OUTCOME
3 Months
65% Return

CATALYST INVESTMENT RESEARCH™

Combining Shareholder Activism & Deep Value Company Analysis

COMPANY: Red Robin Gourmet Burgers Inc. (Ticker: RRGB)

SHARE PRICE: $17.27

ACTIVIST INVESTOR(S): Spotlight Advisors and Clinton Group

AVERAGE COST BASIS OF ACTIVIST(S): $15.99

RESEARCH DATE: January 13, 2010

Red Robin Gourmet Burgers, Inc.

(Ticker: RRGB)

Activist Investors:
Clinton Group and Spotlight Advisors (6.5%)

13 January 2010

COMPANY PROFILE	
Previous Close:	17.27
52 -week Range:	9.27 – 26.44
Revenues(TTM):	857 M
Market Cap:	269 M
Enterprise Value:	460 M
Net Cash:	-190 M
EBITDA:	93 M
EV/EBITDA:	4.95
BOARD STRUCTURE	
Total # of Directors:	8
Activist Representation	None
Classification:	Staggered; 3 elected in 2010
INVESTOR PROFILES	
Activist Investors:	Clinton Grp & Spotlight Adv
Equity and Swap Ownership:	6.5%
Cost Basis per Share:	15.99
CAPITAL STRUCTURE	
Total Debt & Capital Leases	197 M
Current Debt & Capital Leases	19 M
Common Shares Outstanding	15,553,974
KEY RATIOS	
Price to Book	0.93
Price to Sales	0.31
Price to Cash Flow	3.4
Price to Free Cash Flow	8.3
Return on Equity	7.8%
Return on Assets	3.6%
Long Term Debt /Equity	61.7%
Long Term Debt/Capital	38.2%

CATALYST SUMMARY

Two activist investors, Clinton Group and Spotlight Advisors, have begun publicly seeking changes to Red Robin Gourmet Burgers' (RRGB) corporate governance, strategy and operating practices in a concerted effort to boost shareholder value.

Background to Activist Ownership and Demands

Since November 11, 2009 Clinton and Spotlight have purchased 949,782 shares and 58,800 swaps, constituting a total economic ownership value equivalent to 6.5% of RRGB.

On December 15 Clinton and Spotlight met with RRGB's CEO and CFO to discuss the company's business strategy and performance. On December 21 the two investors formed an investment group and announced that RRGB shares are currently undervalued and represent an attractive investment opportunity. On January 8, 2010 representatives from Clinton and Spotlight met with the company's lead independent director and presented their views on (a) the company's financial and stock price underperformance, (b) operational issues, (c) executive management, (d) business strategy, (e) executive compensation arrangements and (f) the lack of response by the Board to a significant withhold vote in the last election of directors.

Why Activists Are Promoting Change

While we are not privy to all of the details in Clinton and Spotlight's activist campaign at RRGB, our own analysis suggests these are a few of the major factors underlying their efforts:

- RRGB has sustained poor shareholder returns on a consistent basis over the past five years, underperforming many in their peer group as well as the S&P 500 on a whole[1].
- Despite these lackluster returns the company paid more compensation to its top officers than the median compensation for 33 similarly sized companies with a comparable enterprise value.[2]
- Up until January 12, 2010 the company reimbursed the CEO for travel expenses on commercial and private aircraft between his home in Arizona and the company's HQ in Colorado. The company also reimbursed the CEO for taxes related to this travel cost (i.e. tax gross-up).
- In addition to being Chairman & CEO of RRGB, Dennis Mullen is also a Trustee of the Janus Investment Fund and a Director of Janus Capital Funds, overseeing a total of 69 mutual fund strategies. The Chairman of RRGB's compensation committee is also a Trustee of the Janus Investment Fund.
- Between January 14 and February 11 2009 the company spent $3.5 million replacing management's underwater stock options with new in-the-money options. The option exchange program was executed without shareholder approval even though the company's 2007 Performance Incentive Plan expressly prohibited a repricing without shareholder approval.
- Institutional shareholder vote advisory firm RiskMetrics recommended a "withhold" vote for all directors up for election in 2009. Vote advisory firm Glass Lewis recommended a "withhold" vote for 1 of the 3 directors up for election. As a result, approximately 60% of the votes cast in the election of directors in 2009 were "withheld" by shareholders. (If the company had adopted a now industry-standard majority voting provision, all three directors would have had to resign.)

Activists Will Likely Seek Board Representation to Enact Changes

According to the company's bylaws, the window for shareholders to submit director nominees for election to the board at the 2010 annual meeting is between February 2 and March 4 2010. We believe this fast approaching cut-off date will force the board to implement fundamental changes to their governance, compensation and operating structure. In the event that they do not, it is highly likely that Clinton and Spotlight will seek to obtain up to 3 board seats at the next annual meeting, which will probably be scheduled sometime in late May or early June. Furthermore, based on our analysis and experience, **we believe the activists have more than a reasonable chance of obtaining representation on the company's 8-person board if they choose to submit candidates.**

[1] 5-Year comparisons include EAT, CPKI, RT, SNS BWLD, and CAKE
[2] Glass Lewis May 2009 institutional voting advisory research.

COMPANY PROFILE

Red Robin Gourmet Burgers, Inc. (www.redrobin.com) is a casual dining restaurant chain specializing in hamburgers. As of October 4th, 2009, Red Robin operated 304 company-owned restaurants and an additional 132 franchised restaurants in forty states and two Canadian Provinces. The restaurants are geared toward families on the go, particularly women, and their 8 to 12 year old children. The company promotes the timeliness of a Red Robin dining experience, striving to provide guests with a "37 minute dining experience at lunch" and "42 minute dining experience at dinner". The average guest check during the latest quarter (Q3) was $11.57.

COMPANY HISTORY

In 1969, Red Robin founder Gerard Kingen opened the first Red Robin in Seattle, near the University of Washington campus. In 1979, franchising began when the Snyder Group Company, led by Mike Snyder, future company CEO, became Red Robin's first franchisee, upon opening a restaurant in Yakima Washington. Growth was slow over the years, and by 1985, the Company had 22 restaurants. That year, Kingen sold the 7 company-owned restaurants to a Japanese restaurant company Skylark Co. Ltd, which also had some control of the 15 franchised units. By 1995 rapid expansion and cultural differences caused the chain to flounder. In 1996, the Company appointed Mike Snyder president and CEO, hoping that the first franchisee could right the ship. Snyder's efforts proved successful, and by 1995, company-owned stores were generating average annual sales of $3.1 million, up from $2.1 million when he took over. In 2000 the Company acquired Snyder's 14 franchise locations.

Red Robin, which at the time had about 200 locations, went public in 2002, raising $42 million in an IPO. By 2003, the Company had grown to 225 locations, and 263 by 2004. Amid a scandal in 2005, and allegations that he had racked up $1.25 million of expenses "inconsistent with Company policies or that lacked sufficient documentation", Mike Snyder stepped down as CEO in August of that year. Snyder was replaced by current CEO Dennis Mullen, who at that time was on the board of directors. In 2008, the Company opened its 400th restaurant.

HEDGE FUND SOLUTIONS' VALUE ANALYSIS (IRRESPECTIVE OF THE ACTIVIST'S INVOLVEMENT)

While 2009 was a banner year for many restaurant stocks - with a basket of 26 publicly traded restaurants returning an average of more than 57%, Red Robin was at the bottom of the pack, returning just over 6%. 2008 was even worse, as shares fell 47% (against an average of -33%), giving shareholders little to cheer about in recent years, and making Red Robin one of the worst performing restaurant stocks in the past couple of years. In fact, shares currently trade at the same level they did nearly seven years ago.

Recent operating conditions have been challenging for Red Robin. While the company has remained profitable throughout the recent recession, same store sales declines were harrowing in 2009, even after taking into account the terrible economic environment. Red Robin suffered quarterly same store sales declines of 8.1%, 9.6% and 14.3% for the first 3 quarters of 2009, versus the same periods last year. While overall conditions were difficult for restaurants in general, Red Robin's fate was worse than that of many competitors.

Despite doubling the number of company-owned stores from 141 to 294 between 2004 and 2008, and more than doubling sales to $869 million in the same timeframe, annual revenue per company owned store has fallen from about $3.2 million in 2004 to the current $2.9 million. Also, company profitability has stagnated despite rising revenue. Pretax income for 2008 was $36.9 million, up just 4% from 2004 levels, and the Company's net profit margin declined steadily from a very respectable 5.8 percent in 2004 to 3.1 percent in 2008 and even lower to 2.5 percent for the current TTM period. Gross margins have also declined steadily over the past 5 years, from nearly 24% in 2004 to the current 18.6% for the TTM through Q3.

Yet Red Robin remains very interesting from both a value and turnaround perspective, and in a classic sense, the current stock price reflects the market's disdain for the company. Despite its declining performance over the past several years, the company is not only asset rich, but also has great potential to participate in a restaurant industry turnaround, as the US exits the recession that begin in late 2007. (In the two year period following each of the past five recessions through 2002, restaurant stocks have been one of the top performing sectors.)

In term of assets, Red Robin owns the land and buildings for 31 locations, an interesting and not inconsequential portfolio of commercial real estate, especially considering the Company's tiny market cap ($270 million) and enterprise value ($458 million). Red Robin currently trades at just .93 times book value, and about 1.5 times tangible book value. Long term debt to equity is about 62%, not stellar but manageable, and also partially a result of owning real estate.

Red Robin shares currently trade at about 12 times trailing earnings, and 12 times consensus 2010 estimates. This not only reflects a discount to the company's 5 year average P/E of nearly 24, but also a discount to the valuations of other specialty chains. While the company has perhaps done little to deserve a higher multiple in recent years, the potential is certainly there for earnings improvement and multiple expansions, and it seems that little is expected of this company.

This is a turnaround story of a promising brand that has seemingly squandered opportunity the past several years, and as a result, has seen margins compress. With the right management team in place however, there is much room for both improvement and growth, a presumption that seems to be discounted by the market.

ACTIVIST INVESTOR PROFILES

Clinton Group Inc. is a NY-based multi-strategy hedge fund focusing on relative value and arbitrage opportunities. While it is not their primary investment strategy, Clinton does engage in activist investing and tends to team up with other activists in their campaigns.

As of September 30, 2009 Clinton had approximately $262 million invested in more than 350 equity holdings.

Recent activist campaigns include: Dillard's (DDS), Select Comfort Corporation (SCSS), Steve Madden, Ltd (SHOO), Lenox Group (LENX.OB) and Griffon Corporation (GFF).

Spotlight Advisors is a NY-based activist investing and advisory firm. Spotlight invests in under-performing public companies and assists those companies in realizing their full potential.

The company has previously engaged in one public activist campaign with Chico's FAS (CHS) in 2008/2009 where they were instrumental in achieving a number of board and management changes. In 2009 CHS increased in value from $700 million to approximately $2.5 billion.

Spotlight was founded by Greg Taxin after he left Glass Lewis (where he was the co-founder and CEO), an independent research firm that analyzes the corporate governance and accounting practices of more than 15,000 public companies in 65 countries. Taxin was previously a senior investment banker at Banc of America Securities and Epoch Partners. Before that he was a Vice President in the investment banking department of Goldman, Sachs & Co. and an attorney with Wachtell, Lipton, Rosen & Katz.

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Red Robin Gourmet Burgers, Inc. (RRGB)

BALANCE SHEET DATA
($ in thousands, expect for shares)

	Most Recent Q	Year End	
	10/4/2009	12/28/2008	12/30/2007
Assets:			
Current Assets:			
Cash and cash equivalents	8,860	11,158	12,914
Accounts receivable, net	7,944	5,611	4,751
Inventories	13,739	13,123	10,367
Prepaid expenses and other current assets	7,714	9,032	9,246
Income tax receivable	1,120	6,208	4,760
Deferred tax asset	6,502	3,366	3,159
Restricted current assets-marketing funds	1,132	1,590	2,095
Total Current Assets	**$ 47,011**	**50,088**	**47,292**
Property and equipment, net	434,965	442,012	399,270
Goodwill	61,769	60,982	56,299
Intangible assets, net	49,478	51,990	41,059
Other assets, net	3,728	4,665	4,869
Total Assets	**$ 596,951**	**$ 609,737**	**$ 548,789**
Liabilities and Stockholders' Equity:			
Current Liabilities:			
Trade accounts payable	9,742	11,966	9,263
Construction related payables	2,485	9,747	13,416
Accrued payroll and payroll related liabilities	26,082	25,489	29,146
Unredeemed gift certificates	8,649	11,997	10,789
Accrued liabilities	22,476	20,385	19,404
Accrued liabilities-marketing funds	1,132	1,590	2,095
Current portion of term loan notes payable	18,739	10,313	11,250
Current portion of LT debt and Capital lease obligations	654	696	558
Total Current Liabilities	**$ 89,959**	**92,183**	**95,921**
Deferred rent	30,017	26,790	21,728
Long-term portion of term loan notes payable	103,954	122,687	133,125
Other long-term debt and capital lease obligations	74,239	88,876	8,813
Other non-current liabilities	10,167	10,293	4,760
Total Liabilities	**$ 308,336**	**340,829**	**264,347**
Stockholders' Equity:			
Total stockholders' equity	288,615	268,908	284,442
Total Liabilities and Stockholders' Equity	**$ 596,951**	**$ 609,737**	**$ 548,789**
Shares Outstanding (millions)	**15.408**	**15.927**	**16.647**
Book Value Per Share	**$18.73**	**$16.88**	**$17.08**

Red Robin Gourmet Burgers, Inc. (RRGB)

INCOME STATEMENT DATA
($ in thousands, expect per share data)

	Forty-Weeks End		Year End		
	10/4/2009	**10/5/2008**	**12/28/2008**	**12/30/2007**	**12/31/2006**
Revenues:					
Restaurant revenue	648,436	659,086	854,690	747,530	603,391
Franchise royalties and fees	10,265	11,367	14,323	15,792	15,131
Rent revenue	147	166	202	150	199
Total Revenues	**658,848**	**670,619**	**869,215**	**763,472**	**618,721**
Costs and expenses:					
Restaurant operating costs:					
Cost of sales	156,472	156,558	203,463	171,236	136,470
Labor	224,063	222,395	289,702	254,279	206,572
Operating	106,976	113,139	147,395	122,686	94,733
Occupancy	47,836	43,195	56,908	46,340	37,593
Gross Income	**123,501**	**135,332**	**171,747**	**168,931**	**143,353**
Gross Margin %	***18.74%***	***20.18%***	***19.76%***	***22.13%***	***23.17%***
Depreciation and amortization	43,815	38,777	51,687	43,659	33,874
General and administrative expenses	51,080	52,588	59,807	57,695	46,420
Franchise development			4,597	4,069	4,985
Pre-opening costs	3,263	7,265	8,109	7,463	8,491
Asset impairment charge			1,906	-	-
Reacquired franchise and other acquisition cost	-	451	451	1,821	1,735
Legal settlement	-		-	1,653	-
Total costs and expenses	**633,505**	**635,296**	**824,025**	**710,901**	**570,873**
Income from operations	25,343	35,323	45,190	52,571	47,848
Other (income) expense:					
Interest expense	4,994	6,104	8,557	9,629	5,759
Interest income			(320)	(398)	(192)
Other	29	(18)	14	42	(18)
Total other expenses	5,023	6,086	8,251	9,273	5,549
Income before income taxes	20,320	29,237	36,939	43,298	42,299
Provision for income taxes	4,352	7,894	9,813	12,647	12,937
Net Income	**15,968**	**21,343**	**$ 27,126**	**$ 30,651**	**$ 29,362**
Net Profit Margin	***2.42%***	***3.18%***	***3.12%***	***4.01%***	***4.75%***
Earnings per share:					
Basic	$ 1.04	$ 1.32	$ 1.70	$ 1.84	$ 1.78
Diluted	$ 1.03	$ 1.31	$ 1.69	$ 1.82	$ 1.75
Weighted average shares outstanding:					
Basic	15,379	16,113	15,927	16,647	16,538
Diluted	15,488	16,251	16,047	16,817	16,736

ABOUT HEDGE FUND SOLUTIONS

Hedge Fund Solutions, LLC (HFS) provides investment research, strategy and stakeholder communications consulting to companies and investors interested in, or involved with, shareholder activist campaigns. Since 2001 HFS has become the trusted advisor to numerous institutional investors, CEOs and board members worldwide. The firm publishes *The Catalyst Equity Research Report*™, a free weekly report highlighting the companies being targeted by activist investors, and the *Catalyst Investment Research*™ report, a fee-based research product that combines company-specific shareholder activism research with deep value investment analysis. In addition, HFS administers The Official Activist Investing Blog™, the definitive source for activist shareholder information.

Damien Park, Managing Partner

Mr. Park is an expert on shareholder activism. He regularly advises boards of directors, CEOs and institutional investors on these issues and has been a featured commentator on *RealMoney.com* discussing activist investments.

Damien is often quoted in publications like *The Wall Street Journal*, *Business Week*, *CFO Magazine*, *The Deal*, *CNN Money*, *The New York Times*, *The Nikkei* and *Newsweek Japan*.

In addition, Damien is the past Chairman of the largest activist investing conference in the world and manages *The Official Activist Investing Blog.*

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Mr. Heller, CFA, is an expert on value investing. He is a Partner at Hedge Fund Solutions, the President of KEJ Financial Advisors and a featured commentator on *RealMoney.com* discussing deep value investments.

Previously, Jon was with SEI Investments after spending 17 years at Bloomberg Financial Markets in various roles which included the management of Bloomberg's Equity Fundamental Research Department and Bloomberg's Equity Data Research Department. Jon was also a senior markets editor of Bloomberg's Publishing Group, a writer for Bloomberg Personal Finance Magazine, and an associate editor and contributor for Bloomberg Markets Magazine.

In addition, Jon manages the blog *Cheap Stocks: Below Net Current Asset Value, Real Estate and other Value Strategies.*

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Neither Damien Park nor Jon Heller holds any investment positions in RRGB.

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