

SL GREEN REALTY CORP
Form 8-K
February 21, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: February 21, 2003

SL GREEN REALTY CORP.

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State of Incorporation)

1-13199
(Commission File Number)

13-3956775
(IRS Employer ID. Number)

420 Lexington Avenue
New York, New York 10170
(Address of Principal Executive Offices) (Zip Code)
(212) 594-2700
(Registrant's Telephone Number, Including Area Code)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

As previously announced on Form 8-K, filed December 12, 2002, SL Green Realty Corp. ("SL Green" or the "Company") announced that it had signed an agreement to acquire The News Building located at 220 East 42nd Street, New York, NY for \$265 million.

The purchase was consummated on February 13, 2003.

The landmark 1.1 million square foot News Building is 100% leased, with 18% of the leases expiring over the next 3 years. The building's high-quality tenancy includes Omnicom Group, which leases 40% of the building and other notable companies such as Tribune Company, WPIX-TV, Verizon, Value Line, Neuberger Berman, and United Nations Population Fund.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) and (b)	FINANCIAL STATEMENTS OF PROPERTY ACQUIRED AND PRO FORMA FINANCIAL INFORMATION
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PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(C) EXHIBITS

10.1	Form of June 27, 2000 Revolving Credit and Guarantee Agreement incorporated by reference to the Company's Form 8-K, dated June 27, 2000, filed with the Commission on July 12, 2000.
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10.2	Amended and Restated Credit and Guaranty Agreement dated February 6, 2003.
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10.3	Employment and Non-competition Agreement between Stephen L. Green and the Company, dated August 20, 2002
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10.4	Form of Agreement of Sale and Purchase dated as of January 30, 1998 between Graybar Building Company, as Seller and SL Green Operating Partnership, L.P., as Purchaser incorporated by reference to the Company's Form 8-K, dated March 18, 1998, filed with the Commission on March 31, 1998.
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99.1	Consent of Ernst and Young LLP
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SL GREEN REALTY CORP.

By: /s/ THOMAS E. WIRTH

Thomas E. Wirth
Chief Financial Officer

Date: February 21, 2003

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SL GREEN REALTY CORP.**PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

On December 9, 2002, the Company announced that it had entered into an agreement to purchase The News Building located at 220 East 42nd Street, New York, NY. This transaction was consummated on February 13, 2003.

The unaudited pro forma condensed consolidated balance sheet of SL Green Realty Corp. (the "Company") as of September 30, 2002 has been prepared as if the Company's acquisition of the property located at 220 East 42nd Street had been consummated on September 30, 2002. The unaudited pro forma condensed consolidated income statements for the year ended December 31, 2001 and the nine months ended September 30, 2002 are presented as if the Company's acquisition of the property located at 220 East 42nd Street occurred on January 1, 2001 and the effect was carried forward through the year and the nine month period.

The pro forma condensed consolidated financial statements do not purport to represent what the Company's financial position or results of operations would have been assuming the completion of the this acquisition had occurred on January 1, 2001 and for the period indicated, nor do they purport to project the Company's financial position or results of operations at any future date or for any future period. These pro forma condensed consolidated financial statements should be read in conjunction with the Company's 2001 Annual Report on Form 10-K and the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002.

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SL GREEN REALTY CORP.**PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET****AS OF SEPTEMBER 30, 2002****(Unaudited)****(In Thousands Except Per Share Amounts)**

	SL Green Realty Corp. Historical	Pro Forma Adjustments	SL Green Realty Corp. Proforma
	(A)	(B)	
ASSETS:			
Commerical real estate properties at cost:			
Land and land interests	\$ 131,078	\$ 53,000	\$ 184,078
Buildings and improvements	675,499	212,000	887,499
Building leasehold	147,911		147,911
Property under capital lease	12,208		12,208
	<u>966,696</u>	<u>265,000</u>	<u>1,231,696</u>
Less accumulated depreciation	(119,056)		(119,056)
	<u>847,640</u>	<u>265,000</u>	<u>1,112,640</u>
Assets held for sale	41,185		41,185
Cash and cash equivalents	13,450		13,450
Restricted cash	32,538		32,538
Tenant and other receivables, net of allowance of \$5,882	8,066		8,066
Related party receivables	4,832		4,832
Deferred rents receivable, net of allowance for tenant credit loss of \$6,321	54,992		54,992
Investment in and advances to affiliates	3,146		3,146
Structured finance investments	194,709	(53,500)	141,209
Investments in unconsolidated joint ventures	217,108		217,108

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	SL Green Realty Corp. Historical	Pro Forma Adjustments	SL Green Realty Corp. Proforma
Deferred costs, net	34,957		34,957
Other assets	14,569		14,569
Total Assets	\$ 1,467,192	\$ 211,500	\$ 1,678,692
LIABILITIES AND STOCKHOLDERS' EQUITY:			
Mortgage notes payable	\$ 374,800	\$ 186,500	\$ 561,300
Revolving credit facilities	173,931	13,000	186,931
Derivative instruments at fair value	8,540		8,540
Accrued interest payable	1,945		1,945
Accounts payable and accrued expenses	33,935		33,935
Deferred compensation awards	671		671
Deferred revenue	3,777		3,777
Capitalized lease obligations	15,895		15,895
Deferred land lease payable	14,466		14,466
Dividend and distributions payable	16,693		16,693
Security deposits	19,420		19,420
Liabilities related to assets held for sale	21,414		21,414
Total liabilities	685,487	199,500	884,987
Commitments and Contingencies			
Minority interest in Operating Partnership	44,941	12,000	56,941
8% Preferred Income Equity Redeemable Shares SM \$0.01 par value \$25.00 mandatory liquidation preference, 25,000 authorized and 4,600 outstanding at September 30, 2002	111,599		111,599
STOCKHOLDERS' EQUITY			
Common stock, \$0.01 par value, 100,000 shares authorized, 30,376 issued and outstanding at September 30, 2002	303		303
Additional paid-in-capital	591,668		591,668
Deferred compensation plans	(5,987)		(5,987)
Accumulated other comprehensive loss	(8,279)		(8,279)
Retained earnings	47,460		47,460
Total stockholders' equity	625,165		625,165
Total liabilities and stockholders' equity	\$ 1,467,192	\$ 211,500	\$ 1,678,692

The accompanying notes are an integral part of these pro forma financial statements.

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SL GREEN REALTY CORP.

PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2002

(Unaudited)

(In Thousands Except Per Share Amounts)

SL Green Realty. Corp Historical	220 East 42 nd Street Acquisition	SL Green Realty Corp. Pro Forma Adjustments	SL Green Realty Corp. Pro Forma
(A)	(B)		

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	SL Green Realty. Corp Historical	220 East 42 nd Street Acquisition	SL Green Realty Corp. Pro Forma Adjustments	SL Green Realty Corp. Pro Forma
REVENUES:				
Rental revenue	\$ 140,023	\$ 22,433	\$ 552(C)	\$ 163,008
Escalation and reimbursement revenues	21,630	2,734		24,364
Signage rent	924			924
Investment income	11,420			11,420
Preferred equity income	5,805		(5,056)(D)	749
Other income	3,402			3,402
Total revenues	183,204	25,167	(4,504)	203,867
EXPENSES:				
Operating expenses including \$5,068 to affiliates	43,174	6,494		49,668
Real estate taxes	21,798	3,921		25,719
Ground rent	9,478			9,478
Interest	27,235		4,988(E)	32,223
Depreciation and amortization	28,648		3,975(F)	32,623
Marketing, general and administrative	9,719	553	(553)(G)	9,719
Total expenses	140,052	10,968	8,410	159,430
Income (loss) before equity in net income from affiliates, equity in net income of unconsolidated joint ventures, and minority interest	43,152	14,199	(12,914)	44,437
Equity in net income from affiliates	245			245
Equity in net income of unconsolidated joint ventures	13,113			13,113
Income(loss) before minority interest	56,510	14,199	(12,914)	57,795
Minority interest in operating partnership	(3,380)	(1,142)	296(H)	(4,226)
Income (loss) from continuing operations	53,130	13,057	(12,618)	53,569
Income from discontinued operations, net of minority interest	2,034			2,034
Net income (loss)	55,164	13,057	(12,618)	55,603
Preferred stock dividends	(6,900)			(6,900)
Preferred stock accretion	(368)			(368)
Net income (loss) available to common shareholders	\$ 47,896	\$ 13,057	\$ (12,618)	\$ 48,335
BASIC EARNINGS PER SHARE:(I)				
Net income (loss) before income from discontinued operations	\$ 1.52			\$ 1.53
Income from discontinued operations	0.07			0.07
Net income	\$ 1.59			\$ 1.60
DILUTED EARNINGS PER SHARE:(I)				
Net income (loss) before income from discontinued operations	\$ 1.49			\$ 1.52
Income from discontinued operations	0.06			0.05
Net income	\$ 1.55			\$ 1.57
Basic weighted average common shares outstanding	30,185			30,185
Diluted weighted average common shares and common share equivalents outstanding	33,074			38,188

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SL Green Realty. Corp Historical	220 East 42 nd Street Acquisition	SL Green Realty Corp. Pro Forma Adjustments	SL Green Realty Corp. Pro Forma

The accompanying notes are an integral part of these pro forma financial statements.

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SL GREEN REALTY CORP.

PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2001

(Unaudited)

(In Thousands Except Per Share Amounts)

	SL Green Realty Corp. Historical	220 East 42 nd Street Acquisition	SL Green Realty Corp. Pro Forma Adjustments	SL Green Realty Corp. Pro Forma
	(A)	(B)		
REVENUES:				
Rental revenue	\$ 197,665	\$ 28,452	\$ 4,494 (C)	\$ 230,611
Escalation and reimbursement revenues	30,361	3,031		33,392
Signage rent	1,522			1,522
Investment income	14,808			14,808
Preferred equity income	2,561		(2,247)(D)	314
Other income	2,770			2,770
Total revenues	249,687	31,483	2,247	283,417
EXPENSES:				
Operating expenses including \$5,805 to affiliates	56,718	11,335		68,053
Real estate taxes	29,828	5,754		35,582
Ground rent	12,579			12,579
Interest	45,107		11,253 (E)	56,360
Depreciation and amortization	37,117		5,300 (F)	42,417
Marketing, general and administrative	15,374	689	(689)(G)	15,374
Total expenses	196,723	17,778	15,864	230,365
Income (loss) before equity in net loss from affiliates, equity in net income of unconsolidated joint ventures, gain on sale, minority interest, and discontinued operations	52,964	13,705	(13,617)	53,052
Equity in net loss from affiliates	(1,054)			(1,054)
Equity in net income of unconsolidated joint ventures	8,607			8,607
Gain on sale of rental property/preferred Investment	4,956			4,956
Income (loss) before minority interest	65,473	13,705	(13,617)	65,561
Minority interest in operating partnership	(4,419)	(1,138)	757 (H)	(4,800)
Cumulative effect of change in accounting principle	(532)			(532)
Income (loss) from continuing operations	60,522	12,567	(12,860)	60,229
Income from discontinued operations, net of minority interest	2,479			2,479

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	SL Green Realty Corp. Historical	220 East 42 nd Street Acquisition	SL Green Realty Corp. Pro Forma Adjustments	SL Green Realty Corp. Pro Forma
Net (loss) income	63,001	12,567	(12,860)	62,708
Preferred stock dividends	(9,200)			(9,200)
Preferred stock accretion	(458)			(458)
Net income (loss) available to common shareholders	\$ 53,343	\$ 12,567	\$ (12,860)	\$ 53,050
BASIC EARNINGS PER SHARE:(I)				
Net income (loss) before gain on sale, income from discontinued operations and cumulative effect adjustment	\$ 1.73			\$ 1.55
Income from discontinued operations	0.09			0.08
Gain on sales	0.18			0.17
Cumulative effect of change in accounting principle	(0.02)			(0.02)
Net income	\$ 1.98			\$ 1.78
DILUTED EARNINGS PER SHARE:(I)				
Net income (loss) before gain on sale, income from discontinued operations and cumulative effect adjustment	\$ 1.72			\$ 1.54
Income from discontinued operations	0.08			0.08
Gain on sales	0.16			0.15
Cumulative effect of change in accounting principle	(0.02)			(0.02)
Net income	\$ 1.94			\$ 1.75
Basic weighted average common shares outstanding	26,993			29,815
Diluted weighted average common shares and common share equivalents outstanding	29,808			33,045

The accompanying notes are an integral part of these pro forma financial statements.

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SL GREEN REALTY CORP.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 2002
(Unaudited and in Thousands)

(A)

To reflect the unaudited condensed consolidated balance sheet of SL Green Realty Corp. at September 30, 2002 as reported on the Company's Quarterly Report on Form 10-Q.

(B)

To reflect the purchase price allocation of the Company's acquisition of the property located at 220 East 42nd Street as of September 30, 2002 for \$265,000. There was no independent valuation performed on this property. The Company intends to account for the acquisition in accordance with SFAS 141 and 142. We are currently in the process of analyzing the fair value of our in-place leases; and, consequently, no value has yet been assigned to the leases. Therefore, the purchase price allocation is preliminary and subject to change. The purchase was financed through the assumption of \$186,500 of debt, the issuance of approximately 415 operating partnership units of SL Green Operating Partnership, L.P. valued at \$12,000 and the balance was funded through the

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Company's revolving line of credit. In addition, the Company's preferred equity investment of \$53,500 was repaid.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT NINE MONTHS ENDED SEPTEMBER 30, 2002 (Unaudited and in Thousands)

- (A) To reflect the condensed consolidated statement of income of SL Green Realty Corp. for the nine month period ended September 30, 2002 as reported on the Company's Quarterly Report on Form 10-Q.
- (B) To reflect the historical operations of 220 East 42nd Street for the nine month period ended September 30, 2002.
- (C) Rental income for 220 East 42nd Street adjusted to reflect straight-line amounts as of January 1, 2001.
- (D) To reduce preferred equity income due to the repayment of the \$53,500 investment. This investment had a weighted average yield for the period of 12.6 percent.
- (E) To record interest expense for borrowings under the mortgage loans assumed (\$158,000 at the weighted average interest rate of 3.61% and \$28,500 at the weighted average interest rate of 8.09%) and the borrowing under the revolving line of credit (\$13,000 at a weighted average interest rate of 3.34%). Interest expense was reduced for the debt repaid from the proceeds from the repaid preferred equity investment (\$53,500 at the weighted average interest rate of 3.34%).
- (F) To reflect straight-line depreciation for 220 East 42nd Street based on an estimated useful life of 40 years.
- (G) This reflects the elimination of the asset management fees and management fees that the property incurred. It also reflects a reduction in professional fees.
- (H) To reflect the minority shareholders interest of 8.04% in the operating partnership.
- (I) Basic income per common share is calculated based on 30,185 weighted average common shares outstanding and diluted income per common share is calculated based on 38,188 weighted average common shares and common share equivalents outstanding. The preferred shares outstanding were dilutive during this period.

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YEAR ENDED DECEMBER 31, 2001

NOTES TO PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited and in Thousands)

- (A) To reflect the condensed consolidated statement of income of SL Green Realty Corp. for the year ended December 31, 2001 as reported on the Company's Annual Report on Form 10-K.
- (B) To reflect the historical operations of 220 East 42nd Street for the year ended December 31, 2001.
- (C)

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Rental income for 220 East 42nd Street adjusted to reflect straight-line amounts as of January 1, 2001.

- (D) To reduce preferred equity income due to the repayment of the \$53,500 investment. This investment had a weighted average yield for the period of 12.6 percent.
- (E) To record interest expense for borrowings under the mortgage loans assumed (\$158,000 at the year end interest rate of 3.6246% and \$28,500 at the year end interest rate of 8.11%) and the borrowing under the revolving line of credit (\$13,000 at a weighted average interest rate of 5.22%). Interest expense was reduced for the debt repaid from the proceeds from the repaid preferred equity investment (\$53,500 at the weighted average interest rate of 5.22%).
- (F) To reflect straight-line depreciation for 220 East 42nd Street based on an estimated useful life of 40 years.
- (G) This reflects the elimination of the asset management fees and management fees that the property incurred. It also reflects a reduction in professional fees.
- (H) To reflect the minority shareholders interest of 8.3% in the operating partnership.
- (I) Basic income per common share is calculated based on 29,815 weighted average common shares outstanding and diluted income per common share is calculated based on 33,045 weighted average common shares and common share equivalents outstanding. The preferred shares outstanding were anti-dilutive during this period.

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Report of Independent Auditors

Board of Directors and Stockholders
SL Green Realty Corp.

We have audited the statement of revenues and certain expenses of 220 News Building (the "Company") for the year ended December 31, 2001. The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenues and certain expenses was prepared for the purpose of complying with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for inclusion in Form 8-K of SL Green Realty Corp. and is not intended to be a complete presentation of the Company's revenues and expenses.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Company as described in Note 1 for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young

New York, New York
November 20, 2002

220 News Building**Statements of Revenues and Certain Expenses**

	Nine Months ended September 30, 2002 (Unaudited)	Year ended December 31, 2001
Revenues		
Base rents	\$ 22,432,713	\$ 28,451,933
Tenant reimbursements	2,734,486	3,030,676
Total rental revenue	25,167,199	31,482,609
Certain expenses:		
Real estate taxes	3,920,841	5,754,187
Management fees	478,491	501,121
Property operating expenses	6,569,009	11,522,910
Total certain expenses	10,968,341	17,778,218
Revenues in excess of certain expenses	\$ 14,198,858	\$ 13,704,391

See accompanying notes.

220 News Building**Notes to Statement of Revenues and Certain Expenses****December 31, 2001****1. Basis of Presentation**

Presented herein is the statements of revenues and certain expenses related to the operation of an office building located at 220 East 42nd Street ("220 News" or the "Property") in Manhattan, New York. On November 20, 2002, SL Green Realty Corp., entered into an agreement to acquire 220 News, closing is expected to occur in early 2003.

The accompanying financial statements have been prepared in accordance with the applicable rules and regulations of the Securities and Exchange Commission for the acquisition of real estate properties. Accordingly, the financial statements exclude certain expenses that may not be comparable to those expected to be incurred by the Company in the proposed future operations of the aforementioned property. Items excluded consist of interest, depreciation and general and administrative expenses not directly related to the future operations.

2. Use of Estimates

The preparation of the statement of revenues and certain expenses in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the statement of revenues and certain expenses and accompanying notes. Actual results could differ from those estimates.

3. Revenue Recognition

220 News is being leased to tenants under operating leases. Minimum rental income is generally recognized on a straight-line basis over the term of the lease. The excess of amounts so recognized over amounts due pursuant to the underlying leases amounted to approximately \$869,000 (unaudited) for the nine months ended September 30, 2002 and \$1,633,000, for the year ended December 31, 2001.

Included in tenant reimbursements for the nine months ended September 30, 2002 is a true up of prior year tenant reimbursements in the amount of approximately \$310,000, which had been estimated in prior years.

4. Management Agreements

The Property is managed by The Witkoff Group, LLC (the "Property Manager"), an affiliate of one of the members of the Company, pursuant to a management agreement which provides for management fees at the rate of 1.5% of monthly rental income receipts, as defined. Management fees of approximately \$453,000 for the year ended December 31, 2001 and \$359,000 (unaudited) for the nine months ended September 30, 2002 were incurred. Additionally, the Property Manager shall, at the request of the Company, supervise certain capital improvement projects to the Property, and shall receive a fee equal to 5% of construction costs. As of September 30, 2002 and December 31, 2001, no construction management fees were incurred.

On September 7, 2001 the Company, entered into an Asset Management Agreement with SL Green Realty Corp. Pursuant to the agreement the asset management fee is equal to 0.5% of monthly rental income receipts, as defined. Asset management fees of approximately \$48,000 and \$120,000 (unaudited) were incurred during the year ended December 31, 2001 and nine months period ended September 30, 2002, respectively.

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5. Property Operating Expenses

Property operating expenses for the year ended December 31, 2001, respectively include \$119,024 for insurance, \$4,773,972 for utilities, \$2,332,240 for cleaning costs, \$1,676,581 in repair and maintenance costs, \$329,311 in administrative costs, \$2,104,126 in payroll costs and \$187,656 for professional services.

Property operating expenses for the nine months ended September 30, 2002 (unaudited) include \$111,321 for insurance, \$2,409,545 for utilities, \$1,440,351 for cleaning services, \$907,591 for repairs and maintenance costs, \$230,517 for administrative costs, \$1,395,087 for payroll costs and \$74,597 for professional services.

6. Significant Tenants

Two tenants constitute approximately 56% of rental revenue in 2001 and for the nine months ended September 30, 2002.

7. Future Minimum Rents Schedule

Future minimum lease payments to be received by 220 News as of December 31, 2001, under noncancelable operating leases are as follows:

	Related Party	Other	Total
2002	\$ 1,678,000	\$ 30,222,000	\$ 31,900,000
2003	1,678,000	30,384,000	32,062,000
2004	1,678,000	30,354,000	31,932,000
2005	1,687,000	29,776,000	31,463,000
2006	1,715,000	27,573,000	29,288,000
Thereafter	15,974,000	169,585,000	185,559,000
Total	\$ 24,410,000	\$ 317,894,000	\$ 342,204,000

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The lease agreements generally contain provisions for reimbursement of real estate taxes and operating expenses over base year amounts, as well as fixed increases in rent.

8. Interim Unaudited Financial Information

The financial statement for the nine months ended September 30, 2002 is unaudited, however, in the opinion of management all adjustments (consisting solely of normal recurring adjustments), necessary for a fair presentation of the financial statement for the interim period have been included. The results of the interim period are not necessarily indicative of the results to be obtained for a full fiscal year.

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QuickLinks

SIGNATURES

[SL GREEN REALTY CORP. PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS \(Unaudited\)](#)

[SL GREEN REALTY CORP. PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2002 \(Unaudited\) \(In Thousands Except Per Share Amounts\)](#)

[SL GREEN REALTY CORP. PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2002 \(Unaudited\) \(In Thousands Except Per Share Amounts\)](#)

[SL GREEN REALTY CORP. PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2001 \(Unaudited\) \(In Thousands Except Per Share Amounts\)](#)

[SL GREEN REALTY CORP. NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET SEPTEMBER 30, 2002 \(Unaudited and in Thousands\)](#)

[NOTES TO PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT NINE MONTHS ENDED SEPTEMBER 30, 2002 \(Unaudited and in Thousands\)](#)

[YEAR ENDED DECEMBER 31, 2001 NOTES TO PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT \(Unaudited and in Thousands\)](#)

[Report of Independent Auditors](#)

[220 News Building Statements of Revenues and Certain Expenses](#)

[220 News Building Notes to Statement of Revenues and Certain Expenses](#)

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76,903

Occupancy

14,494

13,216

33,402

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	29,218
Depreciation and amortization	
	13,066
	11,680
	30,703
	26,529
General and administrative (includes \$615, \$1,041, \$4,342, and \$2,514 of stock-based compensation, respectively)	
	15,099
	14,454
	38,971
	36,929
Pre-opening costs	
	588
	2,041
	13

	3,138
	4,604
Reacquired franchise and other acquisition costs	
	451
	451
Total costs and expenses	
	191,162
	193,700
	454,701
	436,582

Income from operations

9,926

12,688

17,200

25,399

Other expense (income):

Interest expense, net

	1,559
	1,763
	3,673
	4,059
Other	
	9
	(38
)	
	19
	(25
)	
Total other expenses	
	1,568
	1,725
	3,692
	4,034
	16

Income before income taxes

8,358

10,963

13,508

21,365

Provision for income taxes

1,937

3,047

3,242

	6,196
Net income	
\$	6,421
\$	7,916
\$	10,266
\$	15,169
Earnings per share:	
Basic	

\$	0.42
\$	0.49
\$	0.67
\$	0.92
Diluted	
\$	0.41
\$	0.49
\$	0.66
\$	0.91
Weighted average shares outstanding:	

Basic		15,380
		16,093
		15,366
		16,460
Diluted		15,486
		16,221
		15,467
		16,586

See notes to condensed consolidated financial statements.

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RED ROBIN GOURMET BURGERS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

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	Twenty-eight Weeks Ended	
	July 12, 2009	July 13, 2008
Cash Flows From Operating Activities:		
Net income	\$ 10,266	\$ 15,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,703	26,529
Stock-based compensation expense	5,465	3,177
Restaurant closure costs	598	
Other, net	(1,224)	152
Changes in operating assets and liabilities	3,479	7,349
Cash provided by operating activities	49,287	52,376
Cash Flows From Investing Activities:		
Changes in marketing fund restricted cash		45
Acquisition of franchise restaurants, net of cash acquired of \$0 and \$55, respectively	(1,248)	(30,257)
Purchases of property and equipment	(32,905)	(41,765)
Cash used in investing activities	(34,153)	(71,977)
Cash Flows From Financing Activities:		
Borrowings of long-term debt	97,500	125,900
Payments of long-term debt	(110,730)	(58,025)
Purchase of treasury stock		(50,042)
Payment for tender offer for stock options	(3,498)	
Proceeds from exercise of stock options and employee stock purchase plan	607	1,295
Excess tax benefit related to exercise of stock options	76	232
Payments of other debt and capital lease obligations	(310)	(264)
Cash provided (used) by financing activities	(16,355)	19,096
Net change in cash and cash equivalents	(1,221)	(505)
Cash and cash equivalents, beginning of period	11,158	12,914
Cash and cash equivalents, end of period	\$ 9,937	\$ 12,409
Supplemental Disclosure of Cash Flow Information:		
Income taxes paid	\$ 936	\$ 1,364
Interest paid, net of amounts capitalized	3,469	3,925
Supplemental Disclosure of Non-Cash Items:		
Capital lease obligations incurred for equipment purchases		156
Unrealized gain (loss) on cash flow hedge, net of tax	(174)	1,203

See notes to condensed consolidated financial statements.

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RED ROBIN GOURMET BURGERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Recent Accounting Pronouncements

Red Robin Gourmet Burgers, Inc. (Red Robin or the Company), a Delaware corporation, develops and operates casual-dining restaurants. At July 12, 2009, the Company operated 304 company-owned restaurants located in 31 states. The Company also franchises the Red Robin® restaurant concept. As of July 12, 2009, 21 franchisees operated 131 franchised restaurants in 21 states and two Canadian provinces. The Company currently does not sell franchises to parties that do not already operate franchised restaurants, but does grant current franchisees the right to develop additional franchised restaurants from time to time. The Company operates its business as one reportable segment.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Red Robin and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates included in the preparation of these financial statements pertain to recoverability of long-lived assets, fixed asset lives, recoverability of goodwill, estimated useful lives of other intangible assets, bonus accruals, self-insurance liabilities, stock-based compensation expense, legal contingencies, fair value of assets acquired in a business combination and income taxes. Actual results could differ from those estimates. The results of operations for any interim period are not necessarily indicative of results for the full year.

The accompanying condensed consolidated financial statements of Red Robin have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in the Company's annual consolidated financial statements on Form 10-K have been condensed or omitted. The condensed consolidated balance sheet as of December 28, 2008 has been derived from the audited consolidated financial statements as of that date, but does not include all disclosures required by generally accepted accounting principles. For further information, please refer to and read these interim condensed consolidated financial statements in conjunction with the Company's audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 28, 2008.

The Company's quarter which ended July 12, 2009, is referred to as second quarter 2009, or the twelve weeks ended July 12, 2009; the first quarter ended April 19, 2009, is referred to as first quarter 2009, or the sixteen weeks ended April 19, 2009; and, together the first and second quarters of 2009 are referred to as the twenty-eight weeks ended July 12, 2009. The Company's quarter which ended July 13, 2008, is referred to as second quarter 2008, or the twelve weeks ended July 13, 2008; the first quarter ended April 20, 2008, is referred to as first quarter 2008, or the sixteen weeks ended April 20, 2008; and, together the first and second quarters of 2008 are referred to as the twenty-eight weeks ended July 13,

2008.

Reclassifications

Certain reclassifications have been made to prior year amounts in the condensed consolidated statements of cash flows to conform to the current year presentation to reflect the gross borrowings and repayments of long-term debt.

Recent Accounting Pronouncements

In June 2009, Financial Accounting Standards Board (FASB) issued Statement of Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162*, (SFAS 168). SFAS 168 provides for the FASB Accounting Standards Codification™ (the Codification) to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS 168 is effective for interim and annual periods ending after September 15,

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2009. Beginning in the third quarter of fiscal 2009, all references to authoritative accounting literature in the Company's financial statements will be referenced in accordance with the Codification. There will be no changes to the content of the Company's financial statements or disclosures as a result of implementing the Codification.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, (SFAS 165) which is effective for financial periods ending after June 15, 2009. SFAS 165 establishes general standards of accounting for and disclosure of subsequent events that occur after the balance sheet date. The Company adopted SFAS 165 during second quarter 2009. As required by SFAS 165, the Company has evaluated subsequent events through the date of issuance of this report, August 14, 2009.

In April 2009, the FASB issued FASB Staff Position (FSP) Nos. 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP FAS 107-1). FSP FAS 107-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, and APB No. 28, *Interim Financial Reporting*. FSP FAS 107-1 requires fair value disclosures on an interim basis for financial instruments that are not reflected in the condensed consolidated balance sheets at fair value. Prior to the issuance of FSP FAS 107-1, the fair values of those financial instruments were only disclosed on an annual basis. FSP FAS 107-1 is effective for interim reporting periods that end after the Company's second quarter. The adoption of FSP FAS 107-1 did not have a material impact on its consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other Generally Accepted Accounting Principles (GAAP). The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP 142-3 at the beginning of fiscal 2009 did not have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, (SFAS 161). SFAS 161 provides companies with requirements for enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on a company's financial position, financial performance and cash flows. These requirements include the disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. The Company adopted SFAS 161 at the beginning of fiscal 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, (SFAS 141R). SFAS 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. SFAS 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Accordingly, beginning in fiscal 2009, the Company will record and disclose material business combinations under the revised standard.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*, (SFAS 160). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. The Company adopted SFAS 160 at the beginning of fiscal 2009. The adoption of SFAS 160 did not impact the Company's consolidated financial statements.

2. Acquisition of Red Robin Franchised Restaurants

During the second quarter 2008, the Company completed its acquisitions of 15 existing Red Robin® franchised restaurants from three franchisees for a combined purchase price of \$30.0 million. The purchase price was paid in cash, funded primarily through borrowings under the Company's credit facility. In addition, on April 15, 2008, the Company completed the purchase of an entity that owned a Red Robin® franchise restaurant that was

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under construction in Eau Claire, Wisconsin, (Eau Claire) which was then opened by the Company on May 5, 2008. The Company acquired the outstanding stock of the entity in exchange for \$247,000 in cash and the assumption of indebtedness in the amount of approximately \$850,000. In addition to the above-described acquisitions of existing restaurants, the Company gained access to development rights where these restaurants are located territories that were formerly subject to exclusivity provisions in the former area development agreements with the selling franchisees. The financial results of all 15 restaurants have been included in the Company's financial results from their acquisition dates forward.

The acquisition of the 16 restaurants was accounted for using the purchase method as defined in SFAS No. 141, *Business Combinations*, (SFAS 141). Based on a total purchase price of \$30.0 million, net of a \$451,000 charge related to the purchase of the restaurants, and the Company's estimates of the fair value of net assets acquired, \$4.7 million of goodwill was generated by the acquisition, which is not amortizable for book purposes but is amortizable and deductible for tax purposes. As a result of the acquisition of the 16 restaurants, the Company incurred a total charge in the second quarter of 2008 of \$451,000, of which \$402,000 is related to avoided franchise fees.

Pro Forma Results (unaudited)

The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the 2008 acquisition of the 15 existing Red Robin® franchised restaurants occurred at the beginning of each period presented as required by SFAS 141. Pro forma net income for the twelve and twenty-eight weeks ended July 13, 2008 excludes a nonrecurring \$451,000 pre-tax charge, \$326,000 net of tax, related to the reacquired franchise rights and other acquisition costs associated with the 2008 franchise acquisitions. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the period presented, nor is it indicative of future operating results.

(In thousands, except per share data)	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 13, 2008		July 13, 2008	
Revenue	\$	209,205	\$	476,990
Net income		8,111		16,045
Basic EPS		0.50		0.97
Diluted EPS	\$	0.50	\$	0.97

3. Restaurant Closures

The Company closed four restaurants during the first quarter of 2009. This decision resulted from an initiative to identify those restaurants, new or aged, that were located in declining trade areas, performed below acceptable profitability levels and/or required significant capital expenditures. The locations selected for closure represented older restaurants whose leases were not extended, or were in need of significant capital improvement that were not projected to provide acceptable returns in the foreseeable future. The Company recognized a charge of approximately \$598,000 during the first half of 2009 related to lease termination costs based on estimated remaining lease obligations, net of estimated sublease income, and other closing related costs. This charge was recorded in the Company's condensed consolidated statements of income as general and administrative expense for the twenty-eight weeks ended July 12, 2009.

4. Cash Tender Offer

On February 11, 2009, the Company completed a cash tender offer for out-of-the-money stock options held by 514 current employees and officers. The stock options eligible for tender were granted prior to December 31, 2008 with an exercise price at or above \$32.00 per share. Pursuant to the terms of the tender offer, eligible employees and officers who elected to participate were required to tender all of their eligible options. As a result of the tender offer, the Company incurred a one-time charge of approximately \$4.0 million for all unvested eligible options that were tendered. This first quarter 2009 charge is reflected in the financial results for the twenty-eight weeks ended July 12, 2009 and 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. The Company paid \$3.5 million for the approximate 1.6 million options tendered in the offer.

Table of Contents**5. Stock-Based Compensation**

During the twelve weeks ended July 12, 2009, the Company issued approximately 27,000 options with a weighted average grant date fair value of \$6.46 per share and a weighted average exercise price of \$18.50 per share. For the twenty-eight weeks ended July 12, 2009, the Company issued approximately 366,000 options with a weighted average grant date fair value of \$5.98 per share and a weighted average exercise price of \$15.27 per share. Compensation expense for these options is recognized over the remaining weighted average vesting period which is approximately 1.7 years.

The fair value of options at the grant date was estimated utilizing the Black-Scholes multiple option-pricing model with the following weighted average assumptions for the periods presented:

	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 12, 2009	July 13, 2008	July 12, 2009	July 13, 2008
Risk-free interest rate	1.5%	2.8%	1.4%	1.9%
Expected years until exercise	2.7	2.2	3.6	2.7
Expected stock volatility	53.9%	41.7%	52.4%	40.4%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Weighted-average Black-Scholes fair value per share at date of grant	\$ 6.46	\$ 8.71	\$ 5.98	\$ 9.79

During the twelve weeks ended July 12, 2009, the Company issued a total of 4,500 shares of non-vested common stock to its board of directors under its Amended and Restated 2007 Performance Incentive Plan (2007 Stock Plan) with weighted average grant date fair value of \$17.65. The non-vested shares of common stock granted to directors are generally subject to a one year vesting requirement, while non-vested shares of common stock granted to executive officers and other key employees are generally subject to a four year graded vesting requirement. Compensation expense for the aggregate 153,000 shares of non-vested common stock outstanding at July 12, 2009, is recognized over the remaining weighted average vesting period which is approximately 1.9 years.

During the twelve weeks ended July 12, 2009, the Company issued approximately 1,400 restricted stock units (RSUs) to certain employees under its 2007 Stock Plan with a weighted average grant date fair value of \$19.58. For the twenty-eight weeks ended July 12, 2009, the Company issued approximately 37,000 RSUs to certain employees under its 2007 Stock Plan with a weighted average grant date fair value of \$15.11. The RSUs vest in equal installments over four years on the anniversary date and upon vesting, one share of the Company's common stock is issued for each RSU. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant. Compensation expense for the RSUs is recognized over the remaining weighted average vesting period which is approximately 2.1 years.

Included in restaurant labor and general and administrative expenses in the condensed consolidated statements of income for the twenty-eight weeks ended July 12, 2009, is approximately \$886,000 and \$3.1 million respectively, of stock-based compensation expense related to the cash tender offer discussed in Note 4. *Cash Tender Offer*. 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.

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For the twelve and twenty-eight weeks ended July 12, 2009, \$24,000 and \$48,000 of stock-based compensation was recognized as capitalized development and is included in property and equipment in the condensed consolidated balance sheet, respectively. During the quarter ended July 12, 2009, approximately 5,000 options to purchase common shares were exercised and approximately 17,000 options were forfeited. During the twenty-eight weeks ended July 12, 2009, approximately 24,000 options to purchase common shares were exercised and approximately 1.6 million options were cancelled due primarily to the cash tender offer discussed in Note 4. *Cash Tender Offer*.

6. Earnings Per Share

Basic earnings per share amounts are calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated based upon the weighted-average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive shares are excluded from the computation in periods in which they have an anti-dilutive effect.

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Diluted earnings per share reflect the potential dilution that could occur if holders of options exercised their options into common stock. During the twelve and twenty-eight weeks ended July 12, 2009, approximately 363,000 and 954,000, respectively, weighted stock options outstanding were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented. During the twelve and twenty-eight weeks ended July 13, 2008, approximately 1.8 million and 1.7 million stock options outstanding, respectively, were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented. The Company uses the treasury stock method to calculate the impact of outstanding stock options. The computations for basic and diluted earnings per share are as follows (in thousands, except per share data):

	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 12, 2009	July 13, 2008	July 12, 2009	July 13, 2008
Net income	\$ 6,421	\$ 7,916	\$ 10,266	\$ 15,169
Basic weighted-average shares outstanding	15,380	16,093	15,366	16,460
Dilutive effect of stock options	106	128	101	126
Diluted weighted-average shares outstanding	15,486	16,221	15,467	16,586
Earnings per share:				
Basic	\$ 0.42	\$ 0.49	\$ 0.67	\$ 0.92
Diluted	\$ 0.41	\$ 0.49	\$ 0.66	\$ 0.91

7. Advertising Costs

Costs incurred in connection with the advertising and promotion of the Company are included in operating expenses and expensed as incurred. Such costs amounted to \$3.3 million and \$7.9 million for the twelve and twenty-eight weeks ended July 12, 2009, respectively and \$5.6 million and \$12.5 million for the twelve and twenty-eight weeks ended July 13, 2008, respectively.

Under the Company's franchise agreements, both the Company and the franchisees must contribute a minimum percentage of revenues to two marketing and national media advertising funds (the Marketing Funds). These Marketing Funds are used to develop and distribute Red Robin® branded marketing materials, for media purchases and for administrative costs. The Company's portion of costs incurred by the Marketing Funds is recorded as operating and general and administrative expenses in the Company's financial statements. Restricted assets represent contributed funds held for future use.

8. Derivative and Hedging Activities

The Company enters into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). The Company uses interest rate-related derivative instruments to manage its exposure to fluctuations of interest rates. By using these instruments, the Company exposes itself, from time to time, to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. The Company minimizes the credit risk by entering into transactions with high-quality counterparties whose credit rating is evaluated on a quarterly basis. The Company's counterparty in the interest rate swap is SunTrust Bank, National Association (SunTrust). Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, commodity prices, or the market price of the Company's common stock. The Company minimizes market risk by establishing and monitoring parameters that limit the types and degree of market risk

that may be taken.

In March 2008, the Company entered into a variable-to-fixed interest rate swap agreement with SunTrust to hedge the Company's floating interest rate on an aggregate of up to \$120 million of debt that is currently outstanding under the Company's amended and restated credit facility. The interest rate swap has an effective date of March 19, 2008 and a termination date of March 19, 2010 for \$50 million of the initial \$120 million and March 19, 2011 for the remaining \$70 million. The agreement was designated as a cash flow hedge under which the Company is required to make payments based on a fixed interest rate of 2.7925% calculated on an initial notional amount of \$120 million. In exchange the Company will receive interest on a \$120 million of notional amount at a variable rate that is based on the 3-month LIBOR rate.

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The Company entered into the above interest rate swap with the objective of offsetting the variability of its interest expense that arises because of changes in the variable interest rate for the designated interest payments. Changes in the fair value of the interest rate swap are reported as a component of accumulated other comprehensive income (AOCI). The Company reclassifies gain or loss from accumulated other comprehensive income, net of tax, on the Company's consolidated balance sheet to interest expense on the Company's consolidated statement of income as the interest expense is recognized on the related debt.

The following table summarizes the fair value and presentation in the condensed consolidated balance sheets of the interest rate swap designated as hedging instruments under SFAS 133 as of July 12, 2009:

Balance Sheet Location	Derivative Assets	Derivative Liabilities
Accrued Liabilities	\$	\$ 2,946

The following table summarizes the effect of the interest rate swap on the condensed consolidated statements of income for the twelve weeks ended July 12, 2009:

	Twelve Weeks Ended July 12, 2009	Twenty-eight Weeks Ended July 12, 2009
Loss recognized in AOCI (effective portion)	\$ (354)	\$ (187)
Location of loss reclassified from AOCI to income (effective portion)	Interest expense, net	Interest expense, net
Loss reclassified from AOCI to income (effective portion)	\$ (473)	\$ (956)

During 2009, our interest rate swap had no hedge ineffectiveness and no gains or losses were reclassified into net earnings.

9. Fair Value Measurement and Other Comprehensive Income

The fair market value of the Company's credit facility as of July 12, 2009 and December 28, 2008 was approximately \$199.0 million and \$200.0 million, respectively. There is \$6.5 million of outstanding borrowings recorded for the Company's capital leases as of July 12, 2009, which have an estimated fair value of \$8.1 million. At December 28, 2008, the carrying amount of the Company's capital lease obligations was \$7.6 million and the fair value was \$8.8 million. Both the fair values of the Company's credit facility in 2009 and capital leases have been estimated using Level 2 inputs using discounted cash flow analyses based on market rates obtained from independent third parties for similar type debt.

The Company's deferred compensation plan is a nonqualified deferred compensation plan which allows highly compensated employees to defer a portion of their base salary, bonuses and commissions each plan year. At July 12, 2009 and December 28, 2008, a liability for participant contributions and investment income thereon of \$1.8 million and \$1.7 million, respectively, is included in other non-current liabilities. To fund this plan the Company's plan administrator purchases corporate-owned whole-life insurance contracts on the related team members. The cash surrender value of these policies at July 12, 2009 and December 28, 2008, \$1.8 million and \$1.6 million, respectively, is included in other assets,

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net. The carrying value of both the liability for participant contributions and investment income and the cash surrender value asset are equal to their fair value. These agreements are required to be measured at fair value on a recurring basis and are valued using Level 2 inputs.

The interest rate swap discussed in Note 8 above falls into the Level 2 category under the guidance of SFAS No. 157, *Fair Value Measurements*. The fair market value of the interest rate swap, which is measured on a recurring bases, was an unrealized loss of \$2.9 million, \$1.8 million net of tax, as of July 12, 2009 and an unrealized gain of \$2.0 million, \$1.2 million net of tax as of July 13, 2008, which is recorded in accrued liabilities and other assets, respectively, in the Company's condensed consolidated balance sheet. The fair market value of the interest rate swap was an unrealized loss of \$2.8 million, \$1.6 million net of tax, as of December 28, 2008. The unrealized gain (loss) associated with this cash flow hedging instrument is recorded in accumulated other comprehensive income (loss), net of tax, on the Company's condensed consolidated balance sheet.

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Comprehensive income consisted of (in thousands):

	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 12, 2009	July 13, 2008	July 12, 2009	July 13, 2008
Net income	\$ 6,421	\$ 7,916	\$ 10,266	\$ 15,169
Unrealized gain (loss) on cash flow hedge, net of tax	(216)	519	(174)	1,203
Total comprehensive income	\$ 6,205	\$ 8,435	\$ 10,092	\$ 16,372

10. Related Parties

On June 3, 2009, the Company announced the appointment of a new member to its board of directors, which expanded the board from seven to eight members. This new board member is the former president and majority owner of one of our franchises from which the Company purchased 13 Red Robin® restaurants in Washington in 2006. The new board member is a principal of and holds, directly or indirectly, interests of between 50% and 66 2/3% in each of three privately-held entities that hold the leases for three of the restaurants that were acquired in 2006. These leases were assumed by the Company in connection with the acquisition. Under these leases, the Company recognized rent and other related payments in the amounts of \$266,000 and \$578,000 during the twelve and twenty-eight weeks ended July 12, 2009, respectively. For the twelve and twenty-eight weeks ended July 13, 2008, the Company recognized rent and other related payments in the amounts of \$299,000 and \$701,000, respectively.

11. Commitments and Contingencies

In the normal course of business, the Company responds to claims, lawsuits and other contingencies. Claims may arise from alleged slip and fall accidents, food borne illness or injury, or other food quality, health or operational concerns. The Company maintains insurance with respect to certain of these risks. To date, no claims of these types have had a material adverse effect on us. While it is not possible to predict the outcome of these outstanding claims, lawsuits, and other contingencies with certainty, management is of the opinion that adequate provision for potential losses associated with these matters has been made in the financial statements and that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position and results of operations.

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

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Management's Discussion and Analysis of Financial Condition and Results of Operations provides a narrative of our financial performance and condition that should be read in conjunction with the accompanying condensed consolidated financial statements. All comparisons under this heading between 2009 and 2008 refer to the twelve and twenty-eight week periods ending July 12, 2009 and July 13, 2008, respectively, unless otherwise indicated.

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Overview

The following summarizes the operational and financial highlights of the Company during the twenty-eight weeks of fiscal 2009:

- *New Restaurant Openings.* We opened six and 13 company-owned restaurants during the twelve and twenty-eight weeks ended July 12, 2009 versus eight and 17 for the same time periods of fiscal 2008. We plan to open an additional two company-owned restaurants in 2009. We believe that the expense associated with the opening of all 2009 restaurants will be funded from our operating cash flows.
- *Comparable Restaurant Sales.* For the twenty-eight weeks ended July 12, 2009, the 245 restaurants in our current comparable base experienced a 9.6% decrease in sales from these same restaurants last year. This decrease was driven by an 11.1% decrease in guest counts partially offset by a 1.5% increase in the average guest check. It is difficult to predict how long the current economic conditions will persist, whether they will deteriorate further, and the extent to which our operations will be adversely affected. We expect overall comparable restaurant sales to decline in fiscal 2009 based on our actual experience through the second quarter 2009, the current macroeconomic environment experienced by the restaurant industry and our significant reduction in national cable advertising.
- *Food Cost.* We continue to see upward pricing pressures in most of our food costs categories during the twenty-eight weeks ended July 12, 2009. We believe our two largest cost pressures during 2009 will be for ground beef used in our hamburgers and potatoes that are used to make our steak fries. In 2008, we had favorable fixed pricing for ground beef, well below the market spot rate. For the first half of 2009, our ground beef costs were under a contract that was less favorable than the 2008 contracted pricing. For the second half of 2009, approximately 40% of our ground beef volume remains contracted. We currently expect the remaining ground beef volume to be purchased at market prices for the remainder of 2009. The cost of our steak fries have increased in 2009 as many farmers planted other higher profit crops during the 2008 planting season and, in turn, reduced the potato supply available for our steak fries.
- *Marketing Efforts.* In 2009, our marketing strategy is focused on driving guest traffic and retention by expanding our national online and digital media advertising efforts as well as introducing a targeted direct mail campaign to support product specific news with limited support through national cable advertising. In the first quarter 2009, we launched the direct mail campaign to drive incremental guest traffic through the promotion of our limited time only Burnin Love burger. This campaign was also supported with a strong online promotion. Additional marketing efforts in 2009 include a focus on driving gift card sales in the restaurants and with third party retailers, expanding our guest satisfaction survey program and supporting new menu offerings. In an environment in which consumers have pulled back on retail and restaurant spending, together with our desire to reduce costs, we are doing more targeted and local marketing initiatives and purchasing significantly less national cable advertising in 2009. We ran limited national cable advertising during the second quarter 2009 to support our promotion of our Steak Sliders, and currently are evaluating our tactics for the remainder of 2009. This reduced national television advertising spending, offset by increases in other advertising tactics, is expected to reduce restaurant operating costs by approximately 1.0% of restaurant revenue in fiscal 2009.
- *Restaurant Closings.* The Company closed four restaurants during the first quarter 2009. This decision resulted from our identifying those restaurants that were in declining trade areas, performing below acceptable profitability levels and/or would require significant capital expenditures. The locations selected for closure represented older restaurants whose leases were not extended or were in need of significant capital improvement that were not projected to provide acceptable returns in the foreseeable future. The Company recognized a charge of approximately \$598,000 during the first half of 2009 related to lease termination costs based on estimated remaining lease obligations, net of

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estimated sublease income, and other closing related costs. This charge is recorded in general and administrative expense in our condensed consolidated statements of income for the twenty-eight weeks ended July 12, 2009.

- *Cash Tender Offer.* On February 11, 2009 we completed a cash tender offer for out-of-the-money stock options held by 514 current employees and officers. As a result of the tender offer, we incurred a one-time charge of approximately \$4.0 million for all unvested eligible options that were tendered in the first quarter 2009. This one-time charge represents the compensation expense related to the acceleration of

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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. Approximately \$0.9 million of the \$4.0 million charge is recorded in labor expense and approximately \$3.1 million is recorded in general and administrative expense in our condensed consolidated statements of income for the twenty-eight weeks ended July 12, 2009. We paid \$3.5 million in cash for the approximate 1.6 million options tendered in the offer.

In view of the foregoing, the Company is making efforts to manage controllable costs and streamline operations, while our restaurant teams focus on driving traffic through the quality and value of our guest experience. Our reduced levels of new restaurant openings and limited capital expenditures are expected to result in cash flows that will be used primarily to reduce outstanding indebtedness.

Restaurant Data

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

	Twelve Weeks Ended		Twenty-eight Weeks Ended	
	July 12, 2009	July 13, 2008	July 12, 2009	July 13, 2008
Company-owned:				
Beginning of period	298	258	294	249
Opened during period	6	8	13	17
Acquired during period		15	1	15
Closed during period			(4)	
End of period	304	281	304	281
Franchised:				
Beginning of period	130	135	129	135
Opened during period	1	3	3	4
Sold or closed during period		(15)	(1)	(16)
End of period	131	123	131	123
Total number of Red Robin® restaurants	435	404	435	404

On December 31, 2008, we acquired a restaurant that was managed by the Company under a management agreement since June 2007 with a franchisee.

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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.

This information has been prepared on a basis consistent with the audited 2008 annual financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. Our operating results may fluctuate significantly as a result of a variety of factors, and operating results for any period presented are not necessarily indicative of results for a full fiscal year.

	Twelve Weeks Ended July 12, 2009	July 13, 2008	Twenty-eight Weeks Ended July 12, 2009	July 13, 2008
Revenues:				
Restaurant	98.5%	98.3%	98.5%	98.2%
Franchise royalties and fees	1.5	1.7	1.5	1.8
Rent revenue				
Total revenues	100.0	100.0	100.0	100.0
Costs and Expenses:				
Restaurant operating costs:				
Cost of sales	24.4	23.9	24.4	23.8
Labor (includes 0.1%, 0.2%, 0.2% and 0.1% of stock-based compensation expense, respectively)	34.2	34.0	34.4	34.0
Operating	16.1	17.0	16.1	16.9
Occupancy	7.3	6.5	7.2	6.4
Total restaurant operating costs	82.0	81.4	82.1	81.1
Depreciation and amortization	6.5	5.7	6.5	5.7
General and administrative (includes 0.3%, 0.5%, 0.9% and 0.5% of stock-based compensation expense, respectively)	7.5	7.0	8.3	8.0
Pre-opening costs	0.3	1.0	0.7	1.0
Reacquired franchise and other acquisition costs		0.2		0.1
Income from operations	4.9	6.1	3.6	5.5
Interest expense, net	0.8	0.8	0.8	0.9
Other				
Income before income taxes	4.1	5.3	2.8	4.6
Provision for income taxes	1.0	1.5	0.7	1.3
Net income	3.1%	3.8%	2.1%	3.3%

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

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Total Revenues

(In thousands, except percentages)	Twelve Weeks Ended			Twenty-eight Weeks Ended		
	July 12, 2009	July 13, 2008	Percent Change	July 12, 2009	July 13, 2008	Percent Change
Restaurant revenue	197,963	202,898	(2.4)%	464,558	453,800	2.4%
Franchise royalties and fees	3,078	3,434	(10.4)%	7,230	8,068	(10.4)%
Rent revenue	47	56	(16.1)%	113	113	0.0%
Total revenues	201,088	206,388	(2.6)%	471,901	461,981	2.1%
Average weekly sales volumes:						
Comparable restaurants	56,335	64,842	(13.1)%	57,330	64,674	(11.4)%
Non-comparable restaurants	56,053	56,233	(0.3)%	55,611	55,633	0.0%
2007 Acquired Restaurants (1)		61,254			61,335	
2008 Acquired Restaurants (2)	49,842	54,905	(9.2)%	51,392	54,905	(6.4)%

(1) 2007 Acquired Restaurants refers to 16 franchised Red Robin® restaurants we acquired during 2007 and one restaurant that we operated under a management agreement with a franchisee until we acquired it on December 31, 2008. Beginning the third quarter 2008, these restaurants entered into the comparable restaurant population and their average weekly sales volumes, from that time forward, are included in the comparable restaurant category.

(2) 2008 Acquired Restaurants refers to 15 franchised Red Robin® restaurants we acquired during 2008.

For the twelve and twenty eight weeks ended July 12, 2009, restaurant revenue, which is comprised almost entirely of food and beverage sales, decreased by \$4.9 million, or 2.4%, and increased by \$10.8 million, or 2.4%, respectively, from the same periods of 2008. Sales for non-comparable restaurants contributed an increase of \$17.6 million and \$46.0 million for the twelve and twenty-eight weeks ended July 12, 2009, respectively, of which \$4.1 million was attributable to six restaurants opened during the twelve weeks ended July 12, 2009 and of which \$15.6 million was attributable to the 13 restaurants opened during the twenty-eight weeks ended July 12, 2009. Sales in the comparable restaurant base experienced a decrease of approximately \$24.7 million or 13.3% during the second quarter 2009 and approximately \$49.9 million or 11.5 % during the twenty-eight weeks ended July 12, 2009 over prior year periods. The decrease in comparable restaurant sales in 2009 was primarily the result of the lower guest counts driven by the macroeconomic environment and our significant reduction in national cable advertising in 2009. This decrease was partially offset by an increase in the average guest check. We anticipate that our full year fiscal 2009 comparable sales will be negative. The 2008 Acquired Restaurants contributed an increase of \$2.2 million and \$14.7 million of restaurant revenue during the twelve and twenty-eight weeks ended July 12, 2009, respectively.

Average weekly sales volumes represent the total restaurant revenue excluding discounts 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 second quarter 2009, there were 245 comparable restaurants compared to 207 comparable restaurants at the end of the second quarter 2008. Non-comparable restaurants presented include those restaurants that had not yet achieved the five full quarters of operations during the periods presented. At the end of the second quarter 2009, there were 44 non-comparable restaurants versus 43 at the end of the second quarter 2008. 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, which consist primarily of royalty income and initial franchise fees, decreased 10.4% for the twelve and twenty-eight weeks ended July 12, 2009. This decrease is primarily attributable to the \$276,000 quarter over quarter reductions and the \$793,000 year over year reduction in franchise royalties from the 2008 Acquired Restaurants. Our franchisees reported that comparable restaurant sales decreased 10.3% for U.S. restaurants and decreased 1.6% for Canadian restaurants in the second quarter of 2009 compared to the second quarter

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of 2008. For the twenty-eight weeks ended July 12, 2009 and July 13, 2008, our franchisees reported that comparable restaurant sales for U.S. restaurants decreased 8.5% and Canadian restaurants decreased 0.3%.

Table of ContentsCost and Expenses*Cost of Sales*

(In thousands, except percentages)	Twelve Weeks Ended			Percent Change	Twenty-eight Weeks Ended			Percent Change
	July 12, 2009	July 13, 2008			July 12, 2009	July 13, 2008		
Cost of sales	\$ 48,228	\$ 48,505		(0.6)%	\$ 113,511	\$ 107,853		5.2%
As a percent of restaurant revenue	24.4%	23.9%		0.5%	24.4%	23.8%		0.6%

Cost of sales, comprised of food and beverage expenses, are variable and generally fluctuate with sales volume. For the twelve and twenty-eight weeks ended July 12, 2009, cost of sales increased as a percentage of restaurant revenues over prior year due to higher raw material costs, particularly ground beef and steak fries, partially offset by menu price increases taken in early 2008. Higher ground beef and potato costs are expected to continue through fiscal 2009 given higher pricing in 2009 compared to lower contracted fixed prices in 2008.

Labor

(In thousands, except percentages)	Twelve Weeks Ended			Percent Change	Twenty-eight Weeks Ended			Percent Change
	July 12, 2009	July 13, 2008			July 12, 2009	July 13, 2008		
Labor	\$ 67,679	\$ 68,956		(1.9)%	\$ 159,950	\$ 154,095		3.8%
As a percent of restaurant revenue	34.2%	34.0%		0.2%	34.4%	34.0%		0.4%

Labor costs include restaurant hourly wages, fixed management salaries, stock-based compensation, bonuses, taxes and benefits for restaurant team members. For the twelve and twenty-eight weeks ended July 12, 2009, labor costs as a percentage of restaurant revenue increased from prior year due primarily to increased fixed expenses such as managers' salaries, higher benefit costs and increased minimum wage that was effective January 1, 2009. A stock based compensation charge of \$886,000, or 0.2% of restaurant revenue, related to the stock option tender offer in the first quarter 2009, also increased labor costs as a percentage of restaurant revenue for the twenty-eight weeks ended July 12, 2009. This year over year increase is partially offset by improved productivity of hourly labor for non-management team members and decreased restaurant-level bonuses, as well as lower vacation expense.

Operating

(In thousands, except percentages)	Twelve Weeks Ended			Percent Change	Twenty-eight Weeks Ended			Percent Change
	July 12, 2009	July 13, 2008			July 12, 2009	July 13, 2008		
Operating	\$ 32,008	\$ 34,397		(6.9)%	\$ 75,026	\$ 76,903		(2.4)%
	16.1%	17.0%		(0.9)%	16.1%	16.9%		(0.8)%

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As a percent of restaurant revenue

Operating costs include variable costs such as contributions to the advertising funds, local marketing expenses, restaurant supplies, travel costs, and fixed costs such as repairs and maintenance and utility costs. For the twelve and twenty-eight weeks ended July 12, 2009, operating costs decreased as a percentage of restaurant revenue due primarily to a 1.1% effective decrease in 2009 contributions to the national advertising fund partially offset by higher repairs and maintenance costs and higher utility costs.

Occupancy

(In thousands, except percentages)	Twelve Weeks Ended			Percent Change	Twenty-eight Weeks Ended		
	July 12, 2009	July 13, 2008			July 12, 2009	July 13, 2008	Percent Change
Occupancy	\$ 14,494	\$ 13,216		9.7%	\$ 33,402	\$ 29,218	14.3%
As a percent of restaurant revenue	7.3%	6.5%		0.8%	7.2%	6.4%	0.8%

Occupancy costs include fixed rents, percentage rents, common area maintenance charges, real estate and personal property taxes, general liability insurance and other property costs. As a percentage of restaurant revenue, occupancy costs for the twelve and twenty-eight weeks ended July 12, 2009 increased over the prior year periods due to a decline in average restaurant revenues on partially fixed costs and higher fixed rents related to new and

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acquired restaurants for both the land and building. Many of the restaurants acquired from franchisees are build to suit locations that typically bear a higher occupancy cost as a percentage of restaurant revenue. We believe occupancy costs for the remainder of 2009 as a percentage of restaurant revenue will exceed 2008 levels.

Depreciation and Amortization

(In thousands, except percentages)	Twelve Weeks Ended			Percent Change	Twenty-eight Weeks Ended			Percent Change
	July 12, 2009	July 13, 2008			July 12, 2009	July 13, 2008		
Depreciation and amortization	\$ 13,066	\$ 11,680		11.9%	\$ 30,703	\$ 26,529		15.7%
As a percent of total revenues	6.5%	5.7%		0.8%	6.5%	5.7%		0.8%

Depreciation and amortization includes depreciation on capital expenditures for restaurants and corporate assets as well as amortization of acquired intangible assets and liquor licenses. Depreciation and amortization expense increased as a percentage of total revenues for the twelve and twenty-eight weeks ended July 12, 2009 compared to prior year due primarily to increased depreciation and amortization expense related to new and acquired restaurants and lower average restaurant sales volumes. We expect higher depreciation and amortization expense as a percentage of total revenues to continue for the remainder of fiscal 2009 and lower average restaurant sales volumes.

General and Administrative

(In thousands, except percentages)	Twelve Weeks Ended			Percent Change	Twenty-eight Weeks Ended			Percent Change
	July 12, 2009	July 13, 2008			July 12, 2009	July 13, 2008		
General and administrative	\$ 15,099	\$ 14,454		4.5%	\$ 38,971	\$ 36,929		5.5%
As a percent of total revenues	7.5%	7.0%		0.5%	8.3%	8.0%		0.3%

General and administrative costs include all corporate and administrative functions that support existing restaurant operations, franchises, and provide infrastructure to facilitate our future growth. Components of this category include corporate management, supervisory and staff salaries, bonuses, stock-based compensation and related employee benefits, travel, information systems, training, office rent, franchise administrative support, legal, leadership conference, professional and consulting fees and marketing costs. For the twelve weeks ended July 12, 2009, general and administrative costs increased as a percentage of total revenues due primarily to increased marketing and bonus expenses partially offset by lower salary and travel related costs. For the twenty-eight weeks ended July 12, 2009, general and administrative costs increased as a percentage of total revenues due to increased stock-based compensation expense from a \$3.1 million, or 0.7% of total revenue, charge related to the stock tender offer in February 2009. Also contributing to the increase in general and administrative costs as a percentage of total revenues was higher performance-based bonus expenses partially offset by lower salary and travel related expenses.

Pre-opening Costs

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(In thousands, except percentages)	Twelve Weeks Ended			Percent Change	Twenty-eight Weeks Ended			Percent Change
	July 12, 2009	July 13, 2008	July 13, 2008		July 12, 2009	July 13, 2008	July 13, 2008	
Pre-opening costs	\$ 588	\$ 2,041		(71.2)%	\$ 3,138	\$ 4,604		(31.8)%
As a percent of total revenues	0.3%	1.0%		(0.7)%	0.7%	1.0%		(0.3)%
Average per restaurant								
Pre-opening costs	\$ 258	\$ 254		1.6%	\$ 267	\$ 275		(2.9)%

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 the twelve weeks ended July 12, 2009 and July 13, 2008, reflect the opening of six and eight new restaurants, respectively in each period presented. Pre-opening costs for the twenty-eight weeks ended July 12, 2009 and July 13, 2008, reflect the opening of 13 and 17 new restaurants, respectively in each period presented. For the twelve weeks ended July 12, 2009, the average per restaurant pre-opening costs increased over prior year due primarily to higher pre-opening occupancy expenses and utility costs partially offset by lower labor costs and marketing expenses. For the twenty-eight weeks ended July 12, 2009, the average per restaurant

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pre-opening costs decreased over prior year due primarily to lower labor costs and marketing expense partially offset by higher pre-opening occupancy expenses and utility costs.

Reacquired Franchise and Other Acquisition Costs

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As a result of the acquisition of the 15 restaurants during the second quarter 2008, we incurred a total charge of \$451,000, which is primarily related to avoided franchise fees, in accordance with Emerging Issues Task Force (EITF) Issue 04-1, *Accounting for Preexisting Relationships between the Parties to a Business Combination* (EITF 04-1). EITF 04-1 requires that a business combination between two parties that have a preexisting relationship be evaluated to determine if a settlement of a preexisting relationship exists. The \$451,000 charge reflects the lower royalty rates applicable to certain of the acquired restaurants compared to a standard royalty rate the Company would receive under the Company's current royalty agreements. See Note 2, *Acquisition of Red Robin Franchised Restaurants*, in the Notes to Condensed Consolidated Financial Statements for additional information regarding the acquisition and related charge.

Interest Expense, net

Interest expense was \$1.6 million and \$1.8 million for the twelve weeks ended July 12, 2009 and July 13, 2008, respectively and \$3.7 million and \$4.1 million for the twenty-eight weeks ended July 12, 2009 and July 13, 2008, respectively. Interest expense in 2009 decreased from prior year due to a lower average interest rate of 2.9% versus 4.4% in 2008, partially offset by higher borrowings outstanding under our revolving credit facility.

Provision for Income Taxes

The effective income tax rate for the second quarter 2009 is 23.2% compared to 27.8% for the second quarter 2008. The effective income tax rate for the twenty-eight weeks ended July 12, 2009 and July 13, 2008 was 24.0% and 29.0%, respectively. Our effective tax rate is significantly impacted by the amount of the current year's federal income tax credits. The decrease in the effective tax rate from 2008 is primarily due to the amount of federal income tax credits for 2009 being applied against a lower net income before taxes. We anticipate that our full year fiscal 2009 effective tax rate will be approximately 24.0%.

Liquidity and Capital Resources

Financial Condition and Future Liquidity. We require capital principally to grow the business through new restaurant construction, as well as to maintain, improve and refurbish existing restaurants, support for infrastructure needs, and for general operating purposes. In addition, we have and may continue to use capital to acquire franchise restaurants or repurchase our common stock. We expect our primary short-term and long-term sources of liquidity to be cash flows from operations and to a lesser extent, our revolving credit facility. Based upon current levels of operations and our anticipated 2009 and 2010 restaurant opening schedule, we expect that cash flows from operations will be sufficient to meet debt service, capital expenditures and working capital requirements for at least the next twelve months. The Company and the restaurant industry in general maintain relatively low levels of accounts receivable and inventories, and vendors generally grant trade credit for purchases, such as food and supplies. We also continually invest in our business through the addition of new restaurants and refurbishment of existing restaurants, which are reflected as long-term assets and not as part of working capital.

Credit Facility. Our existing credit facility permits us to have a more flexible capital structure and facilitates our growth plans. The credit facility is comprised of (i) a \$150 million revolving credit facility maturing on June 15, 2012, and (ii) a \$150 million term loan maturing on June 15, 2012, both with rates based on the London Interbank Offered Rate (LIBOR) plus 1.00% currently. The credit agreement also allows us, subject to lender participation which is at their sole discretion, to increase the revolving credit facility by up to an additional \$100 million in the future. As part of the credit agreement, we may also request the issuance of up to \$15 million in letters of credit, the outstanding amount of which reduces the net borrowing capacity under the agreement. The credit facility 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 credit facility are secured by first priority liens and security interests in the capital stock of subsidiaries of the Company. Additionally, the credit agreement includes a negative pledge on all tangible and intangible assets (including all real and personal property) with customary exceptions. Our credit facility is with a consortium of banks that include Wells Fargo Bank N.A., Bank of America N.A., Keybank N.A. and Suntrust Bank N.A. among others.

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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 September 30, 2007 and will end on the maturity date of the term loan. At July 12, 2009, we had \$127.4 million of borrowings outstanding under our term loan, and \$72.0 million of borrowings, \$4.8 million of letters of credit outstanding under our revolving credit facility and \$2.5 million outstanding under a swingline loan. 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 \$1.0 million and are included as deferred costs in other assets, net in the accompanying consolidated balance sheet as of July 12, 2009. In addition to the required repayments on the term loan, we expect to utilize excess cash flow after capital expenditures to reduce our debt during 2009.

Covenants. We are subject to a number of customary covenants under our various credit agreements, including limitations on additional borrowings, acquisitions, and dividend payments. In addition, we are required to maintain two financial ratios: a leverage ratio calculated as our debt outstanding including issued standby letters of credit divided by the last twelve months' earnings before interest, taxes, depreciation and amortization (EBITDA) adjusted for certain non-cash charges; and a fixed charge ratio calculated as our consolidated cash flow divided by our consolidated debt service obligations. As of July 12, 2009, we were in compliance with all debt covenants.

Inflation

The primary inflationary factors affecting our operations are food, labor costs, energy costs, and materials used in the construction of new restaurants. A large number of our restaurant personnel are paid at rates based on the applicable minimum wage, and recent increases in applicable minimum wage levels have directly affected our labor costs. Many of our leases require us to pay taxes and charges for maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. We believe inflation has had a negative impact on our financial condition and results of operations in the current year, due primarily to increased commodity prices for certain foods we purchase at market rates, including fuel surcharges, increased labor costs, higher energy costs, higher costs for certain supplies and petroleum based products, higher costs for materials and labor related to construction of our new restaurants. Uncertainties related to higher costs, including energy costs, commodity prices, annual indexed wage increases and construction materials make it difficult to predict what impact inflation may continue to have on our business during 2009.

Seasonality

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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. Our quarterly and annual operating results and comparable restaurant sales may fluctuate significantly as a result of seasonality and other factors. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year and comparable restaurant sales for any particular future period may decrease.

Off Balance Sheet Arrangements

Except for operating leases (primarily restaurant ground leases), we do not have any off balance sheet arrangements.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and we might obtain different estimates if we used different assumptions or conditions. We had no significant changes in our critical accounting policies and estimates since our last annual report. Our critical accounting estimates are contained in our annual report on Form 10-K for the year ended December 28, 2008.

Recent Accounting Pronouncements

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In June 2009, Financial Accounting Standards Board (FASB) issued Statement of Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162*, (SFAS 168). SFAS 168 provides for the FASB Accounting Standards Codification™ (the Codification) to become the single official source of authoritative,

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nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. Beginning in the third quarter of fiscal 2009, all references to authoritative accounting literature in our financial statements will be referenced in accordance with the Codification. There will be no changes to the content of our financial statements or disclosures as a result of implementing the Codification.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, (SFAS 165) which is effective for financial periods ending after June 15, 2009. SFAS 165 establishes general standards of accounting for and disclosure of subsequent events that occur after the balance sheet date. We adopted SFAS 165 during the second quarter 2009. As required by SFAS 165, we have evaluated subsequent events through the date of issuance of this report, August 14, 2009.

In April 2009, the FASB issued FASB Staff Position (FSP) Nos. 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP FAS 107-1). FSP FAS 107-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, and APB No. 28, *Interim Financial Reporting*. FSP FAS 107-1 requires fair value disclosures on an interim basis for financial instruments that are not reflected in the condensed consolidated balance sheets at fair value. Prior to the issuance of FSP FAS 107-1, the fair values of those financial instruments were only disclosed on an annual basis. FSP FAS 107-1 is effective for interim reporting periods that end after the Company's second quarter. The adoption of FSP FAS 107-1 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other Generally Accepted Accounting Principles (GAAP). The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP 142-3 at the beginning of fiscal 2009 did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, (SFAS 161). SFAS 161 provides companies with requirements for enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on a company's financial position, financial performance and cash flows. These requirements include the disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. We adopted SFAS 161 at the beginning of fiscal 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, (SFAS 141R). SFAS 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. SFAS 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Accordingly, we will record and disclose business combinations occurring in fiscal 2009 and thereafter under the revised standard beginning December 29, 2008.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*, (SFAS 160). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. We adopted SFAS 160 at the beginning of fiscal 2009. The adoption of SFAS 160 did not impact our consolidated financial statements.

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Forward-Looking Statements

Certain information and statements contained in this report that reflect the Company's current expectations regarding, among other things, future results of operations, economic performance, liquidity and capital resources, financial condition and achievements of the Company, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. 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 "believe", "estimates", "expect", "future", "intend", "plan", "will", "would" or comparable and similar terms or the negative thereof. Certain forward-looking statements are included in this Form 10-Q, principally in the sections captioned "Financial Statements" and "Management's Discussion and Analysis". All forward-looking statements included in this Form 10-Q are based on information available to the Company on the date hereof. Such statements speak only as of the date hereof and we undertake no obligation to update any such statement to reflect events or circumstances arising after the date hereof. These statements are based on assumptions believed by us to be reasonable, and involve known and unknown risks and uncertainties that could cause actual results to differ materially from those described in the statements. These risks and uncertainties include, but are not limited to, the following: potential fluctuation in our quarterly operating results due to economic conditions, seasonality and other factors; downturn in general economic conditions including severe volatility in financial markets and decreasing consumer confidence, resulting in changes in consumer preferences, or consumer discretionary spending; changes in availability of capital or credit facility borrowings to us and to our franchisees; the continued adequacy of cash flows generated by our business to fund operations and growth opportunities; the concentration of our restaurants in the Western United States and the associated disproportionate impact of macroeconomic factors; the availability and costs of food; changes in labor and energy costs and changes in the ability of our vendors to meet our supply requirements; lack of awareness of our brand in new markets; higher percentage of operating weeks from non-comparable restaurants; concentration of less mature restaurants in the comparable restaurant base; effectiveness of our initiative to normalize new restaurant operations; the effectiveness of our national advertising strategy; health concerns about our food products and food preparation; the effectiveness of our internal controls over financial reporting; future changes in financial accounting standards; and other risk factors described from time to time in the Company's Annual Report on Form 10-K for 2008 filed with the SEC on February 26, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Under our credit agreement, amended in June 2007, we are exposed to market risk from changes in interest rates on borrowings, which bear interest at one of the following rates we select: an Alternate Base Rate (ABR), based on the Prime Rate plus 0.00% to 0.25%, or a LIBOR, based on the relevant one, two, three or six-month LIBOR, at our discretion, plus 0.50% to 1.00%. The spread, or margin, for ABR and LIBOR loans under the credit agreement is subject to quarterly adjustment based on our then current leverage ratio, as defined by the credit agreement. As of July 12, 2009, we had \$81.9 million of borrowings subject to variable interest rates, and a plus or minus 1.0% change in the effective interest rate applied to these loans would have resulted in pre-tax interest expense fluctuation of \$819,000 on an annualized basis.

Our objective in managing exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve this objective, we use an interest rate swap and may use caps to manage our net exposure to interest rate changes related to our borrowings.

During March 2008, the Company entered into a variable-to-fixed interest rate swap agreement with SunTrust Bank, National Association (SunTrust) to mitigate our floating interest rate on an aggregate of up to \$120 million of our debt that is currently or expected to be outstanding under our amended and restated credit facility. The interest rate swap has an effective date of March 19, 2008 and a termination date of March 19, 2010 for \$50 million of the initial \$120 million and March 19, 2011 for the remaining \$70 million. The agreement was designated as a cash flow hedge under which we are required to make payments based on a fixed interest rate of 2.7925% calculated on an initial notional amount of \$120 million, in exchange we will receive interest on a \$120 million of notional amount at a variable rate. The variable rate interest we receive is based on the 3-month LIBOR rate. This hedge is highly effective as defined by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The Company reclassifies gain or loss from accumulated other comprehensive income, net of tax, on our consolidated balance sheet to interest expense on our consolidated statement of income as the interest expense is recognized on

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the related debt. As of July 12, 2009, the \$1.8 million unrealized loss, net of taxes, on cash flow hedging instrument is reported in accumulated other comprehensive income (loss).

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

The Company's Management, with the participation of the CEO and CFO, have evaluated whether any change in the Company's internal control over financial reporting occurred during the fiscal quarter ended July 12, 2009. Based on that evaluation, Management concluded that there has been no change in the Company's internal control over financial reporting during the fiscal quarter ended July 12, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, the Company responds to claims, lawsuits and other contingencies. Claims may arise from alleged slip and fall accidents, food borne illness or injury, or other food quality, health or operational concerns. The Company maintains insurance with respect to certain of these risks. To date, no claims of these types have had a material adverse effect on us. While it is not possible to predict the outcome of these outstanding claims, lawsuits, and other contingencies with certainty, management is of the opinion that adequate provision for potential losses associated with these matters has been made in the financial statements and that the ultimate resolution of these matters will not have a material adverse effect on our financial position and results of operations.

Item 1A. Risk Factors

A description of the risk factors associated with our business is contained in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended December 28, 2008 filed with the Securities and Exchange Commission on February 26, 2009. There have been no material changes in our Risk Factors disclosed in our 2008 Annual Report on Form 10-K.

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

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The following matters were submitted to a vote of security holders during the Company's annual meeting of stockholders held on May 28, 2009.

Description of Matter	Voted For	Number of Shares		Abstentions
		Votes Withheld		
1. Election of Class I Directors				
J. Taylor Simonton	6,311,368	8,164,435		
James T. Rothe	5,014,209	9,461,594		
Richard J. Howell	6,311,353	8,164,450		
2. Ratification of Appointment of Independent Registered Public Accounting Firm	14,451,172	21,409		1,972

In the election of directors, candidates are elected by a plurality of affirmative votes. In addition to the elected directors, directors whose terms continued following the meeting are Dennis B. Mullen, Edward T. Harvey Jr., Gary J. Singer and Pattye L. Moore. Subsequent to the meeting, Marc Zanner was appointed to the board of directors for a term ending upon the 2011 Annual Meeting of Stockholders.

Item 6. Exhibits

Exhibit Number	Description
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 14, 2009
(Date)

Red Robin Gourmet Burgers, Inc.

/s/ Katherine L. Scherping
Katherine L. Scherping
Chief Financial Officer