RED ROBIN GOURMET BURGERS INC
Form 10-K
February 23, 2012

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ITEM 8. Financial Statements and Supplementary Data

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended December 25, 2011**

o **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** | **84-1573084** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **6312 S Fiddler's Green Circle, Suite 200N Greenwood Village, CO** | **80111** |
| (Address of principal executive offices) | (Zip Code) |

**(303) 846-6000**
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

**Common Stock, $0.001 par value**
**Name of each exchange on which registered: NASDAQ (Global Select Market)**

Securities Registered Pursuant to Section 12(g) of the Act:

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

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

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 ý No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. ý

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

| Large accelerated filer o | Accelerated filer ý | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

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

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 Global Select Market) was $541.0 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 14,590,010 shares of common stock outstanding as of February 20, 2012.

**DOCUMENTS INCORPORATED BY REFERENCE**

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 2012 annual meeting of stockholders.

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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 fun environment welcoming to guests of all ages. We opened the first Red Robin® restaurant in Seattle, Washington in September 1969. In 1979, the first franchised Red Robin® restaurant was opened in Yakima, Washington. In 2001, we formed Red Robin Gourmet Burgers, Inc., a Delaware corporation, and consummated a reorganization of the company. Since that time, Red Robin Gourmet Burgers, Inc. has owned all of the outstanding capital stock or membership interests, either directly or indirectly, of Red Robin International, Inc., and our other operating subsidiaries through which we operate our Company-owned restaurants. 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. For the 52-week fiscal year 2011, we generated total revenues of $915 million. As of the end of our fiscal year on December 25, 2011, the Red Robin system included 464 restaurants, of which 327 were Company-owned, and 137 were operated under franchise agreements with 21 franchisees. Our franchisees are independent organizations to whom we provide certain support. See "Restaurant Franchises and Licensing Arrangements" for additional information about our franchise program. As of December 25, 2011, there were Red Robin® restaurants in 43 states and two Canadian provinces.

### Business Strategy

We believe in delivering great experiences for our team members and our guests, which we believe will lead to operating and financial results greater than our casual dining peers. This focus forms the basis for our vision, which is to inspire crazy loyalty through evolving "YUMMM"® experiences that meet the unique needs of our team members, guests and our communities. Our mission is to be the everyday oasis for families and guests of all ages who want to enjoy craveable gourmet burgers in a fun, energetic environment with attentive and friendly service. We have identified and continue to examine opportunities that will drive strong financial performance through both revenue growth and improved expense management. We have built key short and long-term strategies and initiatives around these opportunities, as well as optimizing returns through allocation of our capital. These objectives include:

**Grow revenue.** To drive revenue growth, we have developed initiatives to increase guest traffic and sales in our restaurants through greater frequency of visits, increasing our average guest check through incremental sales and expansion of sales during off-peak dayparts. See "Marketing and Advertising" below for additional information about our marketing strategy and initiatives.

**Manage expenses.** We continue to focus on managing our expenses in the operation of our restaurants and in our selling, general and administrative functions. Our restaurant operating costs include food and other commodities, labor cost and benefits, restaurant supplies, utilities, occupancy, and other operating costs. Macroeconomic and other external factors, such as commodity and other price increases have historically resulted in upward trends in these costs. We have been implementing multiple programs to mitigate the impact of these external factors, including evaluation of our distribution and supply chain relationships, labor productivity improvement efforts, utility management systems and initiatives to streamline operational processes. We will continue these initiatives and examine any additional opportunities to reduce overhead costs and improve efficiencies throughout our organization as part of our ongoing cost management efforts.

**Optimize our deployment of capital.** We are focused on disciplined deployment of capital to both grow the brand and to maximize long-term shareholder returns by optimizing the return on our capital investments. Capital allocation decisions include the evaluation of new development opportunities, including the appropriate mix of franchised and Company-owned units; new prototype restaurants; markets and sizes of restaurants; redevelopment or refurnishing options; opportunistic share repurchases; and optimizing our financial structure. We will continue the expansion of our restaurant base with the opening of new restaurants as we also pursue initiatives to increase restaurant traffic and sales as well as invest capital into our information technology and other supporting infrastructure.

**Restaurant Concept**

The Red Robin brand has many desirable attributes, including a strong values-based and guest-focused culture, along with a talented team and a passionate desire to win. Red Robin was founded on four core values: *Honor, Integrity, Continually Seeking Knowledge* and *Having Fun*. These core values form the foundation for how we treat our team members, guests, and communities.

Our menu features our signature product, the gourmet burger, which we make from premium quality ground beef; and other sandwiches made from chicken breasts, fish filets, turkey patties, as well as vegetarian and vegan burger sandwich options. We offer a wide selection of buns including ciabatta, gluten free, sesame, onion, and whole grain buns, jalapeno roll and marbled rye with a wide variety of toppings including fresh guacamole, barbeque sauce, grilled pineapple, crispy onion straws, sautéed mushrooms, fried jalapenos, bruschetta salsa, coleslaw and dill pickle slices, eight different cheeses, and a fried egg. In addition to gourmet burgers and chicken sandwiches, which accounted for approximately 55.5% of our total food sales in 2011, 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® alcohol and non-alcohol specialty beverages. All of our gourmet burgers and sandwiches are served with our all-you-can-eat Bottomless Steak Fries®. In addition, we specialize in having items our guests can order to meet their dietary needs and preferences.

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. Red Robin also has an unparalleled and extraordinary approach to guest service using 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 examples of our Unbridled Acts® can be found on our website, *www.redrobin.com*. We encourage our team members to execute on the aspects of service that we have identified to be our biggest drivers of our guest loyalty.

We also strive to provide our guests with exceptional dining value. In 2011, we had a per person average check of approximately $11.88, including beverages. We believe this price-to-value relationship and our limited time offers ("LTO") featuring innovative gourmet burgers, salads, and sandwiches differentiate us from our competitors, and it allows us to appeal to a broad base of consumers with a wide range of income levels. A low average guest check, combined with swift service and a family-friendly atmosphere further differentiates us from many other casual dining restaurants.

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## Operations

*Restaurant Management*

Our typical restaurant management team consists of a general manager, an assistant general manager, a kitchen manager, and one or two assistant managers depending on restaurant sales volumes. The management team of each restaurant is responsible for the day-to-day operation of that restaurant, including hiring, training, and developing of team members, as well as operating results. Our typical restaurant employs approximately 85 hourly team members, many of whom work part-time.

For our new restaurants, we try to identify seasoned leadership teams 12 months in advance of opening, with the expectation that seasoned leadership will provide a better team member and guest experience while enabling a new restaurant to quickly reach normalized operations.

*Learning and Development*

We strive to maintain quality and consistency in each of our restaurants through the training and supervision of team members and the establishment of, and adherence to, high standards relating to personnel performance, food and beverage preparation and production as well as the maintenance of our restaurants. Each restaurant has a core group of certified trainers who provide 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 train-the-trainer seminar that provides them with knowledge and tactics to enable them to coach our team members to meet our standards.

Restaurant managers are required to complete a training program in one of our certified training restaurants that includes guest service, kitchen and management responsibilities. Newly trained managers are then assigned to their home restaurant where they obtain ongoing 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 and prepared for future restaurant openings and to fill open management positions. We conduct semi-annual performance reviews with each manager to discuss prior performance and future performance goals. Annually, we hold a leadership conference during which our general managers receive additional training on leadership, food safety, management systems, hospitality, and other relevant topics on a rotating basis.

For new restaurants, team members complete a training process to ensure the smooth and efficient operation of the restaurant from the first day it opens to the public. We also continue to enhance our manager training curriculum to better prepare new managers for the challenging environment that 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 new restaurant 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 for a period after the opening of the restaurant while an additional team of training support also arrives during the first week of operation for several weeks of on-site support.

## Food Preparation, Quality Control and Purchasing

Our 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 of our food ingredients, products, and supplies to our suppliers. We inspect specific qualified manufacturers and growers. Our restaurant managers are certified in a comprehensive safety and sanitation course by the National Restaurant Association's ServSafe program. Minimum cooking and cooling procedures and frequent temperature and quality assurance checks ensure the safety and quality of burgers and other ingredients we use in our restaurants. 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 suppliers and distributors. The restaurant management team inspects all deliveries to ensure that the items received meet our quality specifications. Additionally, we utilize the services of a third-party company to perform comprehensive food safety and sanitation inspections in all Red Robin® restaurants.

To maximize our purchasing efficiencies and obtain the best possible prices for our high-quality ingredients, products and supplies, our centralized purchasing team generally negotiates fixed price agreements with terms between one month and two years on monthly commodity pricing formulas. Ground beef represented approximately 13% of our cost of goods in 2011 and chicken represented approximately 11% of our food costs. In 2012, our ground beef prices are expected to be based on market prices and are expected to be 10 to 15% higher than prices in 2011. Our contracts for chicken are generally fixed price contracts with multiple suppliers and varying contract durations. In addition, we have entered into supply agreements for our steak fries, fry oil, ketchup and select other commodities at prices that are on average slightly above 2011 levels. We monitor the primary commodities we purchase in order to minimize the impact of fluctuations in price and availability. However, certain commodities, primarily ground beef, remain subject to market price fluctuations. We continue to identify competitively priced, high quality alternative manufacturers, suppliers, growers, and distributors that are available should the need arise, however, we have not experienced significant disruptions in our supply chain.

**Restaurant Development**

Red Robin seeks to grow its restaurant base prudently considering a number of factors including general economic conditions, expected financial performance, availability of appropriate locations and the availability of teams to manage new locations. Over the past three years, we have opened a total of 39 new restaurants, acquired one restaurant and closed seven restaurants. During 2012, the Company expects to open between 13 and 15 new Company-owned restaurants, including four Red Robin's Burger Works . The average cost of a full-sized 5,800 square foot Red Robin is approximately $1.8 million depending on location (stand alone, mall or in-line retail) assuming it is a leased location.

Red Robin's Burger Works is a new, smaller non-traditional prototype with a limited menu and limited service that we are developing in order to serve the needs of our guests in markets where full-sized sites are not available, such as urban areas and college campuses. We expect most Red Robin's Burger Works locations to range between 2,000 and 2,500 square feet. Following the opening of the four locations planned for 2012, we will evaluate the success of the non-traditional prototype and the markets and then determine future growth plans.

**Restaurant Franchise and Licensing Arrangements**

As of December 25, 2011, we had 21 franchisees that were operating 137 restaurants in 21 states and two Canadian provinces. In 2011, our franchisees opened three new restaurants and closed two restaurants. We expect that our franchisees will open up to two new restaurants in 2012. Our two largest franchisees are Ansara Restaurant Group, Inc. with 21 restaurants located in Michigan and Ohio and Red Robin Restaurants of Canada, Ltd. with 19 restaurants located in Alberta and British Columbia, Canada. An affiliate of Mach Robin, LLC, a Red Robin franchisee, owns Red Robin Restaurants of Canada, Ltd.

Although in recent years we have not actively sought or sold new franchises, we are reviewing opportunities to expand our franchise program which, long term, may include development of new franchises and new geographic regions; optimize our mix of company owned restaurants and franchised

restaurants; and work with our existing franchisees to open new franchised restaurants where there are attractive development opportunities.

Our typical franchise arrangement consists of an area development agreement ("ADA") and a separate franchise agreement for each restaurant. Our current form of ADA grants the franchisee the exclusive right to develop restaurants in a defined area over a defined term, which is usually five years. Upon execution of the ADA, a franchisee pays us a $10,000 area development fee for each restaurant the franchisee agrees to develop. At this time, we have only one exclusive franchise ADA with one franchisee, under which the franchisee is contractually obligated to develop three more restaurants. For existing franchisees who do not have a current ADA, we may negotiate individually the terms under which they may develop additional restaurants.

When a franchisee opens a new restaurant, we collect an additional franchise fee of $25,000. The franchise agreement for the restaurant authorizes the franchisee to operate the restaurant using our trademarks, service marks, trade dress, operating systems, recipes, manuals, processes, and related items. The franchise agreement typically grants the franchisee an initial term of 20 years and the option to extend the term for an additional 10 years provided the franchisee satisfies certain conditions.

We recognize area development fees and franchise fees as income when we have performed all of our material obligations and initial services, including assistance in developing and opening the restaurant, related to each fee or when the ADA terminates with unused fees for undeveloped restaurants. Until earned, we account for these fees as deferred revenue, an accrued liability. Our standard form of franchise agreement requires the franchisee to pay a royalty fee equal to 4.0% of adjusted gross restaurant sales. However, certain franchisees pay royalty fees ranging from 3.0% to 3.5% of adjusted gross restaurant sales under agreements we negotiated with those franchisees in prior years.

*Franchise Compliance Assurance*

We actively work with and monitor our franchisees' performance to help them develop and operate their restaurants in compliance with Red Robin's systems and procedures. During the restaurant development phase, we review the franchisee's site selection and provide the franchisee with our prototype building plans. We provide trainers to assist the franchisee in opening the restaurant for business. We advise the franchisee on all menu items, management training, and equipment and food purchases. On an ongoing basis, we conduct brand equity reviews of all franchise restaurants to determine their level of effectiveness in executing our concept.

To continuously improve our marketing programs and operating systems, we maintain a marketing advisory council and a franchise business advisory council comprised of corporate and franchisee members. Through those councils, we solicit the input of our franchisees on marketing programs, including their suggestions as to which new menu items we should test and feature in future promotions. We also exchange best operating practices with our franchisees as we strive to improve our operating systems while attaining a high level of franchisee participation.

**Information Technology**

We rely on information systems in all aspects of our operations, including (but not limited to) point-of-sale transaction processing in our restaurants; operation of our restaurants; management of our inventories; collection of cash; payment of payroll and other obligations; and various other processes and procedures.

Our corporate offices and Company-owned restaurants are enabled with information technology and decision support systems. In the restaurants, these systems are designed to provide operational tools for sales, inventory, and labor management. This technology includes industry-specific,

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off-the-shelf systems, as well as proprietary software designed to optimize food and beverage costs and labor scheduling. These systems are integrated with our point-of-sale systems to provide daily, weekly and period-to-date information that is important for managers to run an efficient and effective operation, and to provide financial reporting information. We also use other systems to interact with our guests. These include an online guest feedback system, which provides real-time results on guest service, food quality, and atmosphere to each of our restaurants. In addition, our Red Royalty loyalty system helps inform marketing programs related to our guest trends.

We also utilize centralized financial, accounting, and human resources/personnel systems for Company-owned restaurants. In addition, we use an operations dashboard to integrate data from our centralized systems with the distributed information managed in our restaurants. We believe these combined tools are important in analyzing and improving our operations, profit margins and other results.

In order to increase efficiency and operational capabilities, we have committed to a significant capital investment to upgrade and expand such systems and services. In 2012, we will continue to invest in our systems as we implement a major overhaul of our data infrastructure, including the replacement of several key operational and financial systems, a human resource information system to support hiring and team member training and building on the new time and attendance systems implemented earlier this year.

We accept electronic payment cards from our guests for payment in our restaurants. We have a strong focus on the protection of our guests' credit card information and other private information that we are required to protect, such as our team members' personal information. We have taken a number of steps to prevent the occurrence of security breaches in this respect. Our systems have been carefully designed and configured to protect against data loss or compromise. For example, because of the number of credit card transactions processed in our corporate-owned stores, we are required to maintain the highest level of Payment Card Industry Data Security Standard compliance at our corporate offices and Company-owned stores. These standards, set by a consortium of the major credit card companies, require certain levels of system security and procedures to protect our customers' credit card and other personal information. Our credit card security practices and systems are certified as compliant with the Payment Card Industry Data Security Standard annually by an independent, qualified security assessor.

We also receive and maintain certain personal information about our guests and team members. We engage other security assessors and auditors to review and advise us on our other data security practices with respect to protection of other sensitive personal information that we obtain from guests and team members.

**Marketing and Advertising**

We build brand equity and awareness primarily through national marketing, including national cable, digital, social media programs, and public relations initiatives. These programs are funded primarily through the marketing and national media advertising funds.

In recent years, we have undertaken significant guest and market research initiatives to gain feedback and perceptions from our guests in order to help inform our business decisions. Among other things, we launched a guest satisfaction tool in all Company-owned restaurants that provides immediate feedback from guests, via the internet or by phone, on their experiences at our restaurants. Restaurant managers use this information to help them identify areas of focus to strengthen restaurant performance and track progress. We also continually monitor our national brand equity scores and business drivers among both current and potential guests.

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Our 2011 marketing strategy was a continuation of our successful LTO promotion strategy supported by national television advertising. We used television support for three LTO promotions during 2011, in the spring, summer and fall, to promote product news at a $6.99 value price point. The LTOs were also supported with online digital media, public relations, and in-restaurant promotional materials. The television media support ran for 14 weeks over three flights. In all three of the promotional periods, same store sales increased during the weeks when the LTO was supported with TV media compared to the weeks prior to the TV media support. As a result, national television advertising will be used to support similar promotions during 2012.

In January 2011, we began rolling out Red Robin's Red Royalty program, our smart rewards loyalty program, in all Company-owned restaurants and approximately 50 of the franchise-owned locations. We expect that Red Royalty is providing us with a robust database and insights into guest behavior and dining patterns and will be used to target offers and communicate menu news with our registered guests.

In 2011, we continued the expansion of our gift card programs through distribution of gift cards outside our restaurants, as well as increasing our focus on gift card occasions throughout the year inside our restaurants. As a result of these efforts, we had our gift cards in over 20,000 third party retailer locations at the end of 2011 and total gift card sales increased 42% in 2011 over 2010.

We are also continuing our efforts to raise our alcohol mix by offering specials during off peak day parts, menu and point-of-purchase redesign to highlight our alcohol beverage business, a happy hour program that we began rolling out in all jurisdictions that allow happy hour programs in early 2011, suggestive sell programs, and other programs to drive incremental traffic and frequency across the entire system. These initiatives are intended to increase visits by adult guests while remaining a family-friendly environment.

**Team Members**

As of December 25, 2011, we had 22,302 employees, to whom we refer as team members, consisting of 22,037 team members at Company-owned restaurants and 265 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 based awards for corporate and operations directors. We motivate and prepare our team members by providing them with opportunities for increased responsibilities and advancement. At certain levels, we also offer 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 |
|---|---|---|
| Stephen E. Carley | 59 | Chief Executive Officer |
| Eric C. Houseman | 44 | President and Chief Operating Officer |
| Stuart B. Brown | 46 | Senior Vice President and Chief Financial Officer |
| Todd A. Brighton | 54 | Senior Vice President and Chief Development Officer |
| Annita M. Menogan | 57 | Senior Vice President, Chief Legal Officer and Secretary |
| Denny M. Post | 54 | Chief Marketing Officer |
| Chris Laping | 39 | Senior Vice President and Chief Information Officer |

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*Stephen E. Carley.* Mr. Carley was appointed Chief Executive Officer in September 2010. He previously served from April 2001 until September 2010 as the Chief Executive Officer of El Pollo Loco, a privately held restaurant company headquartered in Costa Mesa, California. Prior to his service at El Pollo Loco, Mr. Carley served in various management positions with several companies, including PhotoPoint Corp., Universal City Hollywood, PepsiCo Inc., and the Taco Bell Group.

*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.

*Stuart B. Brown.* Mr. Brown joined Red Robin as Senior Vice President and Chief Financial Officer in September 2011. From October 2006 until joining the Company, Mr. Brown served as Chief Financial Officer of DCT Industrial Trust Inc., a publicly traded real estate investment trust. Prior to his role at DCT Industrial Trust Inc., Mr. Brown was Vice President and Chief Accounting Officer of Federal Realty Investment Trust, from 2003 to 2006. Mr. Brown also served as Vice President, Finance at Giant Food, Inc., a domestic retail grocery chain that is part of the Netherlands-based Royal Ahold supermarket company, and in other corporate and operational finance positions at Royal Ahold over approximately ten years.

*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.

*Denny Marie Post.* Ms. Post joined Red Robin as Chief Marketing Officer in August 2011. Before joining Red Robin, Ms. Post was the Managing Member of mm&i Consulting LLC, a marketing consulting firm, from June 2010 to July 2011. She served as Senior Vice President, Chief Marketing Officer of T-Mobile USA from July 2008 to May 2010, as Senior Vice President, Global Beverage, Food and Quality at Starbucks Corporation from February 2007 to June 2008, as Senior Vice President, Chief Concept Officer of Burger King Corp. from April 2004 to January 2007, and, prior to that, in various marketing executive roles at YUM! Brands, Inc.

*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 as Assistant General Counsel, and served 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.

*Chris Laping.* Mr. Laping joined Red Robin as Vice President and Chief Information Officer in June 2007 and was promoted to Senior Vice President in February 2011. Mr. Laping brings more than 20 years of information technology and business transformation experience to Red Robin. Prior to joining Red Robin, Mr. Laping worked at Statêra, Inc. from February 2006 to June 2007 as Principal and Chief Information Officer and served as a technology consultant to the Company. Before working as a consultant, Mr. Laping worked from 2001 until 2006 as a Vice President and Chief Information Officer for GMAC Commercial Holding Capital Corp.

**Competition**

The restaurant industry is highly competitive. We compete against other segments of the restaurant industry, including quick-service and fast-casual restaurants. The number, size and strength of

competitors vary by region, concept, market and even restaurant. We compete on the basis of taste, quality, price of food offered, guest service, ambiance, location, and overall dining experience. In particular, we face competition from concepts focused on the sale of hamburgers, including quick service and fast casual. Many of these concepts are expanding faster than us and are penetrating both geographic and demographic markets that we target as well. Moreover, many of these concepts compete with smaller building units, which allow them to have greater flexibility in site selection and market penetration.

We believe that our guest demographics, strong brand recognition, gourmet burger concept, attractive price-value relationship, and the quality of our food and service enable us to differentiate ourselves from our competitors. We believe we compete favorably with respect to each of these factors. Many of our competitors are well-established national, regional, or local chains which may have substantial financial, marketing, and other resources. We also compete with many other restaurant and retail establishments for site locations and team members.

**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 due to factors including our retail-oriented locations and family appeal. As a result, our quarterly and annual operating results and comparable restaurant sales may fluctuate significantly as a result of seasonality. Accordingly, results for any one quarter or year are not necessarily indicative of results to be expected for any other quarter or for any year, and comparable restaurant sales for any particular future period may decrease.

**Trademarks**

We have a number of registered trademarks and service marks that include the marks "Red Robin®", "America's Gourmet Burgers & Spirits®", "Mad Mixology®", "YUMMM®"* and our logo. We have registered these marks with the United States Patent and Trademark Office and the Canadian Intellectual Property Office (*YUMMM trademark application pending in Canada). 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 intellectual property 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 been able to obtain and maintain all necessary licenses, permits, and approvals. The development and construction of new restaurants is subject also 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 the franchisor-franchisee relationship. Various federal and state labor 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 discriminatory conduct. Federal, state and local government agencies have established or are in the process of establishing regulations requiring that we disclose to our guests nutritional information regarding the items we serve.

**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

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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 Securities Exchange Act of 1934, as amended (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**

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

- our business objectives and strategic plans, including the strength of our long-term growth and profit, expense management and capital deployment opportunities;

- 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;

- our ability to invest in our systems and implement a major overhaul of our data infrastructure including the replacement of several key operational and financial systems;

- estimated costs of opening and operating new restaurants, including general and administrative, marketing and, franchise development costs, and the ability to effectively utilize alternative unit sizes;

- our franchise program, and possible changes to our focus within the franchise program;

- anticipated restaurant operating costs, including commodity and food prices, labor and energy costs and selling, general and administrative expenses and ability to reduce overhead costs and improve efficiencies;

- expected future revenues and earnings, comparable and non-comparable restaurant sales, results of operations, and future restaurant growth (both Company-owned and franchised);

- anticipated advertising costs and plans to include television advertising to support 2012 LTO promotions and the success of our advertising and marketing activities and tactics, including our Red Royalty program and the effect on revenue and guest counts;

- our ability to attract new guests and retain loyal guests, and our new initiatives targeted at adult guests;

- any future price increases, and their effect on our revenue and profit;

future capital deployment strategies, including potential share repurchases, capital and anticipated expenditures including the amounts of such capital expenditures;

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- our expectation that we will have adequate cash from operations and credit facility borrowings to meet all future debt service, capital expenditures, including new restaurant development, and working capital requirements in fiscal year 2012 and beyond;
- anticipated compliance with debt covenants;
- the sufficiency of the supply of commodities and labor pool to carry on our business;
- anticipated restaurant closings and related impairment charges;
- anticipated interest and tax expense;
- the effect of the adoption of new accounting standards on our financial and accounting systems and analysis programs;
- expectations regarding competition and our competitive advantages; and
- expectations regarding consumer preferences and consumer discretionary spending.

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 a forward-looking statement appears together with such statement. In addition, the factors described under Critical Accounting Policies and Estimates 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: uncertainty regarding general economic conditions and economic recovery; concentration of restaurants in certain markets and lack of market awareness in new markets; changes in consumer disposable income; consumer spending trends and habits; regional mall and lifestyle center traffic trends; increased competition and discounting in the casual dining restaurant market; effectiveness of our marketing campaign; costs and availability of food and beverage inventory; changes in commodity prices, particularly ground beef; changes in labor and energy costs; limitations on the Company's ability to execute stock repurchases due to lack of available shares or acceptable stock price levels or other market or Company-specific conditions; our ability to attract qualified managers and team members; changes in the availability of capital or credit facility borrowings; costs and other effects of legal claims by team members, franchisees, customers, vendors, stockholders and others, including settlement of those claims; effectiveness of management strategies and decisions; 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 making an investment decision. The occurrence of any of the following risks could materially harm our business, financial condition, results of operations, or cash flows. The trading price or value of our common stock could decline, and you could lose all or part of your investment. When making an investment decision with respect to 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 business improvement initiatives may not continue to be successful or achieve the desired results, in a timely fashion.***

In 2011, we began implementing a series of business improvement initiatives we referred to as "Project RED". These initiatives are designed to both improve the Company's results in the short term and create sustainable growth in the long term. These initiatives focus on many segments of the Company's business, including, among other things, revenue generation, expense management and deployment of capital. Although these initiatives have began to generate some positive results, there is no assurance that these initiatives and the projects undertaken to accomplish such initiatives will continue to be successful, or that the Company has, or will have sufficient resources to successfully implement, sustain results from, or achieve additional expected benefits.

***Uncertainty regarding the economic recovery may negatively affect consumer spending and therefore may negatively affect our revenues and our results of operations and may continue to do so in the future.***

Continued uncertainty regarding economic conditions and the existence and rate of economic recovery affects the restaurant industry, and may negatively affect the results of operations and financial condition of the Company and its customers, distributors, and suppliers. These conditions include continued unemployment, weakness and lack of consistent improvement in the housing markets; downtrend or delays in residential or commercial real estate development; volatility in financial markets; inflationary pressures; and reduced consumer confidence. As a result, our customers may continue to remain apprehensive about the economy and maintain or further reduce their already lowered level of discretionary spending. This could affect the frequency with which our customers choose to dine out or the amount they spend on meals, apprehension thereby decreasing our revenues and potentially negatively affecting our operating results. We believe there is a risk that prolonged negative economic conditions might cause consumers to make long-lasting changes to their discretionary spending behavior, including dining out less frequently on a more permanent basis, which would have a negative effect on our business. Moreover, our restaurants are primarily located near high density retail 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. A decline in development or closures of businesses in these existing centers or a decline in visitors to the centers near our restaurants or in discretionary consumer spending could negatively affect our restaurant sales.

***We are dependent on information technology, which may be inadequate to support our future growth strategies, and any material failure in the operations or upgrade of such technology could impair our ability to efficiently operate our business.***

We rely on information systems in all aspects of our operations. Our ability to efficiently manage our business depends significantly on the reliability and capacity of our in-house information systems and those technology services and systems for which we contract from third parties.

In order to increase efficiency and operational capabilities, we have committed to a significant capital investment to upgrade and expand such systems and services. If the upgrade and expansion of such systems and services are unsuccessful or otherwise do not accomplish our intended goals, our operations could be significantly affected, which could result in, among other things, the inability to efficiently manage or scale our material functions in our operations. Moreover, we may experience material interruptions in connection with implementation of the upgrade of our systems and services and

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the stabilization thereof. Despite the significant capital investment to upgrade the systems and service identified above, these new systems and services may be insufficient to achieve the expected results. These systems and our business needs will continue to evolve and require upgrading over time, consequently requiring significant future commitments of resources and capital to maintain and upgrade.

***Our marketing and branding strategies may not be successful, which could negatively affect our business.***

We plan to modify our marketing and branding strategies in order to continue our appeal to customers and compete effectively. In 2011, we introduced a unique loyalty program, "Red Royalty " which is designed to drive sales and guest counts by providing loyal guests with various incentives and rewards for repeat visits. We also intend to continue our focus on serving families, targeting adult guests, and growing beverage and food sales, including alcoholic beverages, appetizers, and desserts. We do not have any assurance that our marketing strategies will be successful. If new advertising, modified branding, and other marketing programs are not successful, we may not generate the level of restaurant sales we expect and the expense associated with these programs will negatively affect our financial results. Moreover, many of our competitors have successfully used national marketing strategies, including network and cable television advertising in the past, and we may not be able to successfully compete against those established programs.

***Our revenues and operating results may fluctuate significantly due to various risks and unexpected circumstances, including increases in costs, seasonality, weather, and other factors outside our control.***

We are subject to a number of significant risks that might cause our actual quarterly and annual results to fluctuate significantly or be negatively affected. These risks include but are not limited to: extended periods of inclement weather which may affect guest visits as well as limit the availability and cost of key commodities such as beef, poultry, potatoes and other items that are important ingredients in our products; material disruptions in our supply chain; changes in borrowings and interest rates; 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 or year are not necessarily indicative of results to be expected for any other quarter or for any year, and comparable restaurant sales for any particular future period may decrease.

***Decreased cash flow from operations, or an inability to access credit could negatively affect our business initiatives or may result in our inability to execute our revenue, expense and capital deployment strategies.***

Our ability to fund our operating plans and to implement our capital deployment strategies depends on sufficient cash flow from operations or other financing, including using funding under our revolving credit agreement. Our capital deployment strategies include but are not limited to repurchases of our stock, paying down debt, new restaurant development, investment in advertising, and franchise expansion. If we experience decreased cash flow from operations, our ability to fund our operations and planned initiatives, and to take advantage of growth opportunities, may be delayed or negatively affected. In addition, these disruptions or a negative effect on our revenues could affect our ability to borrow or comply with our covenants under our credit facility. Moreover, any repurchase by us of our shares of common stock will further reduce cash available for operations and future growth, as well as debt repayment.

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***If we do not successfully manage the transitions associated with our new executive officers, there could be an adverse impact on our revenues, operations or results of operations.***

Within the past 18 months, we have appointed a new chief executive officer, chief financial officer, and chief marketing officer. As a result, these officers and the rest of the executive team have a limited history of working together. Our success depends on our ability to fully integrate our new executives into our business and their ability to lead and implement our strategies and initiatives. If we are unable to effect a smooth transition with the new executives and to successfully integrate them, or if these new executives fail to perform effectively, our business, financial condition, and results of operations could be adversely affected.

***The Company may face various risks associated with shareholder activists.***

In the recent past, activist shareholders have publicly advocated for certain governance and strategic changes at the Company. Over the past two years, the Company entered into agreements with certain of these shareholders, and has also recently adopted several governance changes, including the addition of several new members of the board of directors. There is no assurance that the Company will not be subject to additional shareholder activity or demands in the future. Such activities could interfere with our ability to execute our strategic plan, be costly and time-consuming, disrupt our operations, and divert the attention of management and our employees.

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

Competition in the restaurant industry is intense. Our competitors include a large and diverse group of restaurant chains and individual restaurants. These competitors range from independent local operators that have opened restaurants in various markets including high growth targeted burger concepts in the quick serve and fast casual space to the well-capitalized national restaurant companies. Many of these concepts are expanding faster than we are and are penetrating both geographic and demographic markets that we target. These concepts compete with us for locations, often with smaller building units, which may allow for greater flexibility in site selection and market penetration. We are testing a smaller prototype restaurant to improve our competitive position. There is no assurance that our smaller prototype will successfully compete with such restaurant concepts.

We also 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 we have. Accordingly, they may be better equipped than us to increase marketing or to take other measures to maintain their competitive position, including the use of significant discount offers to attract guests.

***Changes in consumer preferences could negatively affect our results of operations.***

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. Our restaurants compete on the basis of a varied menu and feature burgers, salads, soups, appetizers, other entrees, desserts, and our signature alcoholic and non-alcoholic beverages in a family-friendly atmosphere. One of our strategies moving forward is to shift to a balance between family-friendly and adult-focused guest experiences, referencing our legacy. There is no assurance that this shift will be successful or that it will not negatively affect our family guest experience. Moreover, our continued success depends, in part, upon the continued 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 effect on our future profitability. In addition, competitors' use of significant advertising and food discounting could influence our guests' dining choices

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Further, changing health or dietary preferences may cause consumers to avoid our products in favor of alternative foods. The food service industry as a whole rests on consumer preferences and demographic trends at the local, regional, national and international levels, and the effect on consumer eating habits of new information regarding diet, nutrition and health. Changes in nutritional guidelines issued by the federal government agencies, issuance of similar guidelines or statistical information by other federal, state or local municipalities, or academic studies, among other things, may affect consumer choice and cause consumers to select foods other than those that are offered by our restaurants.

***Price increases may negatively affect guest visits.***

We may make future price increases in order to offset increased costs and operating expenses. While we have not experienced significant consumer resistance to our price increases in the past, we cannot provide assurance that any future price increases will not deter guests from visiting our restaurants, reduce the frequency of their visits, or affect their purchasing decisions.

***Approximately 52% 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 25, 2011, a total of 170 or 52.0% of all Company-owned restaurants, representing 53.3% of restaurant revenue, were located in the western United States (i.e., Arizona, California, Colorado, Nevada, Oregon, Idaho and Washington). As a result, we are particularly susceptible to negative trends and economic conditions in this region, including its labor market. In recent years, California, Arizona and Nevada have been more negatively affected by the housing downturn and the overall economic recession than other geographic areas. As a result of the economic recession, we had a more substantial decline in guest traffic at our restaurants in the western United States, which has had a negative effect on our operations as a whole. 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.

***Expanding our restaurant base is critical to our long-term growth, and our ability to open and profitably operate new restaurants is subject to factors beyond our control.***

We have recently returned to our strategy of expanding our restaurant base, following slower expansion in response to the weakened economy. The expansion of our restaurant base 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 expansion strategy and the success of new restaurants will depend upon numerous factors, many of which are beyond our control, including the following:

- improvement in the unstable, macroeconomic environment nationally and regionally that affects restaurant-level performance and influences our decisions on the rate of expansion, timing, and the number of restaurants to be opened;
- identification and ability to secure an adequate supply of available and suitable restaurant sites;
- negotiation of favorable lease and construction terms;
- cost and availability of capital to fund restaurant expansion and operation;
- the availability of construction materials and labor;
- our ability to manage construction and development costs of new restaurants;
- timely adherence to development schedules;

- securing required governmental approvals and permits and in a timely manner;
- availability and retention of qualified operating personnel to staff our new restaurants, especially managers;
- competition in our markets and general economic conditions that may affect consumer spending or choice;
- our ability to attract and retain guests; and
- our ability to operate at acceptable profit margins.

***New or less mature restaurants, once opened, may vary in profitability and levels of operating revenue for six months or more.***

New and less mature restaurants typically experience higher operating costs in both dollars and percentage of revenue initially when compared to restaurants in the comparable restaurant base. Although the average unit volumes and restaurant level profit margins have performed well on average in recent years, there is no assurance that new restaurants will continue to experience such successes, given the uncertain state of the economy. Our restaurants are currently taking approximately six months or more to reach normalized operating levels due to inefficiencies typically associated with new restaurants. These include operating costs, which are often significantly 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.

***Restaurant expansion in existing markets could erode sales in some of our existing restaurants.***

Our areas of highest concentration are in California, Colorado, North Carolina, Ohio, Virginia, and Washington. We expect that approximately 50% of our new restaurants to be opened in 2012 will be in these states. 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.

***Our operations are susceptible to the changes in cost and availability of food which could negatively 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, as well as the effects of the current macroeconomic environment on our suppliers, may affect our food costs or cause a disruption in our supply chain. Changes in the price or availability of commodities for which we do not have fixed price contracts could materially adversely affect our profitability. Expiring contracts with our food suppliers could also result in unfavorable renewal terms and therefore increase 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 negatively affect our operating results. We may not be able to pass along food cost increases to our guests in the form of menu price increases. In addition, the uncertainty of an economic recovery may affect the ability of our suppliers to meet our supply requirements upon favorable terms, if at all.

***Our franchisees could take actions that could harm our business or damage our reputation.***

Franchisees are independent entities and are not our employees, partners, or affiliates. We share with our franchisees what we believe to be best practices in the restaurant industry; however, franchisees operate their restaurants as independent businesses. Consequently, the quality of franchised

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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. In addition, as independent businesses, franchisees may not be required to comply with the same levels of business or regulatory compliance that we are. 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 negatively affect the reputation of Red Robin or the value of our proprietary information. 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 America's Gourmet Burgers & Spirits,® name and logo. We have registered or filed applications for trademarks for Red Robin®, America's Gourmet Burgers & Spirits®, Mad Mixology® , and "YUMMM®", among others, with the United States Patent and Trademark Office and in Canada, and we have applied to register various trademarks in certain other international jurisdictions. Our trademarks could be infringed in ways that leave us without redress, such as by imitation, or by filings by others in jurisdictions where we are not currently registered. 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. Consequently, our business could be negatively affected and less profitable if we are unable to successfully defend and protect our intellectual property.

***A security breach of our information technology systems could damage our reputation and negatively affect our operations and profits.***

We accept electronic payment cards from our guests for payment in our restaurants. We also receive and maintain certain personal information about our guests and team members. A number of restaurant operators and retailers have experienced security breaches in which credit and debit card information may have been stolen. While we have taken significant steps to prevent the occurrence of security breaches in this respect, including complying with the highest level of PCI Security Standards at our corporate offices and Company-owned stores, we may, in the future, become subject to claims for purportedly fraudulent transactions arising out of the theft of credit or debit card information, and we may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Any such proceeding could be a distraction to our management team and cause us to incur significant unplanned losses and expenses. If our security and information systems are compromised or our team members fail to comply with the applicable laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation, as well as results of operations, and could result in litigation against us, the imposition of penalties, or significant expenditures to remediate any damage to persons who personal information has been compromised.

**Risks Related to the Restaurant Industry**

***Food safety and food-borne illness concerns and any related unfavorable publicity could have an adverse effect on our business.***

We dedicate substantial resources to ensuring that our guests enjoy safe, quality food products. Nonetheless, restaurant businesses such as ours can be adversely affected by publicity resulting from

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complaints or litigation regarding poor food quality, food-borne illness, personal injury, food tampering, adverse health effects of consumption of various food products or high-calorie foods, or other concerns. Food safety issues also could be caused by food suppliers or distributors and, as a result, could be out of our control. Regardless of the source or cause, any report of food-borne illnesses such as E. coli, hepatitis A, trichinosis or salmonella, and other food safety issues including food tampering or contamination, at one of our or a franchisee's restaurants, could adversely affect our reputation and have a negative impact on our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

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

Consumer preferences could be affected by health concerns about food-related illness, 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 negatively 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 negatively affect our profitability.

***Our failure to remain in compliance with governmental laws and regulations as they continually evolve, and the associated costs of compliance, could cause our business results to suffer.***

Our business is subject to various federal, state, and local government laws and regulations, including, among others, those relating to our employees, public health and safety, food safety, nutritional disclosure, alcoholic beverage control, public accommodations, health care reform, and financial and disclosure reporting and controls. These laws and regulations continually evolve and change. We may fail to maintain compliance with all laws and regulations despite our best efforts. Failure to comply with the laws and regulatory requirements of federal, state and local authorities could result in, among other things, increased exposure to litigation, administrative enforcement actions or governmental investigations or proceedings; revocation of required licenses or approvals; fines; and civil and criminal liability. Failure to comply with existing or newly enacted requirements or maintain licenses could delay or prevent the opening or continued operation of one or more restaurants. In addition, changes to laws or regulations, the manner of their interpretation or enforcement, could increase our cost of doing business and restrict our ability to operate our business or execute our strategies. This includes, among other things, potential global warming/climate change regulations, and compliance costs and enforcement of provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act that may be applicable to us. We are unable to predict the potential effects these initiatives may have on our business at this time.

Various federal and state employment laws govern our relationship with our team members and affect operating costs. These laws govern employee classification, wage and payment requirements including tip credit laws, meal and rest breaks, unemployment and other taxes, health care and benefits, workers' compensation rates, citizenship or residency requirements, labor relations, child labor regulations, and discriminatory conduct. Changes in these laws or our failure to comply with enforcement requirements could require changes to our operations that could harm our operating results. For example, although we require all of our team members to provide us with the government-specified documentation evidencing their employment eligibility, some of our team members, without our knowledge, may not meet federal citizenship or residency requirements, which could lead to a

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disruption in our work force. We also continue to evaluate the potential impacts of the health care reform law on our business, and we intend to accommodate various parts of the law as they take effect. The imposition of any requirement that we provide health insurance benefits to team members that are more extensive than the health insurance benefits we currently provide could have an adverse effect on our results of operations and financial position.

We are 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 such intoxicated person. Failure to comply with alcoholic beverage control or dram shop regulations could subject the Company to liability and could negatively affect our business.

We are also subject to federal and state laws that regulate the offer and sale of franchises and aspects of the licensor-licensee relationship. Failure to comply with these laws and regulations could subject us to liability for actions of the franchisees, or expose us to liability to franchisees, or fines and penalties for non-compliance.

***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. Negative 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 negative 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 regulations, and discriminatory conduct, may have a material adverse effect on our business or operations. We have been subject to such claims from time to time. 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.

## ITEM 1B. Unresolved Staff Comments

None.

## 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 15 years excluding options to extend. These leases generally contain options which permit us to extend the lease term at an agreed rent or at prevailing market rates. Certain leases provide for contingent rents, which are determined as a percentage of adjusted gross 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.

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We own real estate for 32 Company-owned restaurants located in Arizona (3); Arkansas (2); California (2); Colorado (3); Georgia (1); Illinois (1); Indiana (1); Maryland (1); Missouri (1); North Carolina (3); Ohio (5); Pennsylvania (3); Virginia (4); and Washington (2). In addition, we own a property in Texas 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 31, 2018. We opened a test kitchen and training facility in 2011 located in Englewood, Colorado. We occupy this facility under a lease that expires August 31, 2018.

We believe that site selection is critical to our success and thus we devote 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 $65,000 or greater and that has a high population of families.

In order to maximize our market penetration potential, we have developed a prototype that allows us to develop and operate in a range of real estate venues located near high activity areas, such as regional malls, lifestyle centers, big box shopping centers, power centers, and entertainment centers, as well as existing locations that have been closed by other restaurant and retail concepts. Our traditional prototype restaurant is a free-standing building averaging approximately 5,800 square feet and approximately 200 seats. Based on this prototype, our average cash investment for a new restaurant opened in 2011 was approximately $1.8 million, excluding tenant improvement allowances, land and pre-opening costs. As of December 25, 2011, our average restaurant size was approximately 6,500 square feet. We typically operate our restaurants under ground leases for land on which we build our restaurants. However, we also have begun to develop restaurants using in-line, end cap, and mall locations in addition to our conversions of existing restaurant and other retail structures. Our new non-traditional prototype, Red Robin's Burger Works , will allow Red Robin to develop projects in high foot traffic and non-traditional locations such as urban areas/downtowns, college campuses, military bases and airports, as well as in regional retail centers. The typical Red Robin's Burger Works prototype will be between 2,000 and 3,000 square feet, with 50 to 100 seats.

## ITEM 3. Legal Proceedings

On October 20, 2011, the Company was served with a purported wage and hour class action lawsuit, *Elder E. Cifuentes v. Red Robin International, Inc.* The lawsuit was filed in Alameda Superior Court, California. The Company timely filed its Answer and removed the case to the United States District Court in the Northern District of California under the Class Action Fairness Act of 2005 ("CAFA"). The claims are 1) failure to timely pay final wages and 2) unfair business practices. The plaintiff seeks to certify a class comprised of all employees in California who were discharged by or resigned their employment with the Company during the relevant class period. The plaintiff seeks wages for each class member at their regular rate of pay for thirty days. Plaintiff further seeks restitution for unpaid wages as a result of unfair business practices, and injunctive relief prohibiting such practices. Finally, Plaintiff seeks pre-judgment interest, attorneys' fees and costs. We believe this case to be without merit and plan to vigorously defend against this suit. However, we cannot predict the outcome of this lawsuit or whether we may be required to pay damages, settlement costs, legal costs or other amounts that may not be covered by insurance.

On June 20, 2011, the Company was served with a purported wage and hour class action lawsuit, *Kevin McConnell v. Red Robin International, Inc*. The lawsuit was filed in United States District Court in

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the Northern District of California in the San Francisco division. The Company filed its Answer on July 11, 2011. The claims are 1) failure to provide meal and rest periods; 2) failure to compensate employees for all hours worked; 3) failure to furnish wage and hour statements; 4) failure to maintain employee time records; 5) unfair competition; 6) waiting time penalties and 7) claims under the Private Attorney General Act. Plaintiff is seeking class certification, general and punitive damages, restitution for unlawful business practices, waiting time and other penalties under the Labor Code, pre- and post- judgment interest, attorneys' fees and costs. Although we plan to vigorously defend against this suit, we cannot predict the outcome of this lawsuit or whether we may be required to pay damages, settlement costs, legal costs or other amounts that may not be covered by insurance.

In December 2009, the Company was served with a purported class action lawsuit, *Marcos R. Moreno v. Red Robin International, Inc*. The case was filed in Superior Court in Ventura County, California and has been removed to Federal District Court for the Central District of California under CAFA. The Company filed its Answer and Affirmative Defenses on February 10, 2010. The lawsuit alleges failure to pay wages and overtime, failure to provide rest and meal breaks or to pay compensation in lieu of such breaks, failure to pay timely wages on termination, failure to provide accurate wage statements, and unlawful business practices and unfair competition. Plaintiff is seeking compensatory and special damages, restitution for unfair competition, premium pay, penalties and wages under the Labor Code, and attorneys' fees, interest and costs. On March 24, 2010, the Court granted a stay of the case pending the outcome of a California case currently before the California Supreme Court for review. That case involves similar allegations regarding rest and meal breaks. It is anticipated that the California Supreme Court will provide useful guidance on rest and meal breaks when the opinion in that case is issued. We believe the Moreno suit is without merit. Although we plan to vigorously defend against this suit, we cannot predict the outcome of this lawsuit or whether we may be required to pay damages, settlement costs, legal costs or other amounts that may not be covered by insurance.

In the normal course of business, there are various other claims in process, matters in litigation and other contingencies. These include claims resulting from 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.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

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# 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 Global Select 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 Global Select Market for the indicated periods (based on our fiscal quarters).

| | Sales Price | |
|---|---|---|
| | **High** | **Low** |
| **2011** | | |
| 4th Quarter | $ 29.59 | $ 21.68 |
| 3rd Quarter | 39.32 | 23.58 |
| 2nd Quarter | 38.58 | 26.78 |
| 1st Quarter | 28.11 | 20.23 |
| **2010** | | |
| 4th Quarter | $ 22.90 | $ 17.33 |
| 3rd Quarter | 22.63 | 17.03 |
| 2nd Quarter | 28.10 | 16.85 |
| 1st Quarter | 29.10 | 16.87 |

As of February 20, 2012, there were approximately 168 registered owners of our common stock.

### Dividends

We did not declare or pay any cash dividends on our common stock during 2011. We currently anticipate that we will retain any future cash flow to fund our operations and expansion of our business, to pay down debt or to repurchase stock. In addition, our credit agreement may limit us from declaring or paying any dividends or making any other distributions on any of our shares; these limits range from $25 million to $50 million and are subject to our leverage ratio. Accordingly, we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. Our credit agreement may also limit our ability to engage in stock repurchases.

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

During the fiscal quarter ended December 25, 2011, the Company did not have any sales of securities in transactions that were not registered under the Securities Act that have not been reported

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in a Form 8-K. The table below provides a summary of the Company's purchases of its own common stock during fourth quarter 2011.

| Date | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(1) | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(1) |
|---|---|---|---|---|
| October 3 - October 30, 2011 | | $ | 1,103,996 | $ 50,000,000 |
| October 31 - November 27, 2011 | | | 1,103,996 | 50,000,000 |
| November 28 - December 25, 2011 | 92,121 | 24.97 | 1,196,117 | 47,700,052 |
| Total | 92,121 | | | |

(1) In August 2010, the Company's board of directors authorized a repurchase of up to $50.0 million of the Company's equity securities. Under this authorization, repurchases of our common stock may be made from time to time in open market transactions and through privately negotiated transactions. On October 26, 2011, the Company's board of directors re-authorized a repurchase of up to $50.0 million of the Company's common stock which will expire on December 31, 2012. This authorization may be further modified, suspended or terminated at any time. The timing and number of shares repurchased pursuant to the share repurchase authorization will be subject to a number of factors, including market conditions, legal constraints and available cash or other sources of funding. As of December 25, 2011, the Company had purchased 1.2 million shares for a total of $33 million under its previously announced repurchase programs. As of December 25, 2011, there was an additional $47.7 million that may be purchased under the current board authorized repurchase plan.

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**Performance Graph**

The following graph compares the yearly percentage in cumulative total shareholders' return on Common Stock of the Company since December 30, 2007, with the cumulative total return over the same period for (i) the Russell 3000 Index, and (ii) the Bloomberg U.S. Full Service Restaurant Index.

Pursuant to rules of the SEC, the comparison assumes $100 was invested on December 30, 2007, the last trading day in the Company's 2007 fiscal year, in the Company's Common Stock and in each of the indices.

This performance graph shall not be deemed to be "soliciting material" or to be "filed" under either the Securities Act or the Exchange Act.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN***

Among Red Robin Gourmet Burgers, Inc., The Russell 3000 Index
and Bloomberg U.S. Full Service Restaurant Index

* $100 invested on 12/31/06 in stock or index, including reinvestment of dividends. Assumes fiscal year ending December 31 for purposes of comparability.

| | | | Fiscal Years | | | |
|---|---|---|---|---|---|---|
| | **12/31/2006** | **2007** | **2008** | **2009** | **2010** | **2011** |
| Red Robin Gourmet Burgers, Inc. | $ 100.00 | $ 89.23 | $ 46.95 | $ 49.93 | $ 59.89 | $ 77.27 |
| Russell 3000 | 100.00 | 103.30 | 63.32 | 79.44 | 91.16 | 90.32 |
| Bloomberg U.S. Full Service Restaurant Index | 100.00 | 70.90 | 43.93 | 70.60 | 99.94 | 99.86 |

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## 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 | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008(1) | 2007(2) |
| | (in thousands, except per share data) | | | | |
| **Statement of Income Data:** | | | | | |
| Revenue: | | | | | |
| Restaurant revenue | $ 898,842 | $ 846,389 | $ 828,031 | $ 854,690 | $ 747,530 |
| Total revenues | 914,850 | 864,269 | 841,045 | 869,215 | 763,472 |
| Total costs and expenses(3)(4)(5) | 886,849 | 854,536 | 813,104 | 824,025 | 710,901 |
| Income from operations | 28,001 | 9,733 | 27,941 | 45,190 | 52,571 |
| Net income | $ 20,577 | $ 7,299 | $ 17,599 | $ 27,126 | $ 30,651 |
| Earnings per share | | | | | |
| Basic | $ 1.36 | $ 0.47 | $ 1.14 | $ 1.70 | $ 1.84 |
| Diluted | $ 1.34 | $ 0.46 | $ 1.14 | $ 1.69 | $ 1.82 |
| Shares used in computing earnings per share | | | | | |
| Basic | 15,122 | 15,536 | 15,392 | 15,927 | 16,647 |
| Diluted | 15,357 | 15,709 | 15,504 | 16,047 | 16,817 |
| **Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 35,036 | $ 17,889 | $ 20,268 | $ 11,158 | $ 12,914 |
| Total assets | 592,976 | 579,257 | 600,095 | 609,737 | 548,789 |
| Long-term debt, including current portion | 156,931 | 158,522 | 191,334 | 222,572 | 153,746 |
| Total stockholders' equity | 294,698 | 300,661 | 288,622 | 268,908 | 284,442 |
| **Cash Flow Data:** | | | | | |
| Net cash provided by operating activities | $ 95,697 | $ 70,613 | $ 90,615 | $ 91,164 | $ 93,558 |
| Net cash used in investing activities | (43,355) | (35,060) | (49,548) | (113,124) | (125,195) |
| Net cash (used in) provided by financing activities | (35,195) | (37,932) | (31,957) | 20,204 | 41,789 |
| **Selected Operating Data:** | | | | | |
| Average annual comparable restaurant gross sales volumes(6) | $ 2,863 | $ 2,779 | $ 2,823 | $ 3,231 | $ 3,330 |
| Average annual comparable restaurant net sales volumes(6)(7) | $ 2,777 | $ 2,718 | $ 2,750 | $ 3,155 | $ 3,265 |
| Company-owned restaurants open at end of period | 327 | 314 | 306 | 294 | 249 |
| Franchised restaurants open at end of period | 137 | 136 | 133 | 129 | 135 |
| Comparable restaurant gross sales increase (decrease)(6) | 2.9% | (0.6)% | (11.1)% | (1.4)% | 2.4% |
| Comparable restaurant net sales increase (decrease)(6)(7) | 2.3% | (0.4)% | (11.5)% | (1.8)% | 2.4% |

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(1) Fiscal year 2008 reflects the acquisition of 15 franchised restaurants and one restaurant that had been under construction from three franchisees.

(2) Fiscal year 2007 reflects the acquisition of 17 franchised restaurants in the state of California.

(3) Fiscal year 2011 reflects significant and infrequent pre-tax charges of $1.4 related to executive transition and pre-tax non-cash asset impairment charges of $4.3 million related to the impairment of three restaurants.

(4) Fiscal year 2010 reflects a significant and infrequent pre-tax charge of $2.6 million related to the retirement of the Company's chief executive officer and appointment of a new chief executive officer. Fiscal year 2010 also includes a pre-tax non-cash asset impairment charge of $6.1 million related to the impairment of four restaurants.

(5) Fiscal year 2009 includes a net significant and infrequent pre-tax charge of $4.0 million related to an option tender offer completed during the first quarter 2009. This one-time charge represents the compensation expense related to the acceleration of vesting on the unvested options tendered in the offer, which would otherwise have been expensed over their vesting period in the future if they had not been tendered.

(6) Comparable restaurants include those Company-owned restaurants that have achieved five full quarters of operations during the periods presented. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Total Revenues" for a further discussion of our comparable restaurant designation.

(7) Net sales are gross sales net of incentives and discounts, primarily related to our loyalty program.

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

### Overview

As of December 25, 2011, we owned and operated or franchised 464 Red Robin® restaurants in 43 states and Canada, of which 327 were Company-owned and 137 were operated under franchise. For the fiscal year 2012, we plan to open 13 to 15 net new Company-owned Red Robin® restaurants and we believe our franchisees will open one to two new restaurants.

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 following summarizes the operational and financial highlights of fiscal year 2011 and our 2012 outlook:

*Comparable Restaurant Revenue.* Comparable restaurants include those Company-owned restaurants that have achieved five full quarters of operations during the periods presented. For those restaurants that entered the comparable restaurant pool during the current year, comparable sales on a year to date basis are calculated only from the period of time the restaurant reaches the full five quarters. Therefore, sales for such a restaurant can be split between comparable and non-comparable for year to date comparisons. For 2011, the 307 restaurants in our comparable base experienced a 2.3% increase in net sales from these same restaurants in the same period last year. This increase was driven by a 3.3% increase in average net guest check, offset by a 1.0% decrease in guest count. Comparable restaurant 2011 gross sales increased 2.9%. This was due to a gross increase in average guest check of 3.9% partially offset by 1.0% decrease in guest counts.

*Marketing Efforts.* We executed a variety of revenue growth programs during 2011, many of which we will continue in 2012. During the first quarter of 2011, we launched Red Royalty , a loyalty program, in all Company-owned restaurants. It has exceeded our expectations to date with over 1.4 million registered members and we expect it to continue to grow in size and importance in 2012. We also implemented happy hour and beverage menu promotions aimed at increasing beverage sales, particularly alcoholic beverages. We will continue to promote, refresh and expand these programs in 2012. In the second quarter of 2011, we completed a nationwide

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roll-out of a new tri-fold menu which included a 1.5% price increase and new featured items. At the beginning of the fourth quarter, we refreshed the menu and took an additional 0.9% price increase. For the year ended December 25, 2011, we realized approximately 1.0% price impact through these moves. Finally, we continued our limited time offer ("LTO") programs supported by national television campaigns through the spring, summer and fall of 2011. In 2012, we plan to continue our successful LTO strategy, test a refreshed brand prototype and broaden our menu offerings. Advertising spend will be consistent with prior years with increasing emphasis on social media campaigns.

*Food Costs.* As a percentage of restaurant revenue, we have seen an increase in cost of goods during the fiscal year 2011 compared to the prior year. In particular, the cost of ground beef, which comprised approximately 13% of our cost of goods increased approximately 17% for 2011, compared to the prior year and we expect ground beef cost will continue to increase throughout 2012. In addition, national and international supply-demand imbalances and other factors continue to increase other commodity prices, which will have a continued negative effect on our costs of sales in 2012.

*Labor.* Labor costs as a percentage of restaurant revenue decreased 170 basis points for the fiscal year 2011 from the same period in 2010. These decreases were primarily driven by the leverage from our higher average guest check, lower average rate per hour and increased productivity. Many states in which we operate have increased minimum and tip credit wages beginning in 2012. We anticipate these wage increases will increase our total labor costs which we may not be able to offset with continued productivity improvements.

*New Restaurant Openings.* We opened 13 new Company-owned restaurants during fiscal year 2011, including our first test of a limited service non-traditional prototype, Red Robin's Burger Works . We plan on opening 12-15 net new Company-owned restaurants in 2012 including both full-service and Red Robin's Burger Works restaurants. We believe we will fund all 2012 costs for restaurant development from our operating cash flow.

*Operating Expense Initiatives.* Operating expenses declined as a percentage of restaurant revenue due to a variety of initiatives undertaken in 2011. We believe these initiatives will enable us to sustain the level of operating expenses as a percent of revenue into 2012.

**Unit Data and Comparable Restaurant Sales**

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Company-owned: | | | |
| Beginning of period | 314 | 306 | 294 |
| Opened during period | 13 | 11 | 15 |
| Acquired from franchisees | | | 1 |
| Closed during period | | (3) | (4) |
| End of period | 327 | 314 | 306 |
| Franchised: | | | |
| Beginning of period | 136 | 133 | 129 |
| Opened during period(a) | 3 | 7 | 5 |
| Sold or closed during period(a) | (2) | (4) | (1) |
| End of period | 137 | 136 | 133 |
| Total number of Red Robin® restaurants | 464 | 450 | 439 |

(a) Includes two franchised restaurants that were closed in 2010 and re-opened during the same year.

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**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:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenues: | | | |
| Restaurant | 98.3% | 97.9% | 98.5% |
| Franchise royalties and fees | 1.5 | 1.6 | 1.5 |
| Other revenue | 0.2 | 0.5 | |
| Total revenues | 100.0 | 100.0 | 100.0 |
| Costs and expenses: | | | |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | | |
| Cost of sales | 25.3 | 24.4 | 24.1 |
| Labor (includes 0.1%, 0.1% and 0.2% of stock-based compensation expense, respectively) | 33.8 | 35.5 | 34.8 |
| Operating | 13.8 | 14.8 | 14.8 |
| Occupancy | 7.3 | 7.4 | 7.5 |
| Total restaurant operating costs | 80.2 | 82.2 | 81.2 |
| Depreciation and amortization | 6.0 | 6.6 | 6.8 |
| Selling, general and administrative (includes 0.3%, 0.4% and 0.7% of stock-based compensation expense, respectively) | 10.8 | 10.3 | 9.1 |
| Franchise development | 0.5 | 0.5 | 0.5 |
| Pre-opening costs | 0.4 | 0.3 | 0.4 |
| Asset impairment charge | 0.5 | 0.7 | |
| Income from operations | 3.1 | 1.1 | 3.3 |
| Other (income) expense: | | | |
| Interest expense, net | 0.6 | 0.6 | 0.8 |
| Other | 0.0 | | |
| Total other expenses | 0.6 | 0.6 | 0.8 |
| Income before income taxes | 2.4 | 0.5 | 2.6 |
| (Provision) benefit for income taxes | (0.2) | 0.3 | (0.5) |
| Net income | 2.2% | 0.8% | 2.1% |

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

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***Total Revenues***

| (In thousands, except percentages and average weekly sales volumes) | 2011 | 2010 | 2011 - 2010 Percent Change | 2009 | 2010 - 2009 Percent Change |
|---|---|---|---|---|---|
| Restaurant revenue | $ 898,842 | $ 846,389 | 6.2% | $ 828,031 | 2.2% |
| Franchise royalties and fees | 14,151 | 13,409 | 5.5% | 12,825 | 4.6% |
| Other revenue | 1,857 | 4,471 | (58.5)% | 189 | NM(1) |
| Total revenues | $ 914,850 | $ 864,269 | 5.9% | $ 841,045 | 2.8% |
| All restaurants average weekly sales volumes(2): | | | | | |
| Gross sales | $ 55,692 | $ 53,689 | 3.7% | $ 54,031 | (0.6)% |
| Net sales | $ 54,043 | $ 52,533 | 2.9% | $ 52,737 | (0.4)% |
| Operating weeks | 16,630 | 16,112 | 3.2% | 15,701 | 2.6% |

(1) Percentage change of more than 100% is considered not meaningful.

(2) Average weekly sales volumes are based on all restaurants. Net sales are gross sales net of incentives and discounts, primarily related to our loyalty program.

Restaurant revenue, which is comprised almost entirely of food and beverage sales, increased by $52.5 million, or 6.2%, from fiscal year 2010. Revenue in our comparable restaurant base increased approximately $19.5 million or 2.3% during 2011. This increase was primarily the result of a 3.3% increase in average guest checks partially offset by 1.0% decrease in guest counts. We believe the average increase in guest checks was driven by a combination of our 2011 menu price increases, and the nationwide rollout of our tri-fold menu, partially offset by discounts including those associated with our Red Royalty loyalty program. Such discounts increased $8.8 million from prior year. Revenue for non-comparable restaurants contributed an increase of $39.9 million, primarily all of which was attributed to net sales from restaurants opened since the end of the third quarter of 2010.

In 2010, restaurant revenue increased $18.4 million, or 2.2%, from fiscal year 2009. The significant factors contributing to the increase was revenue growth from our 2010 restaurant openings. Restaurants not in the comparable sales base experienced a revenue increase of $21.3 million, of which $17.9 million was attributable to restaurants opened in 2010.

Average weekly sales volumes represent the total net 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 at the end of each period presented. At the end of the fiscal year 2011 and 2010, there were 307 and 303 comparable restaurants, respectively. Non-comparable restaurants are primarily restaurants that are open but by definition not included in the comparable category because they have not yet reached the five full quarters of operation. At the end of fiscal year 2011, there were 20 non-comparable restaurants versus 13 at the end of fiscal year 2010. Fluctuations in average weekly sales volumes for 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.

Franchise royalties and fees consist primarily of royalty income and initial franchise fees. This revenue increased $0.7 million or 5.5%, from 2010. The year over year increase in franchise royalties and fees is primarily attributable to the overall increase in reported franchise sales. Our franchisees reported that comparable sales increased 2.7% for both U.S. restaurants and Canadian restaurants in the year ended December 25, 2011. Franchise royalties and fees for 2010 increased over 2009 due primarily to an increase in reported franchise sales.

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Other revenue consists primarily of gift card breakage. We recognize revenue when a gift card is redeemed by a guest. Gift card breakage revenue is recognized if the likelihood of gift card redemption is remote and we determine that there is not a legal obligation to remit the unredeemed gift card balance to the relevant jurisdiction. We base the gift card breakage rate upon specific historical redemption patterns. We recognize gift card breakage by applying our estimate of the rate of gift card breakage over the period of estimated performance. During the first quarter 2011, we recognized $438,000 of third-party gift card revenue as an initial cumulative program adjustment for gift card sales sold in third party retail locations, while during the first quarter 2010, we recognized $3.5 million of breakage revenue as an initial cumulative program adjustment for gift cards sold in our restaurants. We recognized $1.7 million (inclusive of the initial adjustment) of gift card breakage during fiscal year 2011. We recognized $4.3 million (inclusive of the initial revenue adjustment) of gift card breakage for fiscal year 2010.

***Costs and Expenses***

***Cost of Sales***

| (In thousands, except percentages) | 2011 | 2010 | 2011 - 2010 Percent Change | 2009 | 2010 - 2009 Percent Change |
|---|---|---|---|---|---|
| Cost of sales | $ 227,063 | $ 206,639 | 9.9% | $ 199,195 | 3.7% |
| As a percent of restaurant revenue | 25.3% | 24.4% | 0.9% | 24.1% | 0.3% |

Cost of sales, comprised of food and beverage costs, is variable and generally fluctuates with sales volume. Cost of sales as a percentage of restaurant revenue increased 90 basis points in 2011. This increase was driven by an estimated 60 basis points net increase in commodity costs, including ground beef, potatoes, cheese and fry oil and a 50 basis point increase related to change in product mix to higher cost menu items. These increases were partially offset by a 20 basis point decrease due to the leverage on our higher revenue.

Cost of sales as a percentage of restaurant revenue increased 30 basis points in 2010 compared to 2009. The increase in food costs as a percentage of restaurant revenue in 2010 was driven by a 20 basis point reduction in revenue from our 2010 LTO Promotions pricing, a 20 basis point increase in ground beef costs and a 20 basis point increase in produce costs. These increases were partially offset by a combined 30 basis point decrease in expenses for bread, fry oil and other meats. The increase in produce and ground beef was due to higher raw material costs and change in product mix.

***Labor***

| (In thousands, except percentages) | 2011 | 2010 | 2011 - 2010 Percent Change | 2009 | 2010 - 2009 Percent Change |
|---|---|---|---|---|---|
| Labor | $ 303,503 | $ 300,878 | 0.9% | $ 287,981 | 4.5% |
| As a percent of restaurant revenue | 33.8% | 35.5% | (1.7)% | 34.8% | 0.7% |

Labor costs include restaurant-level hourly wages, fixed management salaries, stock-based compensation expense, variable compensation, taxes, and benefits for restaurant team members. In 2011, labor as a percentage of restaurant revenue decreased 170 basis points compared to 2010. Approximately 110 basis points of this decrease was due to the leverage of our higher average guest check on our fixed labor costs, while approximately 80 basis points decrease was due to increased productivity and lower average hourly wage rates. These decreases were offset by an approximate 30 basis point increase in payroll taxes related to reduced Hiring Incentives to Restore Employment (HIRE) Act payroll tax benefits realized in 2010.

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Labor as a percentage of restaurant revenue increased in 2010 compared to 2009 due to an increase in manager variable compensation expense of 50 basis points. Additionally, our 2010 LTO price promotions and changes in product mix resulted in an approximate 50 basis point increase in labor expenses as a percentage of revenue. These increases were partially offset by a 20 basis point decrease in hourly wages and a 20 basis point decrease in payroll taxes due to the payroll tax holiday provided by the HIRE Act.

***Operating***

| (In thousands, except percentages) | 2011 | 2010 | 2011 - 2010 Percent Change | 2009 | 2010 - 2009 Percent Change |
|---|---|---|---|---|---|
| Operating | $ 124,238 | $ 125,137 | (0.7)% | $ 122,183 | 2.4% |
| As a percent of restaurant revenue | 13.8% | 14.8% | (1.0)% | 14.8% | 0.0% |

Operating costs include costs such as restaurant supplies, energy costs, and other costs such as service repairs and maintenance costs. During 2011, operating costs as a percentage of restaurant revenue decrease 100 basis points from 2010. The decrease as a percentage of restaurant revenue was due primarily to a combination of 50 basis points leverage from higher restaurant revenue, 30 basis points decrease in repairs and maintenance costs, and 20 basis points decrease in costs of supplies related to initiatives to reduce expenses through better cost management.

During 2010, operating costs as a percentage of restaurant revenue remained flat compared with 2009. Contributing to this zero basis point change as a percentage of restaurant revenue was a combination of a 25 basis point deleverage from lowered revenue due to price and product mix changes, an 10 basis point increase in repairs and maintenance expense offset by a 15 basis point decrease in restaurant supplies, and a 20 basis point decrease in miscellaneous costs such as utilities, promotional and other expenses.

***Occupancy***

| (In thousands, except percentages) | 2011 | 2010 | 2011 - 2010 Percent Change | 2009 | 2010 - 2009 Percent Change |
|---|---|---|---|---|---|
| Occupancy | $ 65,785 | $ 63,055 | 4.3% | $ 62,420 | 1.0% |
| As a percent of restaurant revenue | 7.3% | 7.4% | (0.1)% | 7.5% | (0.1)% |

Occupancy costs include fixed rents, contingent rents, common area maintenance charges, real estate and personal property taxes, general liability insurance, and other property costs. Our occupancy costs generally increase with increases in sales volume from contingent rents or the addition of new restaurants, but decline as a percentage of restaurant revenue as we leverage our fixed costs. In 2011, occupancy costs as a percent of restaurant revenue decreased 10 basis points. Fixed rents for the fiscal year ended 2011 and 2010 were $42.5 million and $40.7 million, respectively, and increased due to the opening of new restaurants. The decrease of occupancy costs as a percent of restaurant revenue related mainly to the leveraging of fixed costs on higher revenue.

In 2010, occupancy costs as a percent of restaurant revenue decreased 10 basis points compared to 2009. This decrease was driven by a 20 basis point decrease in general liability insurance as a percent of restaurant revenue, offset by an increase of fixed rent expense as a percentage of restaurant revenue of 10 basis points. Fixed rents in 2010 were $40.7 million, an increase from $39.2 million in 2009 due to the addition of new restaurants.

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***Depreciation and Amortization***

| (In thousands, except percentages) | 2011 | 2010 | 2011 - 2010 Percent Change | 2009 | 2010 - 2009 Percent Change |
|---|---|---|---|---|---|
| Depreciation and amortization | $ 55,272 | $ 56,738 | (2.6)% | $ 57,166 | (0.7)% |
| As a percent of total revenues | 6.0% | 6.6% | (0.6)% | 6.8% | (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 decreased $1.5 million, or 2.6% due, in part, by five-year depreciable equipment for 24 restaurants which were open in 2005 becoming fully depreciated. Depreciation and amortization expense as a percentage of revenue for the fiscal year 2011, which was driven by leverage from higher restaurant sales volumes on these fixed expenses, as well as, the reduction in depreciation and amortization from assets whose book value was reduced though an impairment charges during the third quarter 2010. In 2012, we expect to see an impact from 2011 impairments and fully depreciated equipment, partially offset by new restaurant openings.

In 2010, depreciation and amortization decreased $0.4 million, or 0.7%, due to three restaurant closures during the fiscal year and the reduction in depreciation and amortization from assets whose book value was reduced through an impairment charge in the fiscal third quarter. Depreciation and amortization expense as a percentage of total revenues decreased in 2010 due to increased average restaurant sales volumes and a decrease in overall expense.

***Selling, General and Administrative***

| (In thousands, except percentages) | 2011 | 2010 | 2011 - 2010 Percent Change | 2009 | 2010 - 2009 Percent Change |
|---|---|---|---|---|---|
| Selling, general and administrative | $ 98,988 | $ 88,836 | 11.4% | $ 76,260 | 16.5% |
| As a percent of total revenues | 10.8% | 10.3% | 0.5% | 9.1% | 1.2% |

Selling, 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, variable compensation, stock-based compensation and related employee benefits, travel, information systems, training, office rent, professional and consulting fees, board of directors expenses, legal expenses and marketing costs.

Selling, general and administrative costs increased $10.2 million, or an increase as a percent of total revenues of 50 basis points in 2011 due to a $6.5 million increase in accrued performance based compensation, $3.1 million in expenses related to infrastructure investments and $1.5 million increase in legal expenses. Our marketing costs remained steady from 2010.

In 2010, selling, general and administrative costs increased $12.6 million, or an increase as a percent of total revenues of 120 basis points in 2010 due primarily to an increase of $12.9 million in the marketing and advertising campaign related to television media support for the spring, summer and fall LTO campaigns. Additionally, we also experienced $2.6 million of additional expense for the 2010 CEO transition and $1.1 million of additional expense for the board of directors and governance-related matters. These increases were partially offset by $1.1 million decrease in variable compensation at the corporate level and a $2.6 million decrease in stock compensation related primarily to the options tender offer during the first quarter of fiscal 2009.

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***Franchise Development***

| (In thousands, except percentages) | 2011 | 2010 | 2011 - 2010 Percent Change | 2009 | 2010 - 2009 Percent Change |
|---|---|---|---|---|---|
| Franchise development | $ 4,136 | $ 4,122 | 0.3% | $ 4,203 | (1.9)% |
| As a percent of total revenues | 0.5% | 0.5% | 0.0% | 0.5% | 0.0% |

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.

***Pre-opening Costs***

| (In thousands, except percentages) | 2011 | 2010 | 2011 - 2010 Percent Change | 2009 | 2010 - 2009 Percent Change |
|---|---|---|---|---|---|
| Pre-opening costs | $ 3,527 | $ 3,015 | 17.0% | $ 3,696 | (18.4)% |
| As a percent of total revenues | 0.4% | 0.3% | 0.1% | 0.4% | (0.1)% |
| Average per restaurant pre-opening costs | $ 264 | $ 258 | 2.3% | $ 249 | 3.6% |

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 2011, 2010, and 2009 reflect the opening of 13, 11, and 15 new restaurants, respectively. Average per restaurant pre-opening costs represents total costs incurred for those restaurants that opened for business during the periods presented. The 2011 average per restaurant pre-opening costs increased moderately due to higher occupancy costs.

The 2010 average per restaurant pre-opening costs increased moderately compared to 2009 due to increased travel-related costs.

***Asset Impairment Charge and Restaurant Closure Costs***

During fiscal year 2011, the Company determined that three Company-owned restaurants were impaired, recognizing a pre-tax non-cash impairment charge of $4.3 million. During fiscal year 2010, the Company determined that four Company-owned restaurants were impaired, and the Company recognized a pre-tax non-cash impairment charge of $6.1 million resulting from the continuing and projected losses of these restaurants. The Company reviewed each restaurant's past and present operating performance combined with projected future results, primarily through projected undiscounted cash flows, which indicated impairment. The carrying amount of each restaurant was compared to its fair value as determined by management. The impairment charge represents the excess of each restaurant's carrying amount over its fair value.

We closed none, three, and four restaurants in fiscal 2011, 2010, and 2009, respectively. In 2010 and 2009, one and two, restaurants operating below acceptable profitability levels were closed. In both 2010 and 2009, two restaurants whose leases were not extended or were in need of significant capital improvements that were not projected to provide acceptable returns in the foreseeable future were closed. We recognized charges of $856,000 and $562,000 in fiscal 2010 and 2009, respectively, related to lease terminations and other closing related costs. The three closed restaurants in 2010 were not part of the impairment charge taken in the third quarter of fiscal 2010. There were no asset impairment charges recognized in 2009.

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***Interest Expense***

Interest expense in 2011, 2010, and 2009 was $5.9 million, $5.1 million, and $6.9 million, respectively. Interest expense was higher in 2011 than 2010 due to higher weighted average interest rate of 3.4% versus 3.0% in 2010 partly offset by a lower average debt balance. Interest expense in 2010 was lower than 2009 due to lower average borrowings under our credit facility partly offset by a slightly higher weighted average interest rate of 3.0% versus 2.8% in 2009.

***Provision for Income Taxes***

The provision for income taxes increased $4.1 million, to a tax expense of $1.5 million in 2011, from tax benefit of $2.6 million in 2010. Our effective income tax rate was 6.8%, a tax expense, for 2011, 54.3%, a tax benefit, for 2010, and 18.3%, a tax expense, for 2009. The increase in our effective tax rate for fiscal 2011 is primarily attributable to the increase in earnings before income taxes. The decrease in 2010 versus 2009 was primarily due to the impact of more favorable general business and tax credits, primarily the FICA Tip Tax Credit, as a percent of current year income, which did not change at the same rate as the decrease in income. We would expect to see volatility in our tax rate given changes in income before taxes and income tax credits.

**Liquidity and Capital Resources**

*General.* Cash and cash equivalents increased $17.1 million to $35.0 million at December 25, 2011, from $17.9 million at the beginning of the fiscal year. This increase in our cash position is primarily the net result of:

- $95.7 million of cash provided by operating activities; partially offset by
- $44.1 million used for the construction of new restaurants, expenditures for facility improvements, investments in IT and other; and
- $33.0 million used for share repurchases.

We expect to continue to reinvest available cash flows from operations to develop new restaurants or invest in existing restaurants and infrastructure, pay down debt, and maintain the flexibility to use excess cash to opportunistically repurchase our common stock and execute our long term strategic initiatives.

*Credit Facility.* On May 6, 2011, we amended and restated our existing credit facility to provide a more flexible capital structure and facilitate our growth plans. Borrowings under the amended credit agreement may be used by us for general corporate purposes including, among other uses, to repurchase shares of our capital stock, to continue to finance restaurant construction, and for working capital and general corporate requirements. The amended credit facility is comprised of (i) a $100 million revolving credit facility maturing on May 6, 2016 and (ii) a $150 million term loan maturing on May 6, 2016, both with rates based on the London Interbank Offered Rate (LIBOR) plus a spread based on leverage or a base rate plus a spread based on leverage (base rate is the highest of (a) the Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) LIBOR for an Interest Period of one month plus 1%). The amended credit agreement also allows us, subject to lender participation, to increase the revolving credit facility or term loan by up to an additional $100 million in the future. As part of the amended credit agreement, we may request the issuance of up to $20 million in letters of credit, the outstanding amount of which reduces the net borrowing capacity under the revolving credit facility. The amended credit agreement requires the payment of an annual commitment fee based upon the unused portion of the credit facility. The credit facility's interest rates and the annual commitment rate are based on a financial leverage ratio, as defined in the credit agreement. Our obligations under the amended credit agreement are secured by first priority liens and security interests in substantially all of our assets, which includes the capital stock of our certain subsidiaries. Additionally, the amended

credit agreement includes a negative pledge on all tangible and intangible assets (including all real and personal property) with customary exceptions.

With regard to the term loan facility, we are required to repay the principal amount of the term loan in consecutive quarterly installments which began June 30, 2011, and end on the maturity date of the term loan. At December 25, 2011, we had $146.3 million of borrowings outstanding under our term loan, and $7.4 million of standby letters of credit outstanding under our revolving credit facility. There were no borrowings on the revolving facility. Loan origination costs associated with the credit facility and the net outstanding balance of costs related to the original and subsequent amendments to the credit facility are included as deferred costs in other assets, net in the accompanying consolidated balance sheet as of December 25, 2011.

In August 2011, we entered into a variable-to-fixed interest rate swap agreement with Rabobank to hedge the floating interest rate on half of the remaining term loan that was then outstanding under our amended and restated credit facility. Rabobank is rated AAA by Standard & Poor's. The interest rate swap has an effective date of August 5, 2011, and $0.9 million of the initial $74.1 million expired on September 30, 2011, in accordance with its original terms. The notional amount of the hedge will decrease quarterly based on the required principal term loan payments in the original facility, and will expire on June 30, 2015 with a notional hedge amount of $50.6 million. We are required to make payments based on a fixed interest rate of 1.135% calculated based on the remaining notional amount. In exchange, we receive interest on the notional amount at a variable rate that was based on the 3-month LIBOR rate.

*Covenants.* We are subject to a number of customary covenants under our credit agreement, including limitations on additional borrowings, acquisitions, stock repurchases, sales of assets, and dividend payments. In addition, we are required to maintain two financial ratios: a leverage ratio calculated by dividing as our debt outstanding including issued standby letters of credit by the last twelve months' earnings before interest, taxes, depreciation and amortization (EBITDA) adjusted for certain non-cash charges that will not result in cash payments in a subsequent period, any prepayment penalties incurred as a result of extraordinary debt extinguishment, certain pre-opening costs, unusual or non-recurring cash losses, net proceeds received from business interruption insurance, pro forma costs savings in connection with an acquisition, divestiture, restructuring or reorganization occurring prior to the time that Consolidated EBITDA is to be determined, cash or non-cash charges related to restructuring or cost reduction initiatives in an aggregate amount not to exceed a certain threshold, and non-cash gains and non-recurring or unusual cash gains for such period; and a fixed charge ratio calculated as our consolidated cash flow divided by our consolidated debt service obligations. As of December 25, 2011, we were in compliance with all debt covenants.

*Debt Outstanding.* Total debt outstanding decreased $1.6 million to $156.9 million at December 25, 2011 from $158.5 million at December 26, 2010, primarily due to our scheduled debt repayments of $3.75 million, as well as payments on our capital lease obligations of approximately $821,000. Our current credit agreement matures in 2016.

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*Contractual Obligations.* The following table summarizes the amounts of payments due under specified contractual obligations as of December 25, 2011 (in thousands):