SEC investigation or any current litigation in which we are involved;
- impact of the adoption of new accounting standards and our financial and accounting systems and analysis programs;
- expectations regarding competition and our competitive advantages;
- impact of our trademarks, service marks, and other proprietary rights; and
- effectiveness of our internal control over financial reporting.

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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.

In some cases, information regarding certain important factors that could cause actual results to differ materially from any forward-looking statement appears together with such statement. In addition, the

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factors described under Critical Accounting Policies and Risk Factors, as well as other possible factors not listed, could cause actual results to differ materially from those expressed in forward-looking statements, including, without limitation, the following: concentration of restaurants in certain markets and lack of market awareness in new markets; changes in disposable income; consumer spending trends and habits; regional mall and lifestyle center traffic trends; increased competition in the casual dining restaurant market; costs and availability of food and beverage inventory; our ability to attract qualified managers, team members, and franchisees; 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; costs and effects of the SEC investigation; effectiveness of management strategies and decisions; weather conditions and related events in regions where our restaurants are operated; and changes in accounting standards policies and practices or related interpretations by auditors or regulatory entities.

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 after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully read and consider the risks described below before deciding to invest in our common stock. The occurrence of any of the following risks could materially harm our business, financial condition, results of operations or cash flows. In any such case, the trading price of our common stock could decline, and you could lose all or part of your investment. When determining whether to invest in our common stock, you should also refer to the other information contained or incorporated by reference in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes.

Risks related to our business

Our ability to open and profitably operate new restaurants in order to expand our restaurant base is subject to factors beyond our control.

Our growth strategy depends in large part on our ability and the ability of our franchisees to timely and efficiently open new restaurants and to operate these restaurants on a profitable basis. Delays or failures in opening new restaurants could materially and adversely affect our planned growth. The success of our planned expansion will depend upon numerous factors, many of which are beyond our control, including the following:

- timely development of new restaurants;
- our ability to identify, and secure an adequate supply of available and suitable restaurant sites;
- competition for restaurant sites;
- negotiation of favorable lease and construction terms;
- the availability of construction materials and labor;
- management of construction and development costs of new restaurants;
- securing required governmental approvals and permits and in a timely manner;
- cost and availability of capital to fund restaurant expansion and operation;
- availability and retention of qualified operating personnel, especially managers;

- competition in our markets and general economic conditions that may influence consumer spending or choice;
- attract and retain guests; and
- operate at acceptable margins.

Less mature restaurants, once opened, may vary in profitability and levels of operating revenue for three years or more.

Less mature restaurants typically experience higher operating costs in both dollars and percentage of revenue initially when compared to restaurants open three years or more. Although new restaurants generally reach and maintain at least a minimal level of profitability within months of opening, less mature restaurants will generally take three years or more to reach normalized operating levels due to inefficiencies typically associated with new restaurants. These include operating costs, which are often materially greater during the first several months of operation. Further, some, or all of our less mature restaurants may not attain operating results similar to those of our existing restaurants.

Our expansion into new markets may present increased risks due to lack of familiarity with our brand in new areas and our lack of familiarity with the market.

Some of our new restaurants will be located in areas where there is a lack of market awareness of the Red Robin® brand and where we have little or no meaningful experience. Those markets may have competitive conditions, consumer tastes and discretionary spending patterns that are different from our existing markets, which may cause our new restaurants to be less successful than restaurants in our existing markets.

Expansion into new geographic markets negatively impacts our ability to leverage costs, resources and operating efficiencies for new restaurants.

As we expand into new markets and geographic territories, our operating costs structures and practices may not follow our experience in existing markets. For example, we will need to work with new developers; fewer restaurants in a given area limit our ability to effectively utilize regional supervision of restaurants; development and operating costs may increase due to geographic distances between restaurants that increase purchasing, pre-opening, labor and transportation costs; and we may incur more marketing expense to build brand recognition in areas where we are not well known. In addition, performance of restaurants in new markets may be more unpredictable.

Our continuing focus on restaurant expansion through further penetrating existing markets could cause sales in some of our existing restaurants to decline.

Our areas of highest concentration are Arizona, California, Colorado, Ohio, Oregon, Virginia and Washington. In accordance with our expansion strategy, we intend to open approximately 40% of our new restaurants in 2007 in our existing markets. Because we typically draw guests from a relatively small radius around each of our restaurants, the sales performance and guest counts for existing restaurants near the area in which a new restaurant opens may decline due to the opening of the new restaurant.

A greater concentration of less mature restaurants in our comparable restaurant base and a larger percentage of operating weeks from new restaurants will impact profitability.

Due to our new restaurant growth strategy, we have an increasing number of new and less mature restaurants that have operations less than three years old and which are entering our comparable restaurant base after five full quarters of operations. Because these restaurants generally are less profitable

and operate at average sales volumes below our comparable restaurants for approximately three years, our profitability will continue to be impacted until the performance of these restaurants is normalized.

Our initiative to address normalizing new restaurant operations may not be effective, if at all, for several quarters.

We have undertaken an initiative to redefine our systems and training practices when opening a new restaurant, which we believe will ultimately support our planned expansion. This initiative is designed to reduce or eliminate the length of time for new restaurants to reach normal levels of units sales volumes and profitability. Because these initiatives have only recently been implemented, we may not see results from this initiative for several quarters, if ever, and consequently, we will not know if it is successful for some time.

If our franchisees cannot develop or finance new restaurants, build them on suitable sites or open them on schedule, our growth and success may be impeded.

Under our current form of area development agreement, franchisees must develop a predetermined number of restaurants in their area according to a schedule that lasts for the term of their development agreement. Franchisees may not have access to the financial or management resources that they need to open the restaurants required by their development schedules, or be able to find suitable sites on which to develop them. Franchisees may not be able to negotiate acceptable lease or purchase terms for the sites, obtain the necessary permits and government approvals or meet construction schedules. From time to time in the past, we have agreed to extend or modify development schedules for certain area developers, and we may do so in the future. Any of these problems could slow our growth and reduce our franchise revenues.

Additionally, our franchisees depend upon financing from banks and other financial institutions in order to construct and open new restaurants. If any franchisee experienced difficulty in obtaining adequate financing, the lack of adequate availability of such financing could adversely affect the number and rate of new restaurant openings by our franchisees and adversely affect our future franchise revenues.

Our proposed national advertising campaign may not be effective, if at all, for several quarters.

We announced that we will kick off a national advertising campaign which will include cable television as well as internet advertising in April 2007, in part to address the lack of brand awareness in new markets where we have or intend to open restaurants, including franchised restaurants. We have not utilized national marketing efforts in the past, and therefore are unable to predict whether the campaign will be successful. We cannot provide assurance that our campaign will be effective, and if successful, positive results may not be apparent for several quarters. In addition, many of our competitors have successfully used national marketing strategies in the past and we may not be able to successfully compete against those established programs.

Our existing systems and procedures may be inadequate to support our growth plans.

We face the risk that our existing systems and procedures, restaurant management systems, financial controls, information and accounting systems, management resources and human resources will be inadequate to support our planned expansion of company-owned and franchised restaurants. Our expansion may strain our infrastructure and other resources, which could slow our restaurant development or cause other problems. We may not be able to respond on a timely basis to all of the changing demands that our planned expansion will impose on our infrastructure and other resources. Any failure by us to continue to improve our infrastructure or to manage other factors necessary for us to achieve our expansion objectives could have a material adverse effect on our operating results.

The acquisition of existing restaurants from our franchisees may have unanticipated consequences that could harm our business and financial condition.

In addition to our 2006 acquisition and our announced planned 2007 acquisition of franchised restaurants, we may seek to selectively acquire existing restaurants from our franchisees who are seeking an exit strategy. To do so, we would need to identify suitable acquisition candidates, negotiate acceptable acquisition terms and obtain appropriate financing. Any acquisition that we pursue, whether or not successfully completed, may involve risks, including:

- proposed acquisitions may not be completed, if at all, on a timely basis or upon terms most beneficial to the Company;
- the inability to integrate the acquired restaurants into our operations and operate them as expected
- there may be material adverse effects on our operating results, particularly in the fiscal quarters immediately following the acquisition as we integrate the franchisee's operations into our operations;
- risks associated with entering into markets or conducting operations where we have no or limited experience;
- the diversion of management's attention from other business concerns during the acquisition process;
- any acquisition, depending upon whether accomplished through a cash purchase transaction or the issuance of our equity securities, or a combination of both, could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and impairment charges related to goodwill and other intangible assets, any of which could harm our business, results of operations and financial condition; and
- we may be required to spend additional capital to upgrade or align the physical assets or software with our current standards and systems.

Our ability to utilize our revolving credit agreement and our ability to raise capital in the future may be limited, which could adversely impact our business.

Our revolving credit agreement contains a number of restrictive covenants that limit our ability to, among other things, engage in mergers, acquisitions, joint ventures and sale-leaseback transactions, and to sell assets, incur indebtedness, make investments, create liens and pay dividends. Our revolving credit agreement also requires us to comply with specified financial ratios and tests. These restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. Our recent acquisition in 2006 and our planned 2007 acquisition will reduce available capital under the credit agreement.

Changes in our operating plans, acceleration of our expansion plans, franchise acquisition opportunities, lower than anticipated sales, increased expenses or other events, including those described in this section, may cause us to seek additional debt or equity financing on an accelerated basis. Financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could negatively impact our growth and other plans, as well as our financial condition and results of operations. Any additional equity financing may be dilutive to the holders of our common stock. Additional debt financing, if available, may involve significant cash payment obligations and covenants and/or financial ratios that restrict our ability to operate our business.

Approximately 49% of our company-owned restaurants are located in the Western United States and, as a result, we are sensitive to economic and other trends and developments in this region.

As of December 31, 2006, a total of 102 company-owned restaurants or 49% of all Company-owned restaurants were located in the Western United States (i.e., Arizona, California, Colorado, Nevada, Oregon and Washington). As a result, we are particularly susceptible to adverse trends and economic conditions in this region, including its labor market. In addition, given our geographic concentration, negative publicity regarding any of our restaurants in the Western United States could have a material adverse effect on our business and operations, as could other regional occurrences such as local strikes, energy shortages or increases in energy prices, droughts, earthquakes, fires or other natural disasters.

Our operations are susceptible to the changes in cost and availability of food which could adversely affect our operating results.

Our profitability depends in part on our ability to anticipate and react to changes in food costs. Various factors beyond our control, including adverse weather conditions, governmental regulation, production, availability, recalls of food products and seasonality may affect our food costs or cause a disruption in our supply chain. Changes in the price or availability of chicken or beef could materially adversely affect our profitability. Expiring contracts with our food suppliers could also result in unfavorable renewal terms and therefore increased costs associated with these suppliers, or may even necessitate negotiations with alternate suppliers. We cannot predict whether we will be able to anticipate and react to changing food costs by negotiating more favorable contract terms with suppliers or by adjusting our purchasing practices and menu prices, and a failure to do so could adversely affect our operating results. In addition, because we provide a value-priced product, we may not be able to pass along price increases to our guests.

Our operating results may fluctuate significantly due to unexpected circumstances, increases in costs, seasonality and other factors.

Our quarterly and annual results may fluctuate or be impacted negatively by: increases in energy costs, costs of food, supplies and maintenance; changes in borrowings and interest rates; changes in customer discretionary spending habits and shopping locales; changes to accounting methods or philosophies; impairment of long-lived assets, including goodwill, and losses on restaurant closures; unanticipated expenses from natural disasters and repairs to damaged or lost property.

Moreover, our business is also 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 sales may fluctuate significantly as a result of seasonality and the factors discussed above. Accordingly, results for any one quarter 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.

Labor shortages could slow our growth or harm our business.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified, high-energy team members. Qualified individuals needed to fill these positions are in short supply in some areas. The inability to recruit and retain these individuals may delay the planned openings of new restaurants or result in high team member turnover in existing restaurants, which could harm our business. Additionally, competition for qualified team members could require us to pay higher wages to attract sufficient team members, which could result in higher labor costs. Most of our team members are paid on an hourly basis. These team members are paid in accordance with applicable wage and hour

regulations. Accordingly, any increase in the minimum wage, whether state or federal, could have a material adverse impact on our business.

Price increases may impact guest visits.

We have announced that we intend to take a 0.9% price increase on selected menu items early in the second quarter of fiscal 2007 in order to offset increased operating expenses we believe will be recurring. Although we have not experienced significant consumer resistance to our past price increases, we cannot provide assurance that this or other future price increases will not deter guests from visiting our restaurants or affect their purchasing decisions.

Changes in consumer preferences or discretionary consumer spending could negatively impact our results of operations.

Our restaurants feature burgers, salads, soups, appetizers, other entrees, such as carnitas fajitas and pasta, desserts and our signature Mad Mixology® alcoholic and non-alcoholic beverages in a family-friendly atmosphere. Our continued success depends, in part, upon the popularity of these foods and this style of casual dining. Shifts in consumer preferences away from this cuisine or dining style could have a material adverse affect on our future profitability. The restaurant industry is characterized by the continual introduction of new concepts and is subject to rapidly changing consumer preferences, tastes and eating and purchasing habits. While burger consumption in the United States has grown over the past 20 years, the demand may not continue to grow or taste trends may change. Our success will depend in part on our ability to anticipate and respond to changing consumer preferences, tastes and eating and purchasing habits, as well as other factors affecting the food service industry, including new market entrants and demographic changes.

A decline in visitors to any of the regional malls, lifestyle centers, big box shopping centers and entertainment centers near our restaurants could negatively affect our restaurant sales.

Our restaurants are primarily located near high activity areas such as regional malls, lifestyle centers, big box shopping centers and entertainment centers. We depend on a high volume of visitors at these centers to attract guests to our restaurants. Our success also depends to a significant extent on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. If the number of visitors to these centers declines due to any of these factors or otherwise, our restaurant sales could decline significantly and adversely affect our results of operations.

If we lose the services of any of our key management personnel, our business could suffer.

Our future success significantly depends on the continued services and performance of Dennis B. Mullen, our chief executive officer; Eric Houseman, our president and chief operating officer; Katherine L. Scherping, our chief financial officer and the rest of our executive team. Our future performance will depend on our ability to motivate and retain these and other key officers. Competition for these executives is intense. The loss of the services of members of our executive team or the inability to attract additional qualified personnel as needed could materially harm our business.

Our franchisees could take actions that could harm our business.

Franchisees are independent contractors and are not our employees. We provide training and support to franchisees; however, franchisees operate their restaurants as independent businesses. Consequently, the quality of franchised restaurant operations may be diminished by any number of factors beyond our control. Moreover, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other restaurant personnel.

Our image and reputation, and the image and reputation of other franchisees, may suffer materially and system-wide sales could significantly decline if our franchisees do not operate these restaurants according to our standards.

Our future success depends on our ability to protect our intellectual property.

Our business prospects will depend in part on our ability to protect our proprietary information and intellectual property, including the Red Robin Gourmet Burgers® name and logo. Although we have registered trademarks for Red Robin®, America's Gourmet Burgers & Spirits® and Mad Mixology®, among others, with the United States Patent and Trademark Office and in Canada, our trademarks could be infringed in ways that leave us without redress, such as by imitation. In addition, we rely on trade secrets and proprietary know-how in operating our restaurants, and we employ various methods to protect those trade secrets and that proprietary know-how. However, such methods may not afford adequate protection and others could independently develop similar know-how or obtain access to our know-how, concepts and recipes. We also franchise our system to various franchisees. While we try to ensure that the quality of our brand and compliance with our operating standards, and the confidentiality thereof are maintained by all of our franchisees, we cannot assure that our franchisees will avoid actions that adversely affect the reputation of Red Robin or the value of our proprietary information. Consequently, our business could be adversely impacted and less profitable if we are unable to successfully defend and protect our intellectual property.

Risks related to the restaurant industry

Health concerns relating to the consumption of beef, chicken or other food products could affect consumer preferences and could negatively impact our results of operations.

Consumer preferences could be affected by health concerns about the avian influenza, also known as bird flu, the consumption of beef, the key ingredient in many of our menu items, or negative publicity or publication of government or industry findings concerning food quality, illness and injury. Further, consumers may react negatively to reports concerning our food products or health or other concerns or operating issues stemming from one or more of our restaurants. Such negative publicity, whether or not valid, may adversely affect demand for our food and could result in decreased guest traffic to our restaurants. A decrease in guest traffic to our restaurants as a result of these health concerns or negative publicity or as a result of a change in our menu or concept could materially harm our business and adversely affect our profitability.

We are subject to extensive government regulation that may adversely hinder or impact our ability to govern various aspects of our business including our ability to expand and develop our restaurants.

Our business is subject to various federal, state and local government regulations, including those relating to the food safety, alcoholic beverage control and public health and safety. Difficulties or failures in obtaining or maintaining the required licenses and approvals could delay the opening or affect the continued operation and profitability of one or more restaurants in a particular area.

We are also subject to dram shop statutes in some states. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Failure to comply with alcoholic beverage control or dram shop regulations could subject the company to liability and could adversely affect our business.

Various federal and state employment laws govern our relationship with our team members and affect operating costs. These laws govern minimum wage requirements, overtime pay, meal and rest breaks, unemployment tax rates, workers compensation rates, citizenship or residency requirements, child labor regulations and sales taxes. Additional government-imposed increases in federal and state minimum wages, overtime pay, paid leaves of absence and mandated health benefits, increased tax reporting and tax payment requirements for team members who receive tips, or a reduction in the number of states that allow tips to be credited toward minimum wage requirements could harm our operating results.

We are also subject to federal and state laws that regulate the offer and sale of franchises and aspects of the licensor-licensee relationship. Many state franchise laws impose restrictions on the franchise agreement, including limitations on non-competition provisions and the termination or non-renewal of a franchise. Some states require that franchise materials be registered before franchises can be offered or sold in the state.

A significant increase in litigation could have a material adverse effect on our results of operations, financial condition and business prospects.

As a member of the restaurant industry, we are sometimes the subject of complaints or litigation from guests alleging illness, injury or other food quality, health or operational concerns. Adverse publicity resulting from these allegations could harm our restaurants, regardless of whether the allegations are valid or whether we are liable. In fact, we are subject to the same risks of adverse publicity resulting from these sorts of allegations even if the claim actually involves one of our franchisees.

In addition, any failure by us to comply with the various federal and state labor laws governing our relationship with our team members including requirements pertaining to minimum wage, overtime pay, meal and rest breaks, unemployment tax rates, workers compensation rates, citizenship or residency requirements, child labor requirements and sales taxes, may have a material adverse effect on our business or operations. We have been subject to such claims from time to time. We currently are subject to certain purported class action lawsuits that allege failure to comply with California wage and hour regulations, more particularly described in Item 3. Legal Proceedings . The possibility of a material adverse effect on our business relating to employment litigation is even more pronounced given the high concentration of team members employed in the western United States, as this region, and California in particular, has a substantial amount of legislative and judicial activity pertaining to employment-related issues. Further, employee claims against us based on, among other things, discrimination, harassment or wrongful termination may divert our financial and management resources that would otherwise be used to benefit the future performance of our operations.

Our success depends on our ability to compete effectively in the restaurant industry.

Competition in the restaurant industry is increasingly intense. We compete on the basis of the taste, quality, and price of food offered, guest service, ambiance and overall dining experience. We believe that our operating concept, attractive dining value, quality of food and guest service, enable us to differentiate ourselves from our competitors. Our competitors include a large and diverse group of restaurant chains and individual restaurants that range from independent local operators that have opened restaurants in various markets, to well-capitalized national restaurant companies. In addition, we compete with other restaurants and with retail establishments for real estate. Many of our competitors are well established in

the casual dining market segment and some of our competitors have substantially greater financial, marketing and other resources than do we.

Risks related to our company

An unfavorable finding in the SEC's ongoing investigation of the Company or an adverse judgment in either of the purported securities class action lawsuits could have a material adverse effect on us.

As previously disclosed, we are the subject of a formal SEC investigation into the use of chartered aircraft and travel and entertainment expenses by the person who was our former chairman, chief executive officer and president. We completed an internal investigation regarding these same matters in August 2005 and at such time notified the SEC as to the results of such investigation. Since such time, we have cooperated and intend to continue to cooperate with the SEC in order to bring the investigation of the Company to a conclusion as promptly as possible. In addition, as previously disclosed, we are the defendant in two purported securities class action lawsuits. We are unable to predict the ultimate focus or outcome of the SEC investigation or the securities class actions, or when the investigation and the securities class actions will be completed. Any unfavorable finding from the SEC as a result of the investigation or an adverse judgment in either of the securities class actions could have a material adverse effect on our reputation, business, results of operations, financial position and cash flows. See Item 3. Legal Proceedings.

The costs of the SEC investigation and the purported securities class action lawsuits may result in significant additional expenses.

The costs of the formal SEC investigation and the costs of defending the purported securities class action lawsuits have been significant and may, in the future, be material to our results of operations. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to cooperate with the SEC investigation have resulted in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to activities relating to the SEC investigation and the securities class actions. See Item 3. Legal Proceedings.

Our stock price may be volatile.

The recent market for our equity securities has been extremely volatile. The following factors could cause the price of our common stock in the public market to fluctuate significantly:

- actual or anticipated variations in our quarterly results of operations;
- changes in market valuations of companies in our industry;
- changes in investor expectations of future financial performance or changes in estimates of securities analysts;
- fluctuations in stock market prices and volumes;
- our issuances of common stock or other securities in the future; and
- the addition or departure of key personnel.

The stock market is subject to significant price and volume fluctuations. Fluctuations or decreases in the trading price of our common stock may adversely affect stockholders' ability to trade their shares.

ITEM 1B. Unresolved Staff Comments

None

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ITEM 2. Properties

We currently lease the real estate for a majority of our company-owned restaurant facilities under operating leases with remaining terms ranging from less than one year to just over 20 years. These leases generally contain renewal options which permit us to renew the leases at defined contractual rates or prevailing market rates. Certain leases provide for contingent rents, which are determined as a percentage of adjusted restaurant sales in excess of specified levels. We record a contingent rent liability and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable. Certain lease agreements also require the Company to pay maintenance, insurance and property tax costs.

We own real estate for 32 company-owned restaurants located in Arizona (3); Arkansas (2); California (2); Colorado (3); Georgia (1); Illinois (1); Maryland (1); Missouri (1); North Carolina (3); Ohio (4); Pennsylvania (3); Virginia (4); and Washington (2). In addition, we own one property in Florida and a second property in Texas, both of which we lease to others.

Our corporate headquarters are located in Greenwood Village, Colorado. We occupy this facility under a lease that expires on May 30, 2011. We lease small regional offices of less than 3,500 square feet in Seattle, Washington and Tustin, California under leases expiring December 2010.

ITEM 3. Legal Proceedings

On August 11, 2005, we announced certain management changes that followed an internal investigation conducted by a special committee of the board of directors relating to use of chartered aircraft and travel and entertainment expenses. The special committee, which retained independent counsel to conduct the investigation, identified various expenses incurred since 2001 by the person who formerly served as chairman, president and chief executive officer that were inconsistent with Company policies or that lacked sufficient documentation.

On February 1, 2006, we received a notice from the SEC that the SEC had issued a formal order of investigation related to the above-mentioned internal investigation. The SEC indicated in its order that it had not determined whether we had violated the law in any way. We have cooperated with the SEC and we intend to continue to cooperate fully with the SEC in its formal investigation.

On August 15, 2005, Andre Andropolis filed a purported class action complaint against us, the former chief executive officer and former chief financial officer (the Andropolis Complaint) in the United States District Court for the District of Colorado on behalf of himself and all other purchasers of our common stock during the putative class period of November 8, 2004 through August 11, 2005. On September 30, 2005, Mark Baird filed a similar purported class action complaint (the Baird Complaint) on behalf of himself and the same class of stockholders as defined in the Andropolis Complaint in the United States District Court for the District of Colorado. Both complaints allege that the Company and our former chief executive officer and former chief financial officer violated Sections 10(b) (including Rule 10b-5) and 20(a) of the Securities Exchange Act of 1934 (the Exchange Act) by disseminating false and misleading financial reports on behalf of the Company and by withholding adverse financial information on behalf of the Company from the class, and that the individual defendants were control persons who caused the Company to engage in such acts. The plaintiffs further allege that, because of the actions of the former chief executive officer and former chief financial officer, our stock price became inflated between November 8, 2004 and August 11, 2005, and on August 12, 2005, our stock price fell sharply following the disclosure of the investigation. The class has not been certified and no discovery has occurred. Lead plaintiff, City of Philadelphia Board of Pensions and Retirement (the Lead Plaintiff) and Lead Counsel have been appointed for both of these class actions. We refer below to these class actions collectively as Andropolis .

On February 28, 2006, the Lead Plaintiff filed a consolidated complaint. In addition to the allegations in the initial Andropolis Complaint against us and our former chief executive officer and former chief financial officer, the consolidated complaint alleges that the Company and our current chief executive officer and current chief financial officer violated Sections 10(b) and 20(a) of the Exchange Act in connection with our announcement on January 10, 2006 that the Company was lowering its guidance for the quarter ended December 25, 2005, alleges claims against our former controller and alleges violations of Section 14(a) of the Exchange Act. The consolidated complaint seeks damages on behalf of a putative class of purchasers of our common stock during the putative class period of August 13, 2004 to January 9, 2006 (inclusive).

On January 2, 2007, the court granted the defendants' motions to dismiss all claims with prejudice. Final judgment was entered on January 17, 2007 and plaintiffs filed a Notice of Appeal on February 14, 2007.

On August 31, 2005, Elliot Wilster commenced a stockholder derivative suit on behalf of our company in the United States District Court for the District of Colorado (the Wilster Complaint). The action was brought against us as a nominal defendant and against the former chief executive officer, then-current board members and our current senior vice president and chief concept officer. The Wilster Complaint alleged that several of the individual defendants improperly profited from their sales of Company stock while they knew proprietary, non-public information regarding the former chief executive officer's alleged abuse of his corporate position. The Wilster Complaint also alleged that the defendants breached their fiduciary duty, abused their control, engaged in gross mismanagement, wasted corporate assets and were unjustly enriched at the expense of and to the detriment of the company by failing to act on the former chief executive officer's alleged abuse of his corporate position and by waiving a conflict of interest resulting from proposed franchise development involving the former chief executive officer and the senior vice president and chief concept officer. The Wilster Complaint sought monetary damages against the individual defendants, equitable relief, restitution and attorneys' fees. On December 15, 2005, Wilster filed an amended stockholder derivative complaint (the Amended Wilster Complaint) that added the former chief financial officer as a defendant. On August 3, 2006, the Court in the Wilster case granted our motion to dismiss all claims against all defendants for failure to plead demand futility. The Court ruled that the Wilster plaintiff failed to allege particularized facts to show that a majority of the Board lacked independence or was interested in the challenged transactions and activity such that a pre-litigation demand on the Board was futile. The plaintiff has appealed this ruling to the United States Court of Appeals for the Tenth Circuit.

The Wilster case had been consolidated for pretrial purposes with the Andropolis case.

In January 2006, the Company was served with a purported class action lawsuit, *Huggett v. Red Robin International, Inc.* This lawsuit was filed in the Superior Court of the State of California. The Huggett lawsuit alleges failure to comply with California wage and hour regulations, including those governing meal and rest periods, payment of wages upon termination and the provision of itemized statements to employees, as well as unlawful business practices and unfair competition. The Huggett complaint states claims for damages, including punitive and exemplary damages and injunctive relief. The Company filed an answer to the Huggett complaint and removed the case to the United States District Court for the Central District of California. On March 13, 2006, Huggett filed a motion to remand the case to the California state court. On June 9, 2006, the Court denied the motion to remand.

In December 2006, we were served with two additional purported class action lawsuits alleging claims similar to the Huggett matter. *William Harper v. Red Robin International, Inc.* was filed in the Superior Court of California alleging failure by us to provide its employees meal and rest breaks in compliance with California wage and hour regulations. *Marie Hill vs. Red Robin International, Inc.* was filed the same day as the Harper case and served on us. In the Hill case, a former employee alleges failure to comply with

California wage and hour regulations including failure to pay overtime, misclassification of managers, and failure to pay for or provide meal and rest breaks. The Company filed its answer to the complaint and the case was removed to the United States District Court for the Central District of California.

The Company filed a notice of related case with the Court in the *Huggett* case because the class described in the Harper case is the same.

We believe these suits to be without merit. Although we plan to vigorously defend these suits, we cannot predict the outcome of these lawsuits or what actions the SEC may take. It is possible that we may be required to pay damages, settlement costs, legal costs or other amounts that may not be covered by insurance, which could have a material adverse effect on our financial condition and results of operations.

In the normal course of business, there are various other claims in process, matters in litigation and other contingencies. These include claims resulting from slip and fall accidents, 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 us. While it is not possible to predict the outcome of these other suits, legal proceedings and claims with certainty, management is of the opinion that adequate provision for potential losses associated with these other matters has been made in the financial statements and that the ultimate resolution of these other matters will not have a material adverse effect on our financial position and results of operations.

See Note 10, *Commitments and Contingencies*, in the Notes to Condensed Consolidated Financial Statements, for additional information regarding certain legal proceedings to which we are a party.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year covered by this report.

PART II**ITEM 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on The NASDAQ National Market under the symbol RRGB. The table below sets forth the high and low per share sales prices for our common stock as reported by The NASDAQ National Market.

	Sales Price	
	High	Low
2006		
4th Quarter	\$49.14	\$32.42
3rd Quarter	50.85	33.93
2nd Quarter	48.20	38.50
1st Quarter	53.29	35.29
2005		
4th Quarter	\$57.47	\$42.21
3rd Quarter	61.86	40.34
2nd Quarter	62.91	47.85
1st Quarter	54.19	43.72

As of February 23, 2007, there were approximately 191 registered owners of our common stock.

Dividends

We did not declare or pay any cash dividends on our common stock during 2006 or 2005. We currently anticipate that we will retain any future earnings for the operation and expansion of our business. In addition, our revolving credit agreement prohibits us from declaring or paying any dividends or making any other distributions on any of our shares, subject to specified exceptions. Accordingly, we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future.

Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on then existing conditions including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

Issuer Purchases of Equity Securities

We did not repurchase any of our registered securities during the fourth quarter of 2006. The Company currently has no programs which have been approved by stockholders pursuant to which we would repurchase any of our equity securities. In addition, repurchases of Company stock are specifically restricted under the terms of our revolving credit agreement.

Performance Graph

The following graph compares the yearly percentage in cumulative total shareholders return on Common Stock of the Company since July 19, 2002, the date the Company became public, with the cumulative total return over the same period for (i) the Russell 3000 Index, and (ii) a peer group (Peer Group) consisting of the restaurant companies appearing in the S&P Small Cap 600 index with the Company. The Peer Group is composed of the following fourteen restaurant companies: California Pizza Kitchen Inc., CEC Entertainments, CKE Restaurants Inc., Ithop Corp., Jack In The Box Inc., Landrys Restaurants Inc., OCharleys Inc., PF Chang China Bistro Inc., Panera Bread Company, Rare Hospitality

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International Inc., Papa Johns International Inc., Sonic Corp., Steak N Shake Company, and Triarc Companies Inc.

Pursuant to rules of the Securities and Exchange Commission (SEC), the comparison assumes \$100 was invested on 7/19/02 in the Company s Common Stock and in each of the indices.

Also pursuant to SEC rules, the returns of each of the companies in the Peer Group are weighted according to the respective company s stock market capitalization at the beginning of each period for which a return is indicated. Historic stock price is not indicative of future stock price performance.

This performance graph shall not be deemed to be soliciting material or to be filed under either the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended.

COMPARISON OF 53 MONTH CUMULATIVE TOTAL RETURN*

Among Red Robin Gourmet Burgers, Inc., The Russell 3000 Index
And A Peer Group

	7/19/2002	Fiscal Years 2002	2003	2004	2005	2006
Red Robin Gourmet Burgers, Inc.	\$ 100.00	\$ 104.26	\$ 249.35	\$ 437.56	\$ 417.02	\$ 293.37
Russell 3000	100.00	104.04	136.35	152.64	161.98	187.44
Peer Group	100.00	95.83	129.91	166.94	174.63	193.70

ITEM 6. Selected Financial Data

The table below contains selected consolidated financial and operating data. The statement of income, cash flow and balance sheet data for each year has been derived from our consolidated financial statements. You should read this information together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this annual report on Form 10-K.

	Fiscal Year Ended(1)				
	2006(2)	2005	2004	2003	2002
	(in thousands, except per share data)				
Statement of Income Data:					
Revenue:					
Restaurant revenue	\$ 603,391	\$ 471,860	\$ 391,317	\$ 314,371	\$ 261,633
Franchise royalties and fees	15,131	13,850	11,769	9,320	8,565
Rent revenue	199	313	300	409	327
Total revenues	618,721	486,023	403,386	324,100	270,525
Costs and expenses:					
Restaurant operating costs:					
Cost of sales	136,470	109,419	93,280	75,067	61,009
Labor(3)	206,572	160,142	131,379	108,365	90,145
Operating	94,733	71,929	57,158	48,085	40,428
Occupancy	37,593	29,669	25,242	21,248	17,830
Restaurant closures and impairment					1,393
Depreciation and amortization	33,874	26,115	21,070	16,395	13,198
General and administrative(3)	46,420	32,015	28,452	21,990	20,239
Franchise development	4,985	4,651	4,046	2,848	3,256
Pre-opening costs	8,491	6,250	5,143	3,891	2,265
Reacquired franchise costs	1,735				
Significant and unusual items, net		1,543			
Other					(795)
Total costs and expenses	570,873	441,733	365,770	297,889	248,968
Income from operations	47,848	44,290	37,616	26,211	21,557
Other (income) expense:					
Interest expense, net(4)	5,567	2,969	2,384	2,633	5,371
Gain on sale of property			(257)		
Loss on extinguishment of debt				258	4,336
Other	(18)	77	89	(14)	106
Total other expenses	5,549	3,046	2,216	2,877	9,813
Income before income taxes	42,299	41,244	35,400	23,334	11,744
Provision for income taxes	12,937	13,858	12,019	7,888	3,857
Net income	\$ 29,362	\$ 27,386	\$ 23,381	\$ 15,446	\$ 7,887
Earnings per share					
Basic	\$ 1.78	\$ 1.68	\$ 1.46	\$ 1.02	\$ 0.64
Diluted(5)	\$ 1.75	\$ 1.64	\$ 1.43	\$ 1.00	\$ 0.62
Shares used in computing earnings per share					
Basic	16,538	16,292	16,022	15,182	12,278
Diluted	16,736	16,656	16,406	15,465	12,660

	Fiscal Year Ended(1)					
	2006(2)	2005	2004	2003	2002	
	(in thousands, except per share data)					
Balance Sheet Data:						
Cash and cash equivalents	\$ 2,762	\$ 3,340	\$ 4,980	\$ 4,871	\$ 4,797	
Total assets	450,598	334,421	264,501	214,382	173,774	
Long-term debt, including current portion(4)	113,971	58,524	47,743	37,628	39,980	
Total stockholders' equity(4)	243,533	204,859	161,733	132,386	98,022	
Cash Flow Data:						
Net cash provided by operating activities	\$ 78,525	\$ 65,274	\$ 54,374	\$ 38,981	\$ 27,342	
Net cash used in investing activities	(136,863)	(83,331)	(68,404)	(52,831)	(43,252)	
Net cash provided by financing activities	57,760	16,417	14,139	13,924	1,715	
Selected Operating Data:						
Average annual comparable restaurant sales volumes(6)	\$ 3,314	\$ 3,288	\$ 3,210	\$ 2,994	\$ 2,938	
Company-owned restaurants open at end of period	208	163	137	115	96	
Franchised restaurants open at end of period	139	136	118	103	98	
Comparable restaurant sales increase(6)	2.4	% 3.9	% 7.5	% 4.1	% 1.8	%

- (1) 2006 was a 53-week fiscal year. 2002 through 2005 were 52-week fiscal years.
- (2) Fiscal year 2006 reflects the acquisition of 13 franchised restaurants in the state of Washington. See Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of this report.
- (3) Fiscal year 2006 include charges of \$894,000 and \$4.9 million in restaurant labor costs and general and administrative costs, respectively, due to the change in stock option expensing requirements upon the adoption of SFAS 123R.
- (4) In November 2003, we received proceeds of \$18.0 million from a secondary offering of common stock. These proceeds were used to repay \$18.0 million of borrowings outstanding under our revolving credit agreement.
- (5) Fiscal year 2006 earnings per diluted share includes approximately \$0.11 per share related to an additional week.
- (6) Comparable restaurant sales increase and average annual comparable restaurant sales volumes for 2006 were calculated on a 53-week basis.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our discussions for the year ending December 31, 2006 refer to a 53-week period with the fifty-third week falling in the fourth quarter. The fiscal years ending December 25, 2005 and December 26, 2004 included 52 weeks.

As of December 31, 2006, we owned and operated, or franchised 347 Red Robin® restaurants in 38 states and Canada, of which 208 are company-owned and the remaining 139 of which operate under franchise agreements. In fiscal 2007, we plan to open between 24 and 27 new company-owned Red Robin Gourmet Burger restaurants and we believe our franchisees will open between 15 and 17 new restaurants. In addition, we plan to acquire the assets of 17 Red Robin franchised restaurants in the state of California.

Our primary source of revenue is from the sale of food and beverages at company-owned restaurants. We also earn revenue from royalties and fees from franchised restaurants.

The casual dining restaurant industry has become more complex and challenging in recent years. Challenges include increased competition among casual dining restaurant chains for the guest's discretionary dining dollars, increasing labor and benefit costs, increased energy and petroleum-based product prices, changes in the economy and increasing real-estate and development costs to build new restaurants. In light of these complexities and challenges, management has pursued a disciplined growth strategy that focuses on adding company-owned restaurants and increasing sales at existing restaurants. In addition, management is focused on managing restaurant operating costs and building our corporate infrastructure to facilitate our long-term growth expectations.

The following summarizes the most significant events occurring or affecting us in 2006:

- *Impact of Fifty-third Week.* In fiscal 2006, the fifty-third week added \$14.4 million to restaurant sales and \$0.11 to diluted earnings per share in our Consolidated Statements of Income. For the purposes of comparison, the calculation of the comparable restaurant sales increases presented for 2006 was made on a 53 week fiscal year basis by including the first week of the 2006 fiscal year in the comparable restaurant performance for 2005. The calculation of average weekly sales presented for 2006 was calculated on a 53-week basis, but the 2005 and 2004 average weekly sales statistics have not been modified from previous disclosures.
- *Franchise Acquisition.* We acquired 13 franchised Red Robin® restaurants in the state of Washington for \$42.5 million. The cash purchase price was funded through borrowings under the Company's existing credit facility. The franchised restaurants were owned by various entities affiliated with Great Western Dining, the former manager of the restaurants. The 13 restaurants collectively are referred to as the Acquired Restaurants and have been included in our results of operations beginning July 10, 2006. We incurred a charge of \$1.7 million related to the reacquisition of the existing franchise and development agreements of the Acquired Restaurants. This charge is reported as Reacquired franchise costs in the Consolidated Statements of Income.
- *Comparable Restaurant Sales.* On a comparable-basis of 53 weeks for fiscal 2006 and 2005, the increase in comparable restaurants sales was 2.4%. This increase reflects an increase in the average guest check of 1.9% and an increase in guest counts of 0.5% over 2005. Average weekly sales volumes for comparable restaurants increased 0.8% from \$63,236 in 2005 to \$63,729 in 2006.
- *New Restaurant Openings.* In fiscal 2006, we opened 32 company-owned restaurants, many of which were opened in new markets. Approximately 60% of total non-comparable restaurant operating weeks were in new markets in 2006 compared to 42% in 2005. New markets present operational challenges as we expand into markets where we have less brand recognition, a lower concentration of trained team members and generally higher operating costs. As such, average unit volumes of

these restaurants are less than those non-comparable restaurants opened in existing markets, where we have an established guest base and higher brand recognition. In 2006, our non-comparable restaurant volumes declined 5.0% from 2005 levels.

- *Adoption of SFAS No. 123(R)*. In the first quarter of 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, (SFAS 123(R), a revision of SFAS 123, *Accounting for Stock-Based Compensation*, using the modified prospective transition method and, therefore we have not retrospectively adjusted results for prior periods. For the fiscal year ended December 31, 2006, we recognized total pre-tax stock-based compensation expense of \$5.8 million, of which \$894,000 and \$4.9 million were recognized in restaurant labor and general and administrative expenses, respectively.

Unit Data and Comparable Restaurant Sales

The following table details data pertaining to the number of restaurant units for both company-owned and franchise locations for the years indicated.

	2006	2005	2004
Company-owned:			
Beginning of period	163	137	115
Opened during period	32	26	22
Acquired or assumed from franchisees	13		
End of period	208	163	137
Franchised:			
Beginning of period	136	118	103
Opened during period	16	19	17
Sold to company-owned	(13)		
Closed during period		(1)	(2)
End of period	139	136	118
Total number of Red Robin® restaurants	347	299	255

Between December 31, 2006 and February 26, 2007, we opened 6 additional company-owned restaurants and our franchisees have opened 3 additional franchise restaurants. We also closed one company-owned restaurant and one franchised restaurant since December 31, 2006, both due to lease expirations. We expect to open between 24 and 27 company-owned restaurants during 2007. We anticipate that our franchisees will open between 15 and 17 restaurants during 2007.

Results of Operations

Operating results for each 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 revenues:

	2006 (53 Weeks)	2005	2004
Revenues:			
Restaurant	97.5 %	97.1 %	97.0 %
Franchise royalties and fees	2.5	2.8	2.9
Rent revenue		0.1	0.1
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant operating costs:			
Cost of sales	22.6	23.2	23.8
Labor (includes 0.1%, 0% and 0% of stock-based compensation expense, respectively)	34.2	33.9	33.6
Operating	15.7	15.2	14.6
Occupancy	6.2	6.3	6.5
Total restaurant operating costs	78.7	78.6	78.5
Depreciation and amortization	5.5	5.4	5.2
General and administrative (includes 0.8%, 0.0% and 0% of stock-based compensation expense, respectively)	7.6	6.6	7.1
Franchise development	0.8	1.0	1.0
Pre-opening costs	1.4	1.3	1.3
Reacquired franchise costs	0.3		
Significant and unusual items, net (includes 0%, 0.6% and 0% of stock-based compensation expense, respectively)		0.3	
Income from operations	7.7	9.1	9.3
Other (income) expense:			
Interest expense	0.9	0.6	0.7
Interest income			(0.1)
Gain on sale of property			(0.1)
Total other expenses	0.9	0.6	0.5
Income before income taxes	6.8	8.5	8.7
Provision for income taxes	(2.1)	(2.9)	(3.0)
Net income	4.7 %	5.6 %	5.7 %

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

Total Revenues

(In thousands, except percentages)	2006	2005	2006-2005		2004	2005-2004	
			Change	Percent		Change	Percent
Restaurant revenue	\$ 603,391	\$ 471,860	27.9	%	\$ 391,317	20.6	%
Franchise royalties and fees	15,131	13,850	9.2	%	11,769	17.7	%
Rent revenue	199	313	(36.4)	%	300	4.3	%
Total revenues	\$ 618,721	\$ 486,023	27.3	%	\$ 403,386	20.5	%
Average weekly sales volumes:							
Comparable restaurants	\$ 63,729	\$ 63,236	0.8	%	\$ 61,732	2.4	%
Non-comparable restaurants	\$ 55,806	\$ 58,770	(5.0)	%	\$ 56,161	4.6	%
Acquired Restaurants	\$ 83,798	\$		%	\$		%

Restaurant revenues, which are comprised almost entirely of food and beverage sales, increased by \$131.5 million, or 27.9% from 2005. The inclusion of the fifty-third week in 2006 contributed \$14.4 million of revenue. Adjusting for this extra week, the 24.8% increase is driven by the growth in the number of non-comparable restaurants, the Acquired Restaurants, and a 2.4% increase in comparable restaurant revenues from 2005. The increase in comparable restaurant revenues was driven by a 0.5% increase in guest counts and a 1.9% increase in the average check. The revenue growth in 2005 over 2004 was attributable to the opening of 26 new restaurants in 2005 and a 3.9% increase in comparable restaurant revenues over 2004.

Average weekly sales volumes represent the total restaurant revenue for a population of restaurants in both a comparable and non-comparable category for each time period presented divided by the number of operating weeks in the period. Comparable restaurant average weekly sales volumes include those restaurants that are in the comparable base during each period. At the end of 2006, there were 148 comparable restaurants compared to 125 comparable restaurants in 2005. Non-comparable restaurants included in the average weekly sales volumes calculation include those restaurants that had not yet achieved the five full quarters of operations during the periods presented. At the end of 2006, there were 47 non-comparable restaurants versus 53 in 2005. Fluctuations in average weekly sales volumes in comparable restaurants reflect the effect of same store sales changes as well as the performance of new restaurants entering the comparable base during the period. The increase in average comparable weekly sales in 2006 was primarily the result of the increase in same store sales growth partially offset by a higher weighting of the 23 less mature restaurants entering the comparable base in 2006. The performance of these newer restaurants entering the comparable base reflects the historical ramp up of our restaurants during the early years of operations. We believe this lower average performance is due to the opening of our new restaurants in a larger ratio of new markets where we have a lower concentration of restaurants, established guests and little or no brand awareness. Approximately 60% of total non-comparable restaurant operating weeks in 2006 were in new markets compared to 42% in 2005.

Growth in restaurant revenue is expected to continue as we open between 24 and 27 new restaurants in 2007 and realize a full year of revenue from our Acquired Restaurants. In addition, we will be effecting an approximate 0.9% price increase early in the second quarter of 2007 of which we expect to realize 50% to 70% of this price increase in actual revenue increases. In addition, we believe our national media campaign scheduled to begin in 2007 will increase revenue by improving our guest counts.

Franchise royalties and fees, which consist primarily of royalty income and initial franchise fees, increased in 2006 due primarily to the 16 restaurants opened by our franchisees during the year and the 19 restaurants opened in 2005, offset by the reduction in franchise fees from the Acquired Restaurants for the last half of the year. Our franchisees reported that comparable sales for U.S. and Canadian restaurants

increased 2.5% and 7.9%, respectively. Franchise royalties and fees for 2005 increased due to 19 franchise restaurants opened during 2005 compared to 17 opened in 2004.

Costs and Expenses

Cost of Sales

(In thousands, except percentages)	2006	2005	2006-2005 Percent Change	2004	2005-2004 Percent Change
Cost of sales	\$ 136,470	\$ 109,419	24.7 %	\$ 93,280	17.3 %
As a percent of restaurant revenue	22.6%	23.2%	(0.6)%	23.8%	(0.6)%

Cost of sales, comprised of food and beverage expenses, are variable and generally fluctuate with sales volume. As a percentage of restaurant revenues, cost of sales improved 0.6%, due primarily to lower commodity costs and menu mix changes to lower costs items, as well as the leverage from price increases implemented since June 2005. The recent extreme weather in the produce growing states has put pressure on our produce costs in the first quarter of 2007, however, we expect nominal increases in our food costs through 2007.

In 2005, cost of sales as a percentage of restaurant revenue decreased to 23.2% compared to 2004, primarily due to lower commodity costs as well as menu mix changes to lower costs items and purchasing initiatives designed to reduce food and beverage costs

Labor

(In thousands, except percentages)	2006	2005	2006-2005 Percent Change	2004	2005-2004 Percent Change
Labor	\$ 206,572	\$ 160,142	29.0%	\$ 131,379	21.9%
As a percent of restaurant revenues	34.2%	33.9%	0.3%	33.6%	0.3%

Labor costs include restaurant hourly wages, fixed management salaries, stock-based compensation, bonuses, taxes and benefits for restaurant team members. Labor as a percentage of restaurant revenue increased as a result of increases related to hourly and salaried labor costs as a percentage of revenue in our non-comparable restaurants as well as approximately \$894,000 of stock compensation expense related to our adoption of SFAS 123R. The increase reflects the higher weighting of labor costs from our less efficient non-comparable restaurants opened in 2006 and 2005. We expect to see an increase in labor as a percentage of restaurant revenues during 2007, compared to 2006, to continue due to state minimum wage increases, as well as due to the continued weighting on our labor costs from our less efficient new restaurants.

In 2005, labor costs increased 0.3% primarily due to higher salaries and wages, and higher benefit costs from our self-insured programs.

Operating

(In thousands, except percentages)	2006	2005	2006-2005 Percent Change	2004	2005-2004 Percent Change
Operating	\$ 94,733	\$ 71,929	31.7%	\$ 57,158	25.8 %
As a percent of restaurant revenues	15.7%	15.2%	0.5%	14.6%	0.6 %

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Operating costs include variable costs such as restaurant supplies, advertising and energy costs, and fixed costs such as service repairs and maintenance costs. The increase in operating costs as a percentage of restaurant revenues in 2006 reflects higher energy expenses. The higher energy costs were driven by increased rates charged to our restaurants as well as increased usage which resulted from severe weather in our northwest and southwest operations. Supplies expense also reflects higher petroleum-based materials costs, fuel surcharges and transportation costs that began to increase our base supply costs in 2005. We expect to see the impact of energy costs to lessen in 2007. Incremental costs of our national advertising campaign is expected to increase operating costs as a percentage of restaurant revenue.

In 2005, operating costs as a percentage of restaurant revenue increased primarily due to higher energy, supplies, and repairs and maintenance expenses. Our higher energy costs resulted from increases in rates charged to our restaurants for natural gas and oil-based utilities. Supplies expense also reflected higher petroleum-based materials costs, fuel surcharges and transportation costs that added to our base supply costs in 2005.

Occupancy

(In thousands, except percentages)	2006	2005	2006-2005 Percent Change	2004	2005-2004 Percent Change
Occupancy	\$ 37,593	\$ 29,669	26.7 %	\$ 25,242	17.5 %
As a percent of restaurant revenues	6.2%	6.3%	(0.1)%	6.5%	(0.2)%

Occupancy costs include fixed rents, percentage rents, common area maintenance charges, real estate and personal property taxes, general liability insurance and other property costs. Our occupancy costs generally increase with sales volume but decline as a percentage of restaurant revenues as we leverage our fixed costs. As a percentage of restaurant revenues, occupancy costs were comparable to 2005 with modest decreases in insurance and taxes somewhat offset by a modest increase in percentage rent.

Occupancy costs as a percentage of restaurant revenue improved in 2005 in comparison to 2004 as lease costs declined as a percentage of revenue offset by modest increases in insurance and percentage rents.

Depreciation and Amortization

(In thousands, except percentages)	2006	2005	2006-2005 Percent Change	2004	2005-2004 Percent Change
Depreciation and amortization	\$ 33,874	\$ 26,115	29.7%	\$ 21,070	23.9%
As a percent of total revenues	5.5%	5.4%	0.1%	5.2%	0.2%

Depreciation and amortization includes depreciation on capital expenditures for restaurants and corporate assets as well as amortization of acquired franchise rights and liquor licenses. Depreciation and amortization expense as a percentage of total revenues increased in 2006 primarily due to the increased depreciation and amortization for tangible and intangible assets related to the Acquired Restaurants as well as the increase in per restaurant costs capitalized for restaurants opened in 2006 and 2005.

In 2005, depreciation and amortization increased over 2004 primarily due to the addition of 26 new restaurants in 2005 and a full year of depreciation related to the 22 restaurants opened in 2004. The increase in depreciation and amortization as a percentage of total revenues was primarily the result of newer restaurants having a higher depreciable costs basis than older restaurants.

General and Administrative

(In thousands, except percentages)	2006	2005	2006-2005 Percent Change	2004	2005-2004 Percent Change
General and administrative	\$46,420	\$ 32,015	45.0 %	\$ 28,452	12.5 %
As a percent of total revenues	7.6%	6.6%	1.0 %	7.1%	(0.5)%

General and administrative costs include all corporate and administrative functions that support existing operations and provide infrastructure to facilitate our future growth. Components of this category include management, supervisory and staff salaries, bonuses, stock-based compensation and related employee benefits, travel, information systems, training, office rent, professional and consulting fees and marketing costs. General and administrative costs as a percentage of total revenues increased in 2006 primarily due to stock-based compensation expense related to our adoption of SFAS 123R. Total stock compensation expense was \$4.9 million or 0.8% of total revenues. Higher headcount and increased salaries made up the remaining difference from 2005. During 2007, we plan to add resources to the corporate support and field supervision activities commensurate with the planned openings of between 24 and 27 new restaurants in 2007 and to build infrastructure to facilitate our long-term growth strategy. Generally, we expect general and administrative expenses to increase from quarter to quarter during 2007 but to decline as a percentage of total revenues over time.

Our 2005 general and administrative expenses as a percentage of total revenue increased over 2004 primarily due to a \$4.3 million increase for additional headcount, higher salaries and related costs attributable to operating additional company-owned restaurants. In 2005, we also recorded a \$1.1 million increase in legal fees related, in part, to the matters described in Part I, Item 3 Legal Proceedings. These increases were partially offset by a \$1.2 million decrease in marketing expenses.

Franchise Development

(In thousands, except percentages)	2006	2005	2006-2005 Percent Change	2004	2005-2004 Percent Change
Franchise development	\$4,985	\$ 4,651	7.2 %	\$ 4,046	15.0 %
As a percent of total revenues	0.8%	1.0%	(0.2)%	1.0%	%

Franchise development costs include the costs of our franchise and operations support teams including salaries and benefits, travel and training expenses, and costs associated with our annual leadership conference. Franchise development expenses increased in 2006 primarily due to an increase in expenses related to our leadership conference, offset by efficiencies and leveraged expenses of our franchise team to support the opening of 16 franchise restaurants. We anticipate that franchise development cost will continue to be leveraged against increased revenues in 2007 as our franchisees begin to provide additional resources to their new restaurant openings and training. Franchise development expenses as a percentage of total revenues decreased slightly for 2006 compared to 2005.

Franchise development expenses in 2005 increased over 2004 primarily due to an increase in expenses related to our leadership conference offset by efficiencies and leveraged expenses of our franchise team to support the opening of 19 franchise restaurants. Our franchisees opened 19 restaurants during 2005 compared to 17 in 2004.

Pre-opening Costs

(In thousands, except percentages)	2006	2005	2006-2005 Percent Change	2004	2005-2004 Percent Change
Pre-opening costs	\$ 8,491	\$ 6,250	35.9 %	\$ 5,143	21.5 %
As a percent of total revenues	1.4%	1.3%	0.1 %	1.3%	%
Average per restaurant pre-opening costs	\$ 251	\$ 240	4.6 %	\$ 234	2.6 %

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, travel expenses for our training teams, the cost of food and beverages used in training, marketing costs, lease costs incurred prior to opening and other direct costs related to the opening of new restaurants. Pre-opening costs for 2006, 2005 and 2004 reflect the opening of 32, 26 and 22 new restaurants respectively. Average per restaurant pre-opening costs represent total costs incurred for those restaurants that opened for business during the periods presented. The increases in our average pre-opening costs per restaurant reflects an increase in lease costs incurred prior to opening. These increased lease costs are driven by the number of restaurants built on leased land versus restaurants built on purchased land. Our 2006 new restaurants are weighted more heavily to leased land than our 2005 restaurant openings. We expect that pre-opening costs will continue to increase in 2007 as we open between 24 and 27 new restaurants, including many in new markets. In addition, higher pre-opening costs per restaurant will reflect costs to implement our new restaurant training initiatives.

Significant and Unusual Items, Net

On August 11, 2005, we announced the retirement of our then current chairman, president and chief executive officer, and the resignation of our then current senior vice president and former chief financial officer. These management changes followed an internal investigation commenced during the third quarter of 2005 by a special committee of the board of directors relating to use of chartered aircraft and travel and entertainment expenses. The special committee, which retained independent counsel to conduct the investigation, identified various expenses by our former chairman, president and chief executive officer since 2001 that were inconsistent with company policies or that lacked sufficient documentation. On August 18, 2005, our former chairman, president and chief executive officer entered into a Restitution Agreement with us, and on August 19, 2005, we received \$1.25 million as reimbursement for these expenses.

In the third quarter of 2005, in accordance with the Financial Accounting Standards Board's (FASB) Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation* (FIN 44), we recorded a non-cash stock-based compensation expense of \$2.8 million. This expense relates to previously modified and exercised stock options of our former chairman, president and chief executive officer and former senior vice president and former chief financial officer.

Interest Expense

Interest expense in 2006, 2005 and 2004 was \$5.8 million, \$3.1 million and \$2.7 million, respectively. Interest expense in 2006 was higher due to higher borrowings outstanding under our revolving credit facility and a slightly higher average interest rate of 7.3% versus 6.9% in 2005. This increase was partially offset by higher capitalized interest incurred in the construction of our new restaurants during 2006. In late 2005, we amended our revolving credit facility to lower the effective interest rates. However, we believe interest expense will continue to increase as we continue to fund our restaurant unit growth and our potential acquisition of the 17 restaurants in California with additional borrowings.

Provision for Income Taxes

The provision for income taxes decreased \$1.0 million, or 7.0%, to \$12.9 million in 2006, from \$13.9 million in 2005. The decrease was primarily due to more favorable tax credits and state apportionment factors resulting from a shift in our income to states with lower tax rates. Our effective income tax rate was 30.6% for 2006, 33.6% for 2005 and 34.0% for 2004. We anticipate that our 2007 effective tax rate will be approximately 32%.

Liquidity and Capital Resources

General. Cash and cash equivalents decreased \$0.5 million to \$2.8 million at December 31, 2006 from \$3.3 million at the beginning of the fiscal year, primarily due to the Company's development and construction of new restaurants and acquisition of the Washington restaurants. Cash inflows were provided from operating activities, net borrowings under the revolving credit agreement, and to a lesser extent proceeds from the exercise of team member stock options and stock purchases. We generally reinvest available cash flows from operations to develop new or enhance existing restaurants and to reduce borrowings under our revolving credit agreement.

Financial Condition. The Company and the restaurant industry in general maintain relatively low levels of accounts receivable and inventories, and vendors generally grant trade credit for purchases, such as food and supplies. We also continually invest in our business through the addition of new restaurants and refurbishment of existing restaurants, which are reflected as long-term assets and not as part of working capital.

Credit Facility. Effective December 2005, the Company amended its credit agreement to provide for an aggregate amount of \$200 million to fund the construction and acquisition of new restaurants, to refinance existing indebtedness, to potentially acquire franchise restaurants, and for general corporate purposes, including working capital. The Company has the option to increase the credit facility, subject to lender approval, by up to an additional \$40.0 million.

Our credit facility is currently comprised of a \$200 million revolving credit facility maturing on December 14, 2010. Borrowings under the amended credit agreement bear interest at one of the following rates as selected by the Company: an Alternative Base Rate (ABR), which is based on the Prime Rate plus 0.00% to 0.25% or a London Interbank Offered Rate (LIBOR), which is based on the relevant one, two, three or six month LIBOR, at the Company's discretion, plus 0.625% to 1.25%. In addition to the ABR and LIBOR loans, the agreement provides for a swing-line loan sub-facility which allows the Company to borrow up to \$7.5 million. The credit facility also requires us to pay the lender an annual commitment fee based on the unused portion of the credit facility. The annual commitment rate and the credit facility's interest rates are based on a financial leverage ratio, as defined in the credit agreement. The Company and certain of its subsidiaries granted liens in substantially all personal property assets and certain real property assets to secure our obligations under the credit facility. As long as the Company meets a certain financial leverage ratio, the Company will not be required to mortgage or encumber real property assets acquired in the future. Additionally, certain of our real and personal property secure other indebtedness of the Company. At December 31, 2006, we had \$99.0 million of borrowings under our revolving credit facility and had letters of credit outstanding against our credit facility of \$4.6 million.

Covenants. We are subject to a number of customary covenants under our various credit agreements, including limitations on additional borrowings, acquisitions, dividend payments, and requirements to maintain certain financial ratios. As of December 31, 2006, we were in compliance with all debt covenants.

Total debt outstanding increased to \$114.0 million at December 31, 2006 from \$58.5 million at December 25, 2005, due to additional borrowings to construct new restaurants, finance our franchise acquisition, and acquire other assets, offset by payments made on capital lease obligations.

Contractual Obligations. The following table summarizes the amounts of payments due under specified contractual obligations as of December 31, 2006 (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations(1)	\$ 110,222	\$ 1,556	\$ 2,321	\$ 105,064	\$ 1,281
Capital lease obligations(2)	15,768	1,314	2,594	2,503	9,357
Operating lease obligations(3)	368,402	24,517	49,729	48,075	246,081
Purchase obligations(4)	23,334	4,457	18,887		
Other non current liabilities(5)	5,783		2,230	1,392	2,161

(1) Long-term debt obligations represent borrowings under our revolving credit agreement and other collateralized notes payable, including interest of \$26.6 million.

(2) Capital lease obligations include interest of \$5.9 million.

(3) Operating lease obligations represent future minimum lease commitments payable for land, buildings and equipment used in our operations. This table excludes contingent rents, including amounts which are determined as a percentage of adjusted sales in excess of specified levels.

(4) Purchase obligations include commitments for the construction of new restaurants and other capital improvement projects and lease commitments for company-owned restaurants where leases have been executed but construction has not begun.

(5) Other non current liabilities include executive deferred compensation, accrued restaurant bonuses for long-term incentive plans, franchise deposits and vendor deposits.

Capital Expenditures. Capital expenditures, including capital lease obligations, were \$95.6 million, \$86.8 million and \$70.7 million in 2006, 2005 and 2004, respectively. Fiscal 2006, compared with fiscal 2005, includes higher expenditures for new restaurants as well as increases in facility improvements. The increase in cash flows utilized in 2005 compared with 2004 was primarily due to expenditures for new restaurant construction and remodeling.

In fiscal year 2007, capital expenditures are expected to be approximately \$85 million to \$95 million. In addition to the construction of 24 to 27 new restaurants, we will continue our investment in restaurant remodels and capital improvements as well as expanding our corporate infrastructure to support our growth model. We have also announced plans to acquire 17 franchise owned restaurants with an estimated purchase price of approximately \$50.5 million. We will fund the acquisition of these restaurants using borrowings from our existing credit facility.

Future Liquidity. We require capital principally to grow the business through new restaurant construction, as well as to maintain, improve and refurbish existing restaurants, and for general operating purposes. In addition, we may use capital in the acquisition of franchise restaurants. Our primary short-term and long-term sources of liquidity are expected to be cash flows from operations and our revolving credit facility. Additional potential sources of liquidity to a lesser extent include the issuance of company stock under our stock option and employee stock purchase plans. Based upon current levels of operations and anticipated growth, we expect that cash flows from operations, combined with other financing alternatives in place or available, will be sufficient to meet debt service, capital expenditures and working capital requirements for at least the next twelve months.

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 affect our labor costs. 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 has had a negative impact on our financial condition and results of operations in the current year, due primarily to higher energy costs, higher costs for certain supplies and petroleum based products, higher costs for materials and labor related to construction of our new restaurants and, to a lesser extent, commodity prices for certain foods we purchase at market rates. Uncertainties related to higher costs, including energy costs, commodity prices, wages such as the potential federal minimum wage increase, and construction materials make it difficult to predict what impact, if any, inflation may have on our business during 2007.

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 sales may fluctuate significantly as a result of seasonality and other factors. Accordingly, results for any one quarter 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.

Critical Accounting Policies and Estimates

We have identified the following as the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results and require management's most subjective and complex judgment. Information regarding the Company's other significant accounting policies is disclosed in Note 1 of our consolidated financial statements.

Stock-Based Compensation Expense. Effective December 26, 2005, the beginning of the first quarter of fiscal year 2006, we adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method. Therefore, we have not retrospectively adjusted prior periods' results. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation using the Black-Scholes option pricing model and recognize expense on a graded vesting basis over the requisite service periods of an option, net of our expectation of forfeitures. Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective and judgmental assumptions, including volatility, interest rates, and expected option life. If any of the assumptions used in the model or our assumption of forfeiture rates change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period.

Property and Equipment. Property and equipment is recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life for owned assets and the shorter of the estimated useful life or the term of the underlying lease for leased assets. Changes in circumstances, such as changes to our business model or changes in our capital strategy, can result in the actual useful lives differing from our estimates. In those cases where management determines that the useful life of property and equipment should be shortened, we would depreciate the net book value over its revised remaining useful life thereby increasing depreciation and amortization expense. Factors such as changes in the planned use of fixtures or closing of facilities could also result in shortened useful lives.

Our accounting policies regarding property and equipment include judgments by management regarding the estimated useful lives of these assets, the expected lease term for assets related to properties under lease and the determination as to what constitutes enhancing the value of or increasing the life of existing assets. These judgments and estimates may produce materially different amounts of depreciation and amortization expense than would be reported if different assumptions were used. As discussed further below, these judgments may also impact management's need to recognize an impairment charge on the carrying amount of these assets as the cash flows associated with the assets are realized.

Impairment of Long-Lived Assets. Long-lived assets, including restaurant sites, leasehold improvements, other fixed assets and amortized intangible assets are reviewed when indicators of impairment are present. Expected cash flows associated with an asset are the key factor in determining the recoverability of the asset. Identifiable cash flows are generally measured at the restaurant level. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance. Management's estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, changes in economic conditions, changes to our business model or changes in operating performance. If the sum of the undiscounted cash flows is less than the carrying value of the asset, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

Judgments made by management related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions and changes in operating performance. As the ongoing expected cash flows and carrying amounts of long-lived assets are assessed, these factors could cause us to realize a material impairment charge. There were no asset impairment charges during the fiscal years ended December 31, 2006, December 25, 2005 or December 26, 2004.

Goodwill. We also evaluate goodwill annually or more frequently if indicators of impairment are present. The evaluation is based upon a comparison of the carrying value of our net assets including goodwill balances to the fair value of our net assets using the quoted market price of our common stock. We completed our most recent goodwill impairment test in December 2006 and determined that there were no impairment losses related to goodwill. In the event that business conditions change and our market value were to drop significantly below year-end levels, future tests may result in a need to record a loss due to a write-down of the value of goodwill. At December 31, 2006, goodwill recorded in the consolidated balance sheet totaled \$43.5 million.

Lease Accounting. Under the provisions of certain of our leases, there are rent holidays and/or escalations in payments over the base lease term, as well as renewal periods. The effects of rent holidays and escalations are reflected in rent costs on a straight-line basis over the expected lease term, which includes cancelable option periods when it is deemed to be reasonably assured that we will exercise such option periods due to the fact that we would incur an economic penalty for not doing so. The lease term commences on the date when we become legally obligated for the rent payments which generally coincides with the time when the landlord delivers the property for us to develop and we waive contract contingencies. All rent costs recognized during construction periods are expensed immediately as pre-opening expenses.

Judgments made by management with respect to the Company's lease obligations include the probable term for each lease that affects the classification and accounting for a lease as capital or operating; the rent holidays and/or escalations in payments that are taken into consideration when calculating straight-line rent; and the term over which leasehold improvements for each restaurant facility are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

Insurance/Self-Insurance Liabilities. The Company is self-insured for a portion of losses related to group health insurance, general liability and workers compensation. We maintain stop-loss coverage with third party insurers to limit our total exposure. The self-insurance liability represents an estimate of the cost of claims incurred and unpaid as of the balance sheet date. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial based estimates, and is closely monitored and adjusted when warranted by changing circumstances. In addition, our history of self-insured experience is short and our significant rate of growth could affect the accuracy of estimates based on historical experience. Should a greater amount of claims occur compared to what was estimated, or should medical costs increase beyond what was expected, our accrued liabilities might not be sufficient and additional expenses may be recorded. Actual claims experience could also be more favorable than estimated, resulting in expense reductions. Unanticipated changes may produce materially different amounts of expense than those reported under these programs.

Off Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In February, 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*, (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS No. 159 on our consolidated financial statements.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*, (SFAS 157). This statement defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS 157 is effective for our fiscal year beginning December 31, 2008. We are evaluating the impact the adoption of SFAS 157 will have on our consolidated financial statements.

In July 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a comprehensive financial statement model of how a company should recognize, measure, present, and disclose uncertain tax positions that the company has taken or expects to take in its income tax returns. FIN 48 requires that only income tax benefits that meet the more likely than not recognition threshold be recognized or continue to be recognized on the effective date. Initial derecognition amounts would be reported as a cumulative effect of a change in accounting principle. FIN 48 is effective for our fiscal year beginning January 1, 2007. We are assessing the impact the new guidance will have on our consolidated financial statements.

In March 2006, the FASB issued EITF Issue 06-3, *How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement* (EITF 06-3). A consensus was reached that entities may adopt a policy of presenting sales taxes in the income statement on either a gross or net basis. If taxes are significant, an entity should disclose its policy of presenting taxes and the amounts of taxes. The guidance is effective for our fiscal year beginning January 1, 2007. We present company sales net of sales taxes. EITF 06-3 will not impact the method for recording these sales taxes in our consolidated financial statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk exposures for our assets are related to cash, cash equivalents and investments. We invest our excess cash in highly liquid short-term investments with maturities of less than one year. These investments are not held for trading or other speculative purposes. Changes in interest rates affect the investment income we earn on our investments and, therefore, impact our cash flows and results of operations.

Under our revolving credit agreement, amended in December 2005, we are exposed to market risk from changes in interest rates on borrowings, which bear interest at one of the following rates we select: an Alternate Base Rate (ABR), based on the Prime Rate plus 0.00% to 0.25%, or a LIBOR, based on the relevant one, two, three or six-month LIBOR, at our discretion, plus 0.625% to 1.25%. The spread, or margin, for ABR and LIBOR loans under the revolving credit agreement are subject to quarterly adjustment based on our then current leverage ratio, as defined by the agreement.

Our variable rate based loans with GE Capital bear interest at the 30-day commercial paper rate plus a fixed percentage of 3.0% to 3.5%.

As of December 31, 2006, we had \$104.1 million of borrowings subject to variable interest rates, and a 1.0% change in the effective interest rate applied to these loans would have resulted in pre-tax interest expense fluctuating \$1.0 million on an annualized basis.

All of our transactions are conducted, and our accounts are denominated, in United States dollars. Accordingly, we are not exposed to foreign currency risk.

Many of the food products purchased by us are affected by changes in weather, production, availability, seasonality and other factors outside our control. In an effort to control some of this risk, we have entered into some fixed price purchase commitments. In addition, we believe that almost all of our food and supplies are available from several sources, which helps to control food commodity risks.

ITEM 8. Financial Statements and Supplementary Data

RED ROBIN GOURMET BURGERS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Red Robin Gourmet Burgers, Inc.
Greenwood Village, Colorado

We have audited the accompanying consolidated balance sheets of Red Robin Gourmet Burgers, Inc. and subsidiaries (the Company) as of December 31, 2006 and December 25, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Red Robin Gourmet Burgers, Inc. and subsidiaries as of December 31, 2006 and December 25, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for share-based payments on December 26, 2005 in accordance with Statement of Financial Accounting Standard No. 123(R), *Share-Based Payments*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado
February 28, 2007

RED ROBIN GOURMET BURGERS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 31, 2006	December 25, 2005
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 2,762	\$ 3,340
Accounts receivable, net	3,305	3,589
Inventories	8,486	6,485
Prepaid expenses and other current assets	5,885	5,340
Income tax receivable	5,862	1,516
Deferred tax asset	2,156	2,046
Restricted current assets - marketing funds	827	1,548
Total current assets	29,283	23,864
Property and equipment, net	351,736	270,279
Deferred tax asset		4,129
Goodwill	43,496	25,720
Intangible assets, net	22,772	7,372
Other assets, net	3,311	3,057
Total assets	\$ 450,598	\$ 334,421
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Trade accounts payable	\$ 6,312	\$ 5,675
Construction related payables	17,839	8,340
Accrued payroll and payroll related liabilities	19,144	17,459
Unredeemed gift certificates	9,374	7,273
Accrued liabilities	15,036	10,137
Accrued liabilities - marketing funds	827	1,548
Current portion of long-term debt and capital lease obligations	1,630	2,861
Total current liabilities	70,162	53,293
Deferred rent	18,076	15,331
Long-term debt and capital lease obligations	112,341	55,663
Other non-current liabilities	6,486	5,275
Total liabilities	207,065	129,562
Commitments and contingencies		
Stockholders' Equity:		
Common stock; \$0.001 par value: 30,000,000 shares authorized; 16,589,248 and 16,474,224 shares issued and outstanding	17	16
Preferred stock, \$0.001 par value: 3,000,000 shares authorized; no shares issued and outstanding		
Treasury stock, 11,517 shares, at cost	(83)	(83)
Paid-in capital	146,614	137,294
Accumulated other comprehensive income, net of tax		9
Retained earnings	96,985	67,623
Total stockholders' equity	243,533	204,859
Total liabilities and stockholders' equity	\$ 450,598	\$ 334,421

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31, 2006	December 25, 2005	December 26, 2004
Revenues:			
Restaurant revenue	\$ 603,391	\$ 471,860	\$ 391,317
Franchise royalties and fees	15,131	13,850	11,769
Rent revenue	199	313	300
Total revenues	618,721	486,023	403,386
Costs and expenses:			
Restaurant operating costs:			
Cost of sales	136,470	109,419	93,280
Labor (includes \$894, \$0 and \$0 of stock-based compensation expense, respectively)	206,572	160,142	131,379
Operating	94,733	71,929	57,158
Occupancy	37,593	29,669	25,242
Depreciation and amortization	33,874	26,115	21,070
General and administrative expenses (includes \$4,882, \$97 and \$0 of stock-based compensation expense, respectively)	46,420	32,015	28,452
Franchise development	4,985	4,651	4,046
Pre-opening costs	8,491	6,250	5,143
Reacquired franchise costs	1,735		
Significant and unusual items, net (includes \$0, \$2,793 and \$0 of stock-based compensation expense, respectively)		1,543	
Total costs and expenses	570,873	441,733	365,770
Income from operations	47,848	44,290	37,616
Other (income) expense:			
Interest expense	5,759	3,109	2,706
Interest income	(192)	(140)	(322)
Gain on sale of property			(257)
Other	(18)	77	89
Total other expenses	5,549	3,046	2,216
Income before income taxes	42,299	41,244	35,400
Provision for income taxes	12,937	13,858	12,019
Net income	\$ 29,362	\$ 27,386	\$ 23,381
Earnings per share:			
Basic	\$ 1.78	\$ 1.68	\$ 1.46
Diluted	\$ 1.75	\$ 1.64	\$ 1.43
Weighted average shares outstanding:			
Basic	16,538	16,292	16,022
Diluted	16,736	16,656	16,406

See Notes to Consolidated Financial Statements.

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

	Common Stock		Treasury Stock		Paid-in	Deferred	Receivables From Stockholders/ Officers	Accumulated Other Comprehensive Income/(Loss) net of tax	Retained Earnings	Total
	Shares	Amount	Shares	Amount	Capital	Compensation				
Balance, December 28, 2003	15,970	\$ 16		\$	\$ 122,184	\$ (130)	\$ (6,432)	\$ (108)	\$ 16,856	\$ 132,386
Amortization of deferred compensation						80				80
Interest on notes from stockholders/officers							(303)			(303)
Repayment of stockholders/officers notes and related interest							2,580			2,580
Options exercised for common stock	161				1,434					1,434
Tax benefit on exercise of stock options					1,771					1,771
Common stock issued through employee stock purchase plan	15				296					296
Net income									23,381	23,381
Unrealized gain on cash flow hedge								108		108
Comprehensive income										23,489
Balance, December 26, 2004	16,146	16			125,685	(50)	(4,155)		40,237	161,733