RED ROBIN GOURMET BURGERS INC
Form 10-Q/A
May 19, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For The Quarterly Period Ended October 3, 2004

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Transition Period From __________ To __________

Commission file number 0-49916

RED ROBIN GOURMET BURGERS, INC.

(Exact name of registrant as specified in its charter)

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

(303) 846-6000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to

file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). x Yes ¨ No

As of November 1, 2004, there were 16,078,854 outstanding shares of the registrant s common stock.

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Explanatory Note

The purpose of this amendment on Form 10-Q/A to the Quarterly Report on Form 10-Q of Red Robin Gourmet Burgers, Inc. for the period ended October 3, 2004 is to restate our condensed consolidated financial statements as of October 3, 2004 and for the twelve and forty weeks ended October 3, 2004 and October 5, 2003, and related disclosures, as described in Note 2 to the condensed consolidated financial statements. Additional information about the decision to restate these financial statements can be found in our Current Report on Form 8-K, filed with the Securities and Exchange Commission (SEC) on March 1, 2005.

No attempt has been made in this Form 10-Q/A to update other disclosures presented in the original report on Form 10-Q, except as required to reflect the effects of the restatement. The Form 10-Q/A does not reflect events occurring after the filing of the Form 10-Q or modify or update those disclosures, including the exhibits to the Form 10-Q affected by subsequent events. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the original Form 10-Q, including any amendments to those filings. The following items have been amended as a result of the restatement:

Part I - Item 1 - Financial Statements

Part I - Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations

Part I - Item 4 - Controls and Procedures

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RED ROBIN GOURMET BURGERS, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

RED ROBIN GOURMET BURGERS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share amounts)

(unaudited)

	October 3, 2004	December 28, 2003
	(As Restated, See Note 2)	
Assets:		
Current Assets:		
Cash and cash equivalents	$ 4,476	$ 4,871
Accounts receivable, net	1,139	1,146
Inventories	4,751	4,357
Prepaid expenses and other current assets	2,679	3,977
Income tax refund receivable		1,172
Deferred tax asset	757	757
Restricted current assets marketing funds	1,776	959
Total current assets	15,578	17,239
Property and equipment, at cost, net	193,553	154,410
Deferred tax asset	6,397	5,848
Goodwill, net	25,720	25,720
Other intangible assets, net	7,690	8,118
Other assets, net	2,819	3,047
Total assets	$ 251,757	$ 214,382
Liabilities and Stockholders Equity:		
Current Liabilities:		
Trade accounts payable	$ 11,717	$ 9,139
Accrued payroll and payroll related liabilities	14,507	12,161
Unredeemed gift certificates	2,604	3,997
Accrued liabilities	11,698	5,913
Accrued liabilities marketing funds	1,776	959
Current portion of long-term debt and capital lease obligations	1,503	1,422
Total current liabilities	43,805	33,591

Deferred rent payable	13,060	10,655
Long-term debt and capital lease obligations	40,564	36,206
Other non-current liabilities	2,370	1,544
Commitments and contingencies		
Stockholders Equity:		
Common stock; $.001 par value: 30,000,000 shares authorized; 16,078,379 and 15,969,723 shares issued and outstanding as of October 3, 2004 and December 28, 2003, respectively	16	16
Preferred stock; $.001 par value: 3,000,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	124,041	122,184
Deferred stock compensation	(70)	(130)
Receivables from stockholders/officers	(6,531)	(6,432)
Accumulated other comprehensive loss, net of tax benefit	(34)	(108)
Retained earnings	34,536	16,856
Total stockholders equity	151,958	132,386
Total liabilities and stockholders equity	$ 251,757	$ 214,382

See Notes to Condensed Consolidated Financial Statements.

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RED ROBIN GOURMET BURGERS, INC.

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Twelve Weeks Ended		Forty Weeks Ended	
	October 3, 2004	October 5, 2003	October 3, 2004	October 5, 2003
	(As Restated, See Note 2)	(As Restated, See Note 2)	(As Restated, See Note 2)	(As Restated, See Note 2)
Revenues:				
Restaurant	$ 96,777	$ 76,922	$ 300,956	$ 240,468
Franchise royalties and fees	2,812	2,215	8,933	6,967
Rent revenue	61	183	258	369
Total revenues	99,650	79,320	310,147	247,804
Costs and Expenses:				
Restaurant operating costs:				
Cost of sales	22,328	18,062	70,443	56,371
Labor	32,872	27,410	104,579	85,117
Operating	13,495	11,542	43,124	36,362
Occupancy	6,061	5,074	18,990	16,134
Depreciation and amortization	5,264	4,049	15,979	12,307
General and administrative	6,777	4,807	21,466	17,124
Franchise development	446	459	3,400	2,180
Pre-opening costs	1,198	1,187	3,773	2,975
Total costs and expenses	88,441	72,590	281,754	228,570
Income from operations	11,209	6,730	28,393	19,234
Other (income) expense:				
Interest expense	612	742	2,023	2,331
Interest income	(74)	(89)	(247)	(256)
Loss on extinguishment of debt		150		257
Gain on sale of property			(257)	
Other	(28)	54	60	19
Total other expenses	510	857	1,579	2,351
Income before income taxes	10,699	5,873	26,814	16,883
Provision for income taxes	3,608	1,955	9,134	5,593

Net income	$ 7,091	$ 3,918	$ 17,680	$ 11,290
Earnings per share:				
Basic	$ 0.44	$ 0.26	$ 1.10	$ 0.75
Diluted	$ 0.43	$ 0.25	$ 1.08	$ 0.74
Weighted average shares outstanding:				
Basic	16,043	15,161	16,002	15,092
Diluted	16,443	15,469	16,344	15,343

See Notes to Condensed Consolidated Financial Statements.

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RED ROBIN GOURMET BURGERS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Forty Weeks Ended	
	October 3, 2004	**October 5, 2003**
	(As Restated, See Note 2)	**(As Restated, See Note 2)**
Cash Flows From Operating Activities:		
Net income	$ 17,680	$ 11,290
Non-cash adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,979	12,307
Other, net	155	574
Changes in operating assets and liabilities	12,982	7,502
Net cash flows provided by operating activities	46,796	31,673
Cash Flows From Investing Activities:		
Proceeds from sales of property and equipment	1,101	115
Purchases of property and equipment	(54,017)	(43,159)
Net cash flows used in investing activities	(52,916)	(43,044)
Cash Flows From Financing Activities:		
Borrowings of long-term debt	12,948	33,186
Payments of long-term debt and capital leases	(8,509)	(23,329)
Debt issuance costs		(756)
Repayment of stockholders/officers notes	114	79
Proceeds from exercise of stock options and employee stock purchase plan	1,172	616
Net cash flows provided by financing activities	5,725	9,796
Net decrease in cash and cash equivalents	(395)	(1,575)
Cash and cash equivalents, beginning of period	4,871	4,797
Cash and cash equivalents, end of period	$ 4,476	$ 3,222
Supplementary Disclosure of Cash Flow Information:		
Income taxes paid	$ 3,659	$ 4,423
Interest paid, net of amounts capitalized	1,664	1,952

Capital lease obligations incurred for real estate and equipment purchases		1,705
Tenant improvement allowance paid directly by landlord to general contractor	1,383	

See Notes to Condensed Consolidated Financial Statements.

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RED ROBIN GOURMET BURGERS, INC.

Condensed Consolidated Statements of Stockholders Equity

(In thousands)

(Unaudited)

	Common Stock							
	Shares	Amount	Additional Paid-in Capital	Deferred Compensation	Receivables From Stockholders/ Officers	Accumulated Other Comprehensive Loss, net of tax	Retained Earnings	Total
Balance, December 28, 2003	15,970	$ 16	$ 122,184	$ (130)	$ (6,432)	$ (108)	$ 16,856	$ 132,386
Amortization of deferred compensation				60				60
Interest on notes from stockholders/officers					(235)			(235)
Repayment of stockholders/ officers notes and related interest					136			136
Options exercised for common stock	93		876					876
Tax benefit on exercise of stock options			685					685
Common stock issued through employee stock purchase plan	15		296					296
Net income (As Restated, See Note 2)							17,680	17,680
Unrealized gain on cash flow hedge						74		74
Comprehensive income (As Restated, See Note 2)								17,754
Balance, October 3, 2004 (As Restated, See Note 2)	16,078	$ 16	$ 124,041	$ (70)	$ (6,531)	$ (34)	$ 34,536	$ 151,958

See Notes to Condensed Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description Of Business And Basis Of Presentation

Red Robin Gourmet Burgers, Inc., together with its subsidiaries (Red Robin or the Company), is a casual dining restaurant chain. As of October 3, 2004, the Company operated 130 company-owned restaurants located in 16 states. The Company also sells franchises and receives royalties from the operation of franchised Red Robin® restaurants. As of October 3, 2004, there were 116 additional restaurants operating under franchise or license agreements in 24 states and two Canadian provinces.

The accompanying interim condensed consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair presentation of the results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K.

The Company s quarter which ended October 3, 2004 is referred to as third quarter 2004 or the twelve weeks ended October 3, 2004, and its quarter which ended October 5, 2003 is referred to as third quarter 2003 or the twelve weeks ended October 5, 2003. The first quarter ended April 18, 2004, is referred to as first quarter 2004, and the first quarter ended April 20, 2003, is referred to as first quarter 2003. The second quarter ended July 11, 2004, is referred to as second quarter 2004, and the second quarter ended July 13, 2003, is referred to as second quarter 2003. The first quarters for both years presented included 16 weeks, whereas the second and third quarters each included 12 weeks. Together, the first, second and third quarter of each respective fiscal year are referred to as the forty weeks ended October 3, 2004, and October 5, 2003, respectively. Certain amounts in the 2003 consolidated interim financial statements have been reclassified to conform to the 2004 presentation.

The condensed consolidated financial statements include the accounts of Red Robin and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 the financial statements pertain to franchise receivables, allowances for doubtful accounts, fixed asset lives, valuation of long-lived assets, impairment of goodwill and other intangible assets, income taxes and self-insurance and workers compensation reserves. Actual results could differ from those estimates and the differences could be material.

2. Restatement of Previously Issued Financial Statements

On February 7, 2005, the Office of the Chief Accountant of the Securities and Exchange Commission (SEC) issued a letter to the American Institute of Certified Public Accountants expressing its views regarding certain operating lease-related accounting issues and their application under GAAP. In light of this letter, the Company s management initiated a review of its lease accounting and determined that its previous methods of accounting for rent holidays and for leasehold improvements funded by landlord incentives or allowances under operating leases

(tenant improvement allowances) were not in accordance with GAAP. As a result, the accompanying condensed consolidated financial statements as of October 3, 2004, and for the twelve and forty weeks ended October 3, 2004 and October 5, 2003 (financial statements), have been restated from the amounts previously reported.

Historically, when accounting for leases with renewal options, the Company recorded rent expense on a straight-line basis over the initial non-cancelable lease term, with the term commencing when rent payments began. In most instances, the period when rent payments began coincided with the date the Company s restaurants opened. This generally had the effect of excluding the build-out period for restaurants from the calculation of the period over which rent was expensed, though the point where the Company became legally obligated for future rent payments had been reached. The Company generally depreciated its buildings, leasehold improvements and other long-lived

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RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assets on those properties over a period that included both the initial non-cancelable lease term and all option periods provided for in the lease (or the useful life of the assets if shorter) up to a maximum period of twenty years. However, in certain instances the Company amortized leasehold improvements over only the initial non-cancelable lease term. Further, the Company s historical consolidated balance sheets had reflected the unamortized portion of tenant improvement allowances as a reduction of the related leasehold improvements and the subsequent amortization of those tenant improvement allowances as a reduction of depreciation and amortization expense in its consolidated statements of income over the period that began when the allowances were received and ended at the end of the related lease term.

The Company has restated its financial statements to recognize rent expense on a straight-line basis over the expected lease term, including cancelable option periods where failure to exercise such options would result in an economic penalty. The lease term commences on the date that the Company becomes legally obligated for future rent payments, which coincides with the date on which the landlord delivers the property to the Company for development and the Company waives contract contingencies. The Company s restated financial statements include rental expenses in pre-opening costs for the period from inception through the date each restaurant opens. This had the effect of increasing pre-opening costs and decreasing restaurant occupancy costs.

The Company also has restated its financial statements to recognize tenant improvement allowances as deferred rent which is amortized over the lease term as a reduction of rent expense. This had the effect of increasing property and equipment, net and deferred rent payable in the condensed consolidated balance sheet and increasing depreciation and amortization expense and decreasing restaurant occupancy costs in the condensed consolidated statements of income. In addition, the Company has restated depreciation and amortization expenses in the financial statements to correct instances where the period of amortization of leasehold improvements did not match the lease term (or the useful life of the assets if shorter) up to a maximum period of twenty years. This led to an increase in property and equipment, net and a decrease in depreciation and amortization expense in the financial statements.

In addition, the Company s restated financial statements also reflect certain immaterial adjustments to reflect corrections to the condensed consolidated balance sheet classification of deferred tax assets and liabilities, accrued liabilities and other non-current liabilities and corrections to the condensed consolidated statements of income to reflect previously unrecorded activity related to a provision of the Company s fountain beverage agreement.

Finally, the Company s restated financial statements for the twelve and forty weeks ended October 3, 2004, include adjustments to increase depreciation and amortization expense and decrease property and equipment, net to correct errors for previously unrecorded depreciation that were identified by management during the fourth quarter of 2004.

The cumulative effect of this restatement resulted in a decrease in retained earnings of $2.2 million as of October 3, 2004, and decreases in net income of $399,000 and $914,000, respectively, for the twelve and forty weeks ended October 3, 2004, and decreases in net income of $57,000 and $251,000, respectively, for the twelve and forty weeks ended October 5, 2003.

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RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Following is a summary of the significant effects of the restatement on the Company s condensed consolidated balance sheet as of October 3, 2004 as well as the effects of these changes on the Company s condensed consolidated statements of income for the twelve and forty weeks ended October 3, 2004 and October 5, 2003 (in thousands, except per share data):

	Condensed Consolidated Balance Sheets		
	As Previously Reported	Adjustments	As Restated
October 3, 2004			
Current deferred tax asset	$ 1,075	$ (318)	$ 757
Property and equipment, net	189,843	3,710	193,553
Non-current deferred tax asset	4,663	1,734	6,397
Total assets	246,631	5,126	251,757
Accrued payroll and payroll-related liabilities	16,877	(2,370)	14,507
Accrued liabilities	11,661	37	11,698
Deferred rent payable	5,802	7,258	13,060
Other non-current liabilities		2,370	2,370
Retained earnings	36,705	(2,169)	34,536
Total stockholders equity	154,127	(2,169)	151,958
Total liabilities and stockholders equity	$ 246,631	$ 5,126	$ 251,757

	Condensed Consolidated Statements of Income		
	As Previously Reported	Adjustments	As Restated
Twelve Weeks Ended October 3, 2004			
Cost of sales	$ 22,357	$ (29)	$ 22,328
Operating	13,439	56	13,495
Occupancy	6,099	(38)	6,061
Depreciation and amortization	4,796	468	5,264
General and administrative	6,771	6	6,777
Pre-opening costs	1,002	196	1,198
Income from operations	11,868	(659)	11,209
Income before income taxes	11,358	(659)	10,699
Provision for income taxes	3,868	(260)	3,608
Net income	$ 7,490	$ (399)	$ 7,091
Earnings per share Basic	$ 0.47	$ (0.03)	$ 0.44
Earnings per share Diluted	$ 0.46	$ (0.03)	$ 0.43

Forty Weeks Ended October 3, 2004			
Cost of sales	$ 70,538	$ (95)	$ 70,443
Operating	43,068	56	43,124
Occupancy	19,128	(138)	18,990
Depreciation and amortization	15,004	975	15,979
General and administrative	21,430	36	21,466
Pre-opening costs	3,098	675	3,773
Income from operations	29,902	(1,509)	28,393
Income before income taxes	28,323	(1,509)	26,814
Provision for income taxes	9,729	(595)	9,134
Net income	$ 18,594	$ (914)	$ 17,680
Earnings per share Basic	$ 1.16	$ (0.06)	$ 1.10
Earnings per share Diluted	$ 1.14	$ (0.06)	$ 1.08
Twelve Weeks Ended October 5, 2003			
Cost of sales	$ 18,087	$ (25)	$ 18,062
Occupancy	5,142	(68)	5,074
Depreciation and amortization	3,984	65	4,049
General and administrative	4,816	(9)	4,807
Pre-opening costs	1,058	129	1,187
Income from operations	6,822	(92)	6,730
Income before income taxes	5,965	(92)	5,873
Provision for income taxes	1,990	(35)	1,955
Net income	$ 3,975	$ (57)	$ 3,918
Earnings per share Basic	$ 0.26	$	$ 0.26
Earnings per share Diluted	$ 0.26	$ (0.01)	$ 0.25
Forty Weeks Ended October 5, 2003			
Cost of sales	$ 56,452	$ (81)	$ 56,371
Occupancy	16,376	(242)	16,134
Depreciation and amortization	12,110	197	12,307
General and administrative	17,150	(26)	17,124
Pre-opening costs	2,414	561	2,975
Income from operations	19,643	(409)	19,234
Income before income taxes	17,292	(409)	16,883
Provision for income taxes	5,751	(158)	5,593
Net income	$ 11,541	$ (251)	$ 11,290
Earnings per share Basic	$ 0.76	$ (0.01)	$ 0.75
Earnings per share Diluted	$ 0.75	$ (0.01)	$ 0.74

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RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Stock Based Compensation

Employee Stock Purchase Plan The Company maintains an Employee Stock Purchase Plan (2002 ESPP) under which eligible employees may voluntarily contribute up to 15% of their salary, subject to limitations, to purchase common stock at a price equal to 85% of the lesser of the fair market value of a share of the Company s common stock on the first day of the each offering period or the last day of each offering period. Generally, all of the Company s officers and employees who have been employed by the Company for at least one year and who are regularly scheduled to work more than twenty hours per week are eligible to participate in the 2002 ESPP. The 2002 ESPP operates in successive six-month periods, or offering periods, commencing on each January 1 and July 1. A total of 300,000 shares of common stock were initially reserved for issuance under the plan. During the twelve and forty weeks ended October 3, 2004, respectively, a total of 0 and 15,089 shares of common stock were issued in connection with the 2002 ESPP. As of October 3, 2004, a total of 275,649 shares remained available for future issuance under the plan.

Employee Stock Incentive Plans During the twelve and forty weeks ended October 3, 2004, respectively, a total of 22,200 and 511,119 employee stock options were granted under the Company s 2002 Stock Incentive Plan (2002 Stock Plan) at an exercise price equal to the closing market price on the date of grant. The weighted-average exercise price of these options was $33.54 and $27.21 per share, respectively. The weighted average fair values of options at their grant date during the twelve and forty weeks ended October 3, 2004, were $14.06 and $11.52, respectively. The fair value of stock options granted was estimated using the Black-Scholes multiple option-pricing model with the following weighted average assumptions:

	Twelve Weeks Ended		Forty Weeks Ended	
	October 3, 2004	October 5, 2003	October 3, 2004	October 5, 2003
Risk-free interest rate	3.6%	3.4%	3.3%	3.1%
Expected years until exercise	5.5	5.5	5.5	5.5
Expected stock volatility	39.7%	45.4%	41.1%	48.5%
Dividend yield	0.0%	0.0%	0.0%	0.0%

The Company accounts for stock-based compensation awards under the intrinsic method of Accounting Principles Board Opinion No. 25, which requires compensation cost to be recognized based on the excess, if any, between the quoted market price of the stock at the date of grant and the amount an employee must pay to acquire the stock. As a result, compensation expense was recognized during the each period presented for certain options granted during 2002 with intrinsic value on the date of grant. The following table illustrates the effect on net income and earnings per share if the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, had been applied (in thousands, except per share data):

	Twelve Weeks Ended		Forty Weeks Ended	
	October 3, 2004	October 5, 2003	October 3, 2004	October 5,

				2003
Net income, as reported	$ 7,091	$ 3,918	$ 17,680	$ 11,290
Add: Stock-based employee compensation expense included in reported net income, net of related tax benefit	12	13	37	37
Deduct: Stock-based employee compensation costs based on fair value method, net of tax benefit	(577)	(261)	(1,680)	(755)
Pro forma net income	$ 6,526	$ 3,670	$ 16,037	$ 10,572
Basic earnings per share:				
As reported	$ 0.44	$ 0.26	$ 1.10	$ 0.75
Pro forma	$ 0.41	$ 0.24	$ 1.00	$ 0.70
Diluted earnings per share:				
As reported	$ 0.43	$ 0.25	$ 1.08	$ 0.74
Pro forma	$ 0.40	$ 0.24	$ 0.98	$ 0.69

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Borrowings

Borrowings consist of the following (in thousands):

	October 3, 2004	December 28, 2003
Revolving credit agreement	$ 25,599	$ 20,000
Capital leases	7,149	7,388
Collateralized notes payable	9,319	10,240
	42,067	37,628
Current portion	(1,503)	(1,422)
Long-term debt	$ 40,564	$ 36,206

As of October 3, 2004, borrowings outstanding under the revolving credit agreement bore interest at approximately 3.9%.

5. Franchise Operations

Results of franchise operations consist of the following (in thousands):

	Twelve Weeks Ended		Forty Weeks Ended	
	October 3, 2004	October 5, 2003	October 3, 2004	October 5, 2003
Franchise royalties and fees				
Royalty income	$ 2,749	$ 2,172	$ 8,468	$ 6,809
Franchise fees	63	43	465	158
Total franchise royalties and fees	2,812	2,215	8,933	6,967
Franchise development costs				
Payroll and employee benefit costs	353	250	1,417	828
General and administrative	206	216	893	582

Annual conference	(113)	(7)	1,090	770
Total franchise development costs	446	459	3,400	2,180
Operating income from franchise operations	$ 2,366	$ 1,756	$ 5,533	$ 4,787

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RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Earnings Per Share

The Company presents both basic and diluted earnings per share amounts. 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. Diluted earnings per share reflect the potential dilution that could occur if holders of options exercised their holdings into common stock. During the forty weeks ended October 3, 2004 and October 5, 2003, respectively, a total of 4,400 and 2,500 weighted-average stock options outstanding were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. There were no anti-dilutive stock options for the twelve week periods ended October 3, 2004 and October 3, 2003. 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 share data):

	Twelve Weeks Ended		Forty Weeks Ended	
	October 3, 2004	October 5, 2003	October 3, 2004	October 5, 2003
Net income	$ 7,091	$ 3,918	$ 17,680	$ 11,290
Basic weighted average shares outstanding	16,043	15,161	16,002	15,092
Dilutive effect of employee stock options	400	308	342	251
Diluted weighted average shares outstanding	16,443	15,469	16,344	15,343
Earnings per share:				
Basic	$ 0.44	$ 0.26	$ 1.10	$ 0.75
Diluted	$ 0.43	$ 0.25	$ 1.08	$ 0.74

Unvested shares issued upon early exercise, as described in Note 7, are not considered outstanding for purposes of computing basic earnings per share because the employee is not entitled to the rewards of ownership. However, these unvested shares are included as potentially dilutive for purposes of estimating diluted net income per share. Unvested shares issued upon early exercise totaled 22,989 as of October 3, 2004, and 34,483 as of October 5, 2003. Shares issued upon early exercise of options are subject to a right of repurchase by the Company at the lower of fair value or issuance price until vested. As of October 3, 2004 and December 28, 2003, the number of fully vested early exercised options totaled 752,873 and 741,379, respectively, and unvested early exercise options totaled 22,989 and 34,483, respectively.

7. Related Party Transactions

In April 2002, the Company s board of directors approved the early exercise of options to purchase up to 775,862 shares of common stock and the exercise of additional options to purchase an additional 146,552 shares of common stock related to fully vested options held by certain executive officers under existing stock option plans. These shares were issued in exchange for full recourse notes totaling $5.4 million, bearing interest at 4.65% per annum with maturity dates ranging from June 26, 2006 to January 29, 2012, or earlier if employment terminates. The notes are recorded as a reduction of stockholders equity and interest income of $60,400 and $64,300 has been recognized in the twelve weeks ended October 3, 2004 and October 5, 2003, respectively, and interest income of $201,900 and $199,100 has been recognized in the forty weeks ended October 3, 2004 and October 5, 2003, respectively.

During the twelve and forty weeks ended October 3, 2004, the Company s chief financial officer repaid $61,500 and $114,100, respectively, of principal related to his $600,000 full recourse note and $4,300 and $21,900 of accrued interest thereon. There have been no other repayments related to these officer notes since their inception. As a result, the outstanding principal balance of the remaining full recourse notes as of October 3, 2004 was $5.2 million.

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RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s chief executive officer has two $300,000 notes payable to the Company, collateralized by shares of the Company s common stock. The notes were issued in June 2000 and May 2001 in connection with an employment agreement, and bear interest, compounded annually, of 6.62% and 5.07%, respectively. The notes mature in May 2005, at which time all principal and interest becomes due and payable to the Company. These notes, and the related interest thereon, are recorded as a reduction of stockholders equity. During the twelve weeks ended October 3, 2004 and October 5, 2003, the Company recognized interest income of $9,900 and $9,300, respectively, and during the forty weeks ended October 3, 2004 and October 5, 2003, the Company recognized interest income of $32,900 and $31,600, respectively, on these notes.

The Company s chief executive officer and its senior vice president of operations own 31.0% and 7.0%, respectively, of Mach Robin, LLC (Mach Robin), which operates Red Robin restaurants under a franchise agreement. The Company recognized royalty income from Mach Robin in the amounts of $221,300 and $206,600 in the twelve weeks ended October 3, 2004 and October 5, 2003, respectively, and $716,800 and $703,400 in the forty weeks ended October 3, 2004 and October 5, 2003, respectively. Prior to January 2004, an entity controlled by Mach Robin had a 40.0% ownership interest in, and a right to share up to 60.0% of the profits of Red Robin Restaurants of Canada, Ltd (RRRC), which operated Red Robin restaurants in two Canadian provinces under franchise agreements. The Company recognized royalty income from RRRC of $213,000 and $206,300 in the twelve weeks ended October 3, 2004 and October 5, 2003, respectively, and $698,600 and $654,600 in the forty weeks ended October 3, 2004 and October 5, 2003, respectively. In January 2004, an entity controlled by Mach Robin acquired the remaining 60% ownership interest in RRRC that it did not already hold after the Company rejected its right of first refusal. The franchise agreements held by RRRC remain in place and RRRC is now controlled entirely by Mach Robin, or its subsidiaries.

8. Recent Accounting Pronouncements

In December 2003, the FASB issued FASB Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities an Interpretation of ARB No. 51. This interpretation, which replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. This interpretation is required in financial statements for periods ending after March 15, 2004 for those companies that have yet to adopt the provisions of FIN 46. The Company has no variable interest in variable interest entities and, therefore, no entities were consolidated with the Company s financial statements as a result of adopting FIN 46R.

In October 2004, the Financial Accounting Standards Board (FASB) concluded that FASB Exposure Draft, Share-Based Payment, which would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, would be effective for public companies for interim or annual periods beginning after June 15, 2005. Retroactive application of the requirements of SFAS No. 123 to the beginning of the fiscal year that includes the effective date would be permitted, but not required.

The Company would be required to apply the proposed Exposure Draft beginning July 10, 2005 and could choose to apply SFAS No. 123 retroactively from January 1, 2005 to June 30, 2005. The cumulative effect of adoption, if any, would be measured and recognized on July 10, 2005.

The FASB has tentatively concluded that companies could adopt the new standard in one of two ways:

Modified prospective transition method (the method proposed in the Exposure Draft). A company would recognize share-based employee compensation cost from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date.

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Measurement and attribution of compensation cost for awards that are non vested as of the effective date of the proposed Exposure Draft would be based on the same estimate of the grant-date fair value and the same attribution method used previously under SFAS No. 123 (either for recognition or pro forma purposes).

Modified retrospective transition method. A company would recognize employee compensation cost for periods presented prior to the adoption of the proposed Exposure Draft in accordance with the original provisions of SFAS No. 123; that is, an entity would recognize employee compensation cost in the amounts reported in the pro forma disclosures provided in accordance with SFAS No. 123. A company would not be permitted to make any changes to those amounts upon adoption of the proposed Exposure Draft unless those changes represent a correction of an error (and are disclosed accordingly). For periods after the date of adoption of the proposed Exposure Draft, the modified prospective transition method described above would be applied.

The FASB plans to issue a final statement on or around December 15, 2004. Management is currently evaluating the impact of this pronouncement.

9. Subsequent Events

On October 25, 2004, the Company s revolving credit agreement was amended to reflect an increase in the irrevocable letter of credit from $2.0 million to $2.7 million. This letter is being maintained to back the Company s self-insured workers compensation program and reduces the amount of future borrowings available under the Company s revolving credit agreement. In addition, the Company amended its revolving credit agreement to increase its annual limitation on 2004 capital expenditures from $64.7 million to $80.0 million.

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

Organization of Information

Management s Discussion and Analysis of Financial Condition and Results of Operations provides a narrative on our financial performance and condition that should be read in conjunction with the accompanying condensed consolidated financial statements. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain risk factors including, but not limited to, those discussed in Risk Factors under Item 1 and elsewhere in our annual report on Form 10-K. This section includes the following discussions:

- Restatement of Previously Issued Financial Statements
- Overview
- Unit Data and Comparable Restaurant Sales
- Results of Operations
- Third Quarter 2004 (Twelve Weeks) compared to Third Quarter 2003 (Twelve Weeks)
- Forty Weeks Ended October 3, 2004 compared to Forty Weeks Ended October 5, 2003
- Liquidity and Capital Resources
- Inflation
- Seasonality
- Critical Accounting Policies and Estimates
- Recent Accounting Pronouncements
- Forward-Looking Statements

Restatement of Previously Issued Financial Statements

As discussed in Note 2, the condensed consolidated financial statements included in this quarterly report on Form 10-Q/A have been restated. The accompanying Management s Discussion and Analysis gives effect to the restatement.

Overview

Red Robin is a casual dining restaurant chain which operates company-owned restaurants throughout the United States. We also sell franchises and receive royalties from the operation of franchised Red Robin® restaurants. As of October 3, 2004, we operated company-owned restaurants in 16 states and our franchisees operated restaurants in 24 states and two Canadian provinces.

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Unit Data and Comparable Restaurant Sales

The following table details the number of restaurants opened during third quarter 2004 and the current fiscal year-to-date through October 3, 2004, as well as the total number of restaurants open as of October 3, 2004.

	Third Quarter 2004	Fiscal Year Through October 3, 2004
Company-owned:		
Beginning of period	125	115
Opened during period	5	15
End of period	130	130
Franchised:		
Beginning of period	113	103
Opened during period	3	15
Closed during period		(2)
End of period	116	116
Total Number of Red Robin Restaurants	246	246

Since October 3, 2004 and through November 5, 2004, we have opened three additional company-owned restaurants. These openings bring our total restaurant count as of the date of this filing to 133 company-owned restaurants, 116 franchised restaurants and 249 total restaurants. We expect to open an additional four company-owned restaurants and anticipate that our franchisees will open two to three additional restaurants during the remainder of 2004.

We reflect restaurants as comparable in the first period following five full quarters of operations. Our company-owned comparable restaurant sales increased 8.8% for third quarter 2004 and 7.7% for the forty weeks ended October 3, 2004, over third quarter 2003 and the forty weeks ended October 5, 2003, respectively.

Results of Operations

Our 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:

	Twelve Weeks Ended	Forty Weeks Ended

	October 3, 2004	October 5, 2003	October 3, 2004	October 5, 2003
Revenues:				
Restaurant	97.1%	97.0%	97.0%	97.0%
Franchise royalties and fees	2.8	2.8	2.9	2.9
Rent revenue	0.1	0.2	0.1	0.1
Total revenues	100.0	100.0	100.0	100.0
Costs and Expenses:				
Restaurant operating costs:				
Cost of sales	23.1	23.5	23.4	23.4
Labor	34.0	35.6	34.7	35.4
Operating	13.9	15.0	14.3	15.1
Occupancy	6.3	6.6	6.3	6.7
Total restaurant operating costs	77.3	80.7	78.7	80.6
Depreciation and amortization	5.3	5.1	5.2	5.0
General and administrative	6.8	6.1	6.9	6.9
Franchise development	0.4	0.6	1.1	0.9
Pre-opening costs	1.2	1.5	1.2	1.2
Income from operations	11.2	8.5	9.2	7.8
Other (Income) Expense:				
Interest expense	0.6	0.9	0.7	0.9
Interest income	(0.1)	(0.1)	(0.1)	(0.1)
Loss on extinguishment of debt		0.2		0.1
Gain on sale of property			(0.1)	
Other		0.1		
Total other expenses	0.5	1.1	0.5	0.9
Income before income taxes	10.7	7.4	8.7	6.9
Provision for income taxes	3.6	2.5	3.0	2.3
Net income	7.1%	4.9%	5.7%	4.6%

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Third Quarter 2004 (Twelve Weeks) compared to Third Quarter 2003 (Twelve Weeks)

Total revenues. Total revenues increased by $20.3 million, or 25.6%, to $99.7 million, from $79.3 million, due primarily to a $19.9 million increase in restaurant revenues. The increase in restaurant revenues was due to $10.5 million of revenues from 15 new restaurants opened year-to-date during 2004, $6.2 million from comparable restaurant sales increases of 8.8% and $3.2 million in additional revenues from the 13 non-comparable restaurants that we opened in 2003. The increase in comparable restaurant sales was driven by an increase in guest counts of 3.8% and an increase in the average guest check of 5.0%. The increase in the average guest check reflects moderate price increases taken in January and mid-June.

Franchise royalties and fees increased $597,100, or 27.0%, to $2.8 million from $2.2 million. Franchise royalties increased $577,300, or 26.6%, to $2.7 million, from $2.2 million, due primarily to an increase in royalties generated from the 15 franchise restaurants opened in 2004. Overall, our franchisees reported that comparable sales for U.S. and Canadian franchise restaurants increased 6.7% and 7.5%, respectively. Franchise fees increased $19,800 to $63,400, from $43,600, due primarily to the fact that our franchisees opened three restaurants in third quarter 2004 compared to two in third quarter 2003.

Cost of sales. Cost of sales increased by $4.3 million, or 23.6%, to $22.3 million, from $18.1 million, due primarily to more restaurants being operated during third quarter 2004. Cost of sales as a percentage of restaurant revenues improved 0.4%, to 23.1%, from 23.5%. The improvement as a percentage of restaurant revenues was attributable primarily to the moderate price increases taken during January and mid-June, offset by slightly higher commodity costs in most food categories.

Labor. Labor expenses increased by $5.5 million, or 19.9%, to $32.9 million, from $27.4 million, due primarily to more restaurants being operated in third quarter 2004. Overall, labor expense as a percentage of restaurant revenues improved 1.6%, to 34.0%, from 35.6%. Labor as a percentage of restaurant revenues improved during third quarter 2004, due primarily to our 8.8% increase in comparable restaurant sales. Bonuses were 0.5% higher as a percentage of restaurant revenues due to improved comparable restaurant sales. Our workers compensation expense improved to 0.6% of restaurant revenues during third quarter 2004 compared to 1.0% a year ago. The improvement in workers compensation expense as a percentage of restaurant revenues was attributable to recent lower claims experience and per claim costs. In 2003, our workers compensation costs had increased as a percentage of restaurant revenues and we cannot predict with certainty whether or not our workers compensation expense will increase or decrease during the remainder of 2004.

Operating. Operating expenses increased by $2.0 million, or 16.9%, to $13.5 million, from $11.5 million, due primarily to more restaurants being operated in third quarter 2004. Operating expenses as a percentage of restaurant revenues improved 1.1%, to 13.9%, from 15.0%. The improvement as a percentage of restaurant revenues was due primarily to leverage from our 8.8% increase in comparable restaurant sales.

Occupancy. Occupancy expenses increased by $987,200, or 19.5%, to $6.1 million, from $5.1 million, due primarily to more restaurants being operated in third quarter 2004. Occupancy expense as a percentage of restaurant revenues improved 0.3%, to 6.3%, from 6.6%. Our occupancy expenses as a percentage of restaurant revenues improved as a result of our comparable restaurant sales increase. In addition, the percentage of free-standing restaurants that we own or have ground leases on has increased compared to a year ago, and free-standing units generally have lower occupancy costs than in-line units.

Depreciation and amortization. Depreciation and amortization increased $1.2 million, or 30.0%, to $5.3 million, from $4.1 million. The increase was primarily due to the addition of 28 new restaurants opened since the end of third quarter 2003. Depreciation and amortization expense as a percentage of total revenues increased 0.2%, to 5.3%, from 5.1%.

General and administrative. General and administrative expenses increased by $2.0 million, or 41.0%, to $6.8 million, from $4.8 million. General and administrative expenses as a percentage of total revenues increased 0.7%, to 6.8%, from 6.1%. These increases were primarily due to additional headcount and related costs attributable to operating more company-owned restaurants. The increase in general and administrative expenses as a percentage of total revenues was anticipated due to the fact that we had a number of unfilled positions in the prior year period that were filled in the latter half of 2003.

Franchise development. Our franchisees opened three new restaurants in third quarter 2004 compared to two in third quarter 2003. Overall, franchise development expenses decreased $12,600, or 2.7%, to $445,800, from $458,400, due primarily to an adjustment we recorded to reflect lower than anticipated final costs related to our 2004 annual GM conference. Franchise development expenses as a percentage of total revenues improved 0.2%, to 0.4%, from 0.6%. This improvement was attributable to higher total revenues in third quarter 2004 compared to a year ago, and the aforementioned adjustment related to our 2004 annual GM conference.

Pre-opening costs. Pre-opening costs decreased $11,100, or 0.9%, to $1.2 million. We opened five company-owned restaurants during third quarter 2004, compared to six in the prior year period. Pre-opening costs as a percentage of total revenues improved 0.3%, to 1.2%, from 1.5%. Overall, pre-opening costs for the restaurants we opened in third quarter 2004 averaged $213,000 per restaurant compared to an average of $225,100 per restaurant in third quarter 2003. This improvement was due to the fact that rent costs recognized during the construction period were lower in third quarter 2004 compared to third quarter 2003 because we own two of the sites opened in third quarter 2004, compared to only one site opened in third quarter 2003.

Interest expense. Interest expense decreased by $130,500, or 17.6%, to $611,600, from $742,100. Our interest expense was lower in third quarter 2004 due to the early payoff of various real estate and equipment loans during 2003 that bore significantly higher interest rates than borrowings under our revolving credit agreement.

Interest income. Interest income was $73,900 in third quarter 2004, compared to $88,700 in third quarter 2003. Primarily all of the interest income we recorded in both periods was attributable to related party receivables from officer/stockholder notes.

Loss on extinguishment of debt. We incurred legal fees, prepayment penalties, non-cash write-offs of unamortized debt issuance costs and other costs totaling $150,300 during third quarter 2003 as a result of our exercise of purchase options to acquire two properties previously under capital lease. There were no similar charges in third quarter 2004.

Other. Other income was $28,100 in third quarter 2004, compared to other expense of $53,400 in third quarter 2003.

Income before income taxes. As a result of the above, income before income taxes increased $4.8 million, or 82.2%, to $10.7 million, from $5.9 million.

Provision for income taxes. The provision for income taxes increased $1.7 million, or 84.6%, to $3.6 million, from $1.9 million. The increase was due to increased pre-tax earnings and an increase in our estimated effective income tax rate. Our effective income tax rate for third quarter 2004 was 33.7%, compared to 33.3% for third quarter 2003.

Net income. As a result of the above, net income increased by $3.2 million, or 81.0%, to $7.1 million, from $3.9 million.

Forty Weeks ended October 3, 2004 compared to Forty Weeks ended October 5, 2003

Total revenues. Total revenues increased by $62.3 million, or 25.2%, to $310.1 million, from $247.8 million, due primarily to a $60.5 million increase in restaurant revenues. The increase in restaurant revenues was due to $23.5 million in additional revenues from the non-comparable restaurants that we opened in 2003, $19.2 million of revenues from 15 new restaurants opened year-to-date during 2004 and $17.8 million from comparable restaurant sales increases of 7.7%. The increase in comparable restaurant sales was driven by an increase in guest counts of 4.9% and an increase in the average guest check of 2.8%. The increase in the average guest check reflects moderate price increases taken in January and mid-June.

Franchise royalties and fees increased $1.9 million, or 28.2%, to $8.9 million from $7.0 million. Franchise royalties increased $1.7 million, or 24.4%, to $8.5 million, from $6.8 million, due primarily to an increase in royalties generated from the 25 franchise restaurants opened in 2003 and 2004. Overall, our franchisees reported that comparable sales for U.S. and Canadian franchise restaurants increased 5.8% and 4.9%, respectively. Franchise fees increased $306,600 to $465,300, from $158,700, due primarily to the fact that our franchisees opened 15 restaurants in the forty weeks ended October 3, 2004 compared to six in the forty weeks ended October 5, 2003.

Cost of sales. Cost of sales increased by $14.1 million, or 25.0%, to $70.4 million, from $56.4 million, due primarily to more restaurants being operated during the forty weeks ended October 3, 2004. Cost of sales as a percentage of restaurant revenues remained unchanged at 23.4%.

Labor. Labor expenses increased by $19.5 million, or 22.9%, to $104.6 million, from $85.1 million, due primarily to more restaurants being operated in the forty weeks ended October 3, 2004. Overall, labor expense as a percentage of restaurant revenues improved 0.7%, to 34.7%, from 35.4%. Labor as a percentage of restaurant revenues improved during the forty weeks ended October 3, 2004, due primarily to our 7.7% increase in comparable restaurant sales. Bonuses were 0.5% higher as a percentage of restaurant revenues due to improved comparable restaurant sales. Our workers compensation expense improved to 0.7% of restaurant revenues during the forty weeks ended October 3, 2004 compared to 0.9% a year ago. The improvement in workers compensation expense as a percentage of restaurant revenues was attributable to recent lower claims experience and per claim costs. In 2003, our workers compensation costs had increased as a percentage of restaurant revenues and we cannot predict with certainty whether or not our workers compensation expense will increase or decrease during the remainder of 2004.

Operating. Operating expenses increased by $6.8 million, or 18.6%, to $43.1 million, from $36.4 million, due primarily to more restaurants being operated in the forty weeks ended October 3, 2004. Operating expenses as a percentage of restaurant revenues improved 0.8%, to 14.3%, from 15.1%. The improvement as a percentage of restaurant revenues was due primarily to leverage from our 7.7% increase in comparable restaurant sales.

Occupancy. Occupancy expenses increased by $2.9 million, or 17.7%, to $19.0 million, from $16.1 million, due primarily to more restaurants being operated in the forty weeks ended October 3, 2004. Occupancy expense as a percentage of restaurant revenues improved 0.4%, to 6.3%, from 6.7%. Our occupancy expenses as a percentage of restaurant revenues improved as a result of our comparable restaurant sales increase. In addition, the percentage of free-standing restaurants that we own or have ground leases on has increased compared to a year ago, and free-standing units generally have lower occupancy costs than in-line units.

Depreciation and amortization. Depreciation and amortization increased $3.7 million, or 29.8%, to $16.0 million, from $12.3 million. The increase was primarily due to the addition of 28 new restaurants opened since the end of third quarter 2003. Depreciation and amortization expense as a percentage of total revenues increased 0.2%, to 5.2% from 5.0%.

General and administrative. General and administrative expenses increased by $4.3 million, or 25.4%, to $21.5 million, from $17.1 million, primarily due to additional headcount and related costs attributable to operating more company-owned restaurants. General and administrative expenses as a percentage of total revenues remained unchanged at 6.9% for both periods presented.

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Franchise development. Our franchisees opened 15 new restaurants in the forty weeks ended October 3, 2004 compared to six in the forty weeks ended October 5, 2003. Overall, franchise development expenses increased $1.2 million, or 56.0%, to $3.4 million, from $2.2 million, due primarily to additional headcount and related costs attributable to franchise operations. Franchise development expenses as a percentage of total revenues increased 0.2%, to 1.1%, from 0.9%. We substantially increased the size of our franchise development and support teams during the second half of 2003.

Pre-opening costs. Pre-opening costs increased $798,900, or 26.9%, to $3.8 million, from $3.0 million, due in part to the fact that there were 15 company-owned restaurants opened during the forty weeks ended October 3, 2004, compared to 13 in the prior year period. Pre-opening costs as a percentage of total revenues remained unchanged at 1.2% for both periods presented. Overall, pre-opening costs for the restaurants we opened in the forty weeks ended October 3, 2004 averaged $215,500 per restaurant compared to an average of $218,200 per restaurant in the forty weeks ended October 5, 2003. This improvement was due to the fact that rent costs recognized during the construction period were lower in the forty weeks ended October 3, 2004, compared to the forty weeks ended October 5, 2003, because we own four of the sites opened during the forty weeks ended October 3, 2004, compared to two in the prior year period.

Interest expense. Interest expense decreased by $308,100, or 13.2%, to $2.0 million, from $2.3 million. Our interest expense was lower in the forty weeks ended October 3, 2004 due to the early payoff of various real estate and equipment loans during 2003 that bore significantly higher interest rates than borrowings under our revolving credit agreement. These reductions were partially offset by higher interest expense on borrowings, loan amortization fees and unused loan fees related to our revolving credit agreement.

Interest income. Interest income was $246,900 in the forty weeks ended October 3, 2004, compared to $255,100 in the forty weeks ended October 5, 2003. Primarily all of the interest income we recorded in both periods was attributable to related party receivables from officer/stockholder notes.

Loss on extinguishment of debt. We incurred $256,800 of legal fees, prepayment penalties, loan termination fees, non-cash write-offs of unamortized debt issuance costs and other costs in the forty weeks ended October 5, 2003, as a result of the exercise of our purchase options on two properties combined with the early payoff of various equipment and real estate loans during the forty weeks ended October 5, 2003. There were no similar charges in the forty weeks ended October 3, 2004.

Gain on sale of property. During second quarter 2004 we sold a parcel of land for $1.1 million, resulting in a pre-tax gain of $256,900. There were no similar gains in the forty weeks ended October 5, 2003.

Other. Other expense was $60,200 in the forty weeks ended October 3, 2004, compared to other income of $19,500 in the forty weeks ended October 5, 2003.

Income before income taxes. As a result of the above, income before income taxes increased $9.9 million, or 58.8%, to $26.8 million, from $16.9 million.

Provision for income taxes. The provision for income taxes increased $3.5 million, or 63.3%, to $9.1 million, from $5.6 million. The increase was due to increased pre-tax earnings and an increase in our estimated effective income tax rate. Our effective income tax rate for the forty weeks ended October 3, 2004 was 34.1%, compared to 33.1% for the forty weeks ended October 5, 2003.

Net income. As a result of the above, net income increased by $6.4 million, or 56.6%, to $17.7 million, from $11.3 million.

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Liquidity and Capital Resources

Cash and cash equivalents were $4.5 million as of October 3, 2004, compared to $4.9 million at the end of fiscal 2003. We attempt to keep only enough cash on hand to satisfy our working capital requirements, which can vary substantially as a result of seasonality, construction and other corporate needs. All available cash in excess of our estimated working capital needs is generally used to repay borrowings under our revolving credit agreement.

The change in cash and cash equivalents during the periods presented were as follows (in thousands):

	Forty Weeks Ended	
	October 3, 2004	October 5, 2003
Cash provided by operating activities	$ 46,796	$ 31,673
Cash used by investing activities	(52,916)	(43,044)
Cash provided by financing activities	5,725	9,796
Decrease in cash and cash equivalents	$ (395)	$ (1,575)

Operating Activities

Cash provided by operations in the forty weeks ended October 3, 2004 increased $15.1 million, or 47.7%, to $46.8 million, compared to $31.7 million in the forty weeks ended October 5, 2003, reflecting increased cash flow from restaurant and franchise operations, lower cash payments for taxes and interest, and increased cash flow from changes in operating assets and liabilities. These improvements were offset in part by increased non-cash adjustments to net income.

Investing Activities

Cash used in investing activities during the forty weeks ended October 3, 2004 increased $9.9 million, or 22.9%, to $52.9 million, compared to $43.0 million in the forty weeks ended October 5, 2003. Our investing activities consist primarily of purchases of property and equipment related to the construction of new restaurants and remodels and capital improvements of our existing company-owned restaurants. Our cash inflows from investing activities generally relate to proceeds from the sale of property and equipment.

Capital Expenditures. In the forty weeks ended October 3, 2004, we spent $54.0 million for new restaurant construction, remodels, capital improvements and various corporate initiatives. During the forty weeks ended October 5, 2003, we spent $43.2 million for new restaurant construction, remodels, capital improvements, corporate initiatives and a lease buy-out on a property previously under capital lease.

During 2004, we expect to open 22 new company-owned restaurants for a total cost of $48.0 million to $50.0 million and we plan to spend $6.3 million to $6.6 million on restaurant remodels and capital improvements of our existing restaurants. In addition, we expect to invest $2.7 million to $2.8 million for corporate initiatives, including information systems, computer equipment and our corporate headquarters relocation that occurred in March 2004. In addition, we expect to spend $15.0 million to $19.5 million, including approximately $5.9 million for purchase of land, during 2004 related to the construction of new company-owned restaurants that we plan to open during 2005.

Proceeds from Investing Activities. Proceeds of $1.1 million were generated during second quarter 2004 as a result of the sale of a parcel of land. During the forty weeks ended October 5, 2003 proceeds of $115,200 were generated primarily from the sale of property.

Financing Activities

Cash provided by financing activities during the forty weeks ended October 3, 2004 decreased $4.1 million. Our financing activities consist primarily of borrowings used to fund restaurant construction and other corporate needs in excess of cash provided by operations and proceeds we receive from sales of common stock. Cash used in financing activities is primarily related to the repayment of various borrowings. During the remainder of 2004, we expect our primary source of cash provided by financing activities will be obtained from additional borrowings under our revolving credit agreement.

Proceeds from the Issuance of Stock. During the forty weeks ended October 3, 2004, proceeds of $875,500 were received as a result of the exercise of employee stock options and $296,200 of proceeds were received as a result of sales of common stock to participants of our employee stock purchase plan.

Borrowings. We maintain an $85.0 million amended revolving credit agreement that will expire in May 2006, which is in place to fund the construction and acquisition of new restaurants, to refinance existing indebtedness and for general corporate purposes, including working capital.

The amended revolving credit agreement is secured by a first priority pledge of all of the outstanding capital stock of our subsidiaries and a first priority lien on substantially all of our tangible and intangible assets. Borrowings under our revolving credit facility bear interest at the Prime Rate plus 1.0% to 1.75%, or a London Interbank Offered Rate (LIBOR), which is based on the relevant one, two, three or six month LIBOR, at our discretion, plus 2.0% to 2.75%. The spread, or margin, for Prime Rate and LIBOR loans are subject to adjustment quarterly based on our then current leverage ratio. Interest payments on ABR loans are due the last day of each March, June, September and December and on the maturity date. Interest payments on LIBOR loans having an interest period of three months or less are due the last day of such interest period. Interest payments on LIBOR loans having an interest period longer than three months are due every three months after the first day of the interest period and the last day of such interest period. In addition, we may borrow up to $3.0 million under a swingline loan subfacility if the sum of the outstanding ABR and LIBOR loans, swingline loans and letters of credit do not exceed $85.0 million. Swingline loans bear interest at a per annum rate equal to the prime rate plus 1.0% to 1.75%. As of October 3, 2004, borrowings outstanding under our revolving credit agreement bore interest at approximately 3.9%.

During the forty weeks ended October 3, 2004, our borrowings of long-term debt totaled $12.9 million and our payments of long-term debt and capital lease obligations totaled $8.5 million. Debt outstanding during the forty weeks ended October 3, 2004 had stated interest rates ranging from 2.1% to 13.4% and maturities ranging from 2005 through 2021. We do not plan to early prepay any capital lease or collateralized notes payable during 2004. Our borrowing activity in the forty weeks ended October 3, 2004 was as follows (in thousands):

	Additions	Payments	Total
Revolving credit agreement	$ 12,948	$ (7,349)	$ 5,599
Other repayments of capital leases and collateralized notes payable		(1,160)	(1,160)
Total	$ 12,948	$ (8,509)	$ 4,439

As of October 3, 2004, an irrevocable letter of credit issued under our revolving credit agreement in the amount of $2,041,000 was being maintained to back our self-insured workers compensation program. The irrevocable letter of credit was increased to $2.7 million on October 25, 2004. The irrevocable letter of credit reduces the amount of borrowings available on our revolving credit agreement. Our total committed borrowing capacity, capacity used and unused borrowing capacity as of October 3, 2004 were as follows (in thousands):

	Committed Capacity	Capacity Used	Unused Capacity

Revolving credit agreement	$ 85,000	$ 27,640	$ 57,360

The revolving credit agreement, as amended on October 25, 2004, requires that capital expenditures, as defined, will not exceed specified amounts for each fiscal year as set forth in the following table (in thousands). Prior to this amendment, the annual limitation on our 2004 capital expenditures was $64.7 million.

	Amount
2004	$ 80,000
2005	75,000
2006	75,000

The revolving credit agreement prohibits us from entering into or assuming any obligations for the payment of rent under operating leases which, with respect to all new restaurants opened in each fiscal year in the aggregate, would exceed $2.5 million in each of 2004, 2005 and 2006. In addition, the revolving credit agreement prohibits us from entering into obligations with respect to operating leases that would allow for an annual increase, on a year-to-year basis, of more than 20%.

The revolving credit agreement restricts our ability to, among other things, engage in mergers, acquisitions, joint ventures and sale-leaseback transactions, and to sell assets, incur indebtedness, make investments, create liens and pay dividends. We are currently in compliance with all covenants related to the revolving credit facility.

As of October 3, 2004, we had $9.3 million outstanding under various real estate and equipment loans with GE Capital. These loans bear interest at the 30-day commercial paper rate plus 3.0% to 3.5%, mature from 2005 to 2016, and are secured by buildings, equipment and improvements on certain properties. In addition, we had $7.2 million outstanding under various real estate and equipment loans with other lenders. These loans bear interest at rates ranging from 2.1% to 13.4% and mature from 2006 to 2021. The GE Capital loans, together with certain of our other loans, require that we maintain a maximum debt to net worth ratio, a minimum debt coverage ratio, a minimum EBITDA ratio and a maximum funded indebtedness ratio. As of October 3, 2004, we were in compliance with all of these financial ratios.

Capital Resources. We believe that anticipated cash flows from operations and funds available from our existing revolving credit agreement, together with cash on hand, will provide sufficient funds to finance our expansion plans and corporate initiatives through the remaining term of our revolving credit agreement. Changes in our operating plans, acceleration of our expansion plans, lower than anticipated sales, increased expenses or other events may make it necessary for us to seek additional debt or equity financing in future periods. There can be no guarantee that financing will be available on acceptable terms, or at all, and our failure to raise capital when needed could negatively impact our growth plans and our financial condition and results of operations. Additional equity financing may be dilutive to the holders of our common stock and debt financing, if available, may involve significant cash payment obligations and covenants and/or financial ratios that restrict our ability to operate our business.

Inflation

The primary inflationary factors affecting our operations are food and labor costs. A large number of our restaurant personnel are paid at rates based on the applicable minimum wage, and increases in the minimum wage directly affect our labor costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. We believe inflation had a modest impact on our results of operations in the forty weeks ended October 3, 2004 primarily due to rising commodity prices for certain foods we purchase at market rates. In addition, we are also experiencing rising construction costs for materials and labor related to construction of our new restaurants. Uncertainties related to future commodity prices, the supply of labor and construction materials make it difficult to predict what impact, if any, inflation may have during the remainder of 2004 and beyond.

Seasonality

Our business is subject to seasonal fluctuations. Historically, sales in most of our restaurants have been higher during the summer months and winter holiday season. As a result, our quarterly and annual operating results and comparable restaurant sales may fluctuate significantly as a result of seasonality and other factors. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year and comparable restaurant sales for any particular future period may decrease. In the future, operating results may fall below the expectations of securities analysts and investors. In that event, the price of our common stock would likely decrease.

Critical Accounting Policies and Estimates

In the ordinary course of business, management has made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, the judgments and uncertainties affecting the application of those policies, and the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

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

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

Impairment of Long-Lived Assets. Long-lived assets, including restaurant sites, leasehold improvements, other fixed assets, intangibles and goodwill are reviewed at least annually for impairment or sooner if events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. Expected cash flows associated with an asset is the key factor in determining the recoverability of the asset. Identifiable cash flows are generally measured at the restaurant level. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance. Management s estimates of undiscounted cash flows may differ from actual cash flow due to, among other things, changes in economic conditions, changes to our business model or changes in operating performance. If the sum of the undiscounted cash flows is less than the carrying value of the asset, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

Judgments made by management related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions, and changes in operating performance. As the ongoing expected cash flows and carrying amounts of long-lived assets are assessed, these factors could cause us to realize a material impairment charge. There were no asset impairment charges during the forty weeks ended October 3, 2004 or October 5, 2003.

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We completed our most recent goodwill and other intangible assets impairment tests in December 2003 and determined that there were no impairment losses related to goodwill and other intangible assets. We completed our most recent property and equipment impairment tests in October 2004 and determined that there were no impairment losses related to property and equipment.

Lease Accounting. We are obligated under various lease agreements for certain land, restaurant facilities and office space. For operating leases, we recognize rent expense on a straight-line basis over the expected lease term. Capital leases are recorded as an asset and a liability at an amount equal to the present value of the future minimum lease payments during the lease term.

Under the provisions of certain of our leases, there are rent holidays and/or escalations in payments over the base lease term, as well as renewal periods. The effects of rent holidays and escalations have been reflected in rent costs on a straight-line basis over the expected lease term, which includes cancelable option periods when it is deemed to be reasonably assured that we will exercise such option periods due to the fact that we would incur an economic penalty for not doing so. The lease term commences on the date when we become legally obligated for the rent payments which generally coincides with the time when the landlord delivers the property for us to develop and we waive contract contingencies. Under generally accepted accounting principles, there are two acceptable methods for recognizing rent costs during a period of construction; the capitalization method and the expense method. Historically, we have used the expense method. Under the expense method, all rent costs recognized during construction periods are expensed immediately as pre-opening expenses. Using the expense method results in substantially higher current period costs compared to using the capitalization method because the construction period for our free-standing restaurants is typically 130-150 days, and as a result, the amount of rent costs that we recognize during construction periods is significant. Other companies in our industry may present their financial statements using the capitalization method and, as a result, our financial statements may not necessarily be comparable to other companies in our industry.

Leasehold improvements and property held under capital leases for each restaurant facility are amortized on the straight-line method over the shorter of the estimated life of the asset or the same expected lease term used for lease accounting purposes commencing when the restaurant opens. For each restaurant facility, the consolidated financial statements generally reflect the same lease term for amortizing leasehold improvements as management uses to determine capital versus operating lease classifications and in calculating straight-line rent expense. Percentage rent expense is generally based upon adjusted restaurant sales levels and is accrued at the point in time when we determine that it is probable that such adjusted restaurant sales levels will be achieved. Leasehold improvements paid for by the landlord are recorded as leasehold improvements and deferred rent.

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

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

Recent Accounting Pronouncements

In December 2003, the FASB issued FASB Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities an Interpretation of ARB No. 51. This interpretation, which replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, clarifies the application of Accounting Research Bulletin No. 51,

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Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. This interpretation is required in financial statements for periods ending after March 15, 2004 for those companies that have yet to adopt the provisions of FIN 46. The Company has no variable interest in variable interest entities and, therefore, no entities were consolidated with our financial statements as a result of adopting FIN 46R.

On October 13, 2004, the Financial Accounting Standards Board (FASB) concluded that Statement 123R, Share-Based Payment (FASB 123R), which would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, would be effective for public companies for interim or annual periods beginning after June 15, 2005. Retroactive application of the requirements of Statement 123 (not Statement 123R) to the beginning of the fiscal year that includes the effective date would be permitted, but not required.

We would be required to apply Statement 123R beginning July 10, 2005 and could choose to apply Statement 123 retroactively from January 1, 2005 to June 30, 2005. The cumulative effect of adoption, if any, would be measured and recognized on July 10, 2005.

The FASB has tentatively concluded that companies could adopt the new standard in one of two ways:

Modified prospective transition method (the method proposed in the Exposure Draft). A company would recognize share-based employee compensation cost from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date.

Measurement and attribution of compensation cost for awards that are non vested as of the effective date of the proposed Statement would be based on the same estimate of the grant-date fair value and the same attribution method used previously under Statement 123 (either for recognition or pro forma purposes).

Modified retrospective transition method. A company would recognize employee compensation cost for periods presented prior to the adoption of Statement 123R in accordance with the original provisions of Statement 123; that is, an entity would recognize employee compensation cost in the amounts reported in the pro forma disclosures provided in accordance with Statement 123. A company would not be permitted to make any changes to those amounts upon adoption of the proposed Statement unless those changes represent a correction of an error (and are disclosed accordingly). For periods after the date of adoption of Statement 123R, the modified prospective transition method described above would be applied.

The FASB plans to issue a final statement on or around December 15, 2004. Management is currently evaluating the impact of this pronouncement.

Forward-Looking Statements

Certain information contained in this Form 10-Q/A includes forward-looking statements. 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 may , will , anticipates , expects , believes , intends , should or comparable terms or the negative thereof. All forward-looking statements included in this Form 10-Q/A are based on information available to us on the date hereof. Such statements speak only as of the date hereof. These statements involve 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:

- our ability to achieve and manage our planned expansion;
- our ability to raise capital in the future;

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the ability of our franchisees to open and manage new restaurants;

our franchisees adherence to our practices, policies and procedures;

changes in the availability and costs of food;

potential fluctuation in our quarterly operating results due to seasonality and other factors;

the continued service of key management personnel;

the concentration of our restaurants in the Western United States;

our ability to protect our name and logo and other proprietary information;

changes in consumer preferences, general economic conditions or consumer discretionary spending;

health concerns about our food products and food preparation;

our ability to attract, motivate and retain qualified team members;

the impact of federal, state or local government regulations relating to our team members or the sale of food or alcoholic beverages;

the impact of litigation;

the effect of competition in the restaurant industry;

cost and availability of capital;

additional costs associated with compliance, including the Sarbanes-Oxley Act and related regulations and requirements;

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 SEC reports filed by Red Robin.

Other risks, uncertainties and factors, including those discussed under Risk Factors and elsewhere in our annual report on Form 10-K, could cause our actual results to differ materially from those projected in any forward-looking statements we make. The list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

We assume no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Under our amended revolving credit agreement, we are exposed to market risk from changes in interest rates on borrowings, which bear interest at the Prime Rate plus 1.0% to 1.75%, or a London Interbank Offered Rate, based on the relevant one, two, three or six-month LIBOR, at our discretion, plus 2.0% to 2.75%. The spread, or margin, for ABR and LIBOR loans under the revolving credit agreement are subject to quarterly adjustment based on our then current leverage ratio, as defined by the agreement.

Our 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 may use interest rate swaps and caps to manage our net exposure to interest rate changes related to our borrowings. As appropriate, on the date derivative contracts are entered into, we designate derivatives as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

We are a party to a variable-to-fixed interest rate swap agreement that became effective in January 2003 and expires in January 2006. The agreement has been designated as a cash flow hedge under which we pay interest on $10.0 million of notional amount at a fixed rate and receive interest on $10.0 million of notional amount at a variable rate. The variable rate interest received by us resets according to the then current 1-month LIBOR rate determined two banking days prior to the first day of each monthly calculation period. This hedge is highly effective as defined by Statement of Financial Accounting Standards No. 133, and there were no gains or losses recognized in earnings during the forty weeks ended October 3, 2004 or October 5, 2003. At the end of the forty weeks ended October 3, 2004, the unrealized loss on derivative instruments designated and qualifying as cash flow hedging instruments that are reported in comprehensive income totaled $34,100, net of tax of $21,100, compared to $108,100, net of tax of $67,700 at the end of fiscal 2003.

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

As of October 3, 2004, we had $24.5 million of borrowings subject to variable interest rates, and a 1.0% change in the effective interest rate applied to these loans would have resulted in pre-tax interest expense fluctuating $240,500 on an annualized basis.

Primarily all of our transactions are conducted, and our accounts are denominated, in United States dollars. Accordingly, we are not exposed to foreign currency risk. Many of the food products purchased by us are affected by changes in weather, production, availability, seasonality and other factors outside our control. In an effort to control some of this risk, we have entered into some fixed price purchase commitments with terms of no more than a year. 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

Restatement of Previously Issued Financial Statements

On February 7, 2005, the Office of the Chief Accountant of the Securities and Exchange Commission (SEC) issued a letter to the American Institute of Certified Public Accountants expressing its views regarding certain operating lease-related accounting issues and their application under accounting principles generally accepted in the United States of America (GAAP). In light of this letter, management initiated a review of the Company s lease accounting and determined that its previous methods of accounting for rent holidays and for leasehold improvements funded by landlord incentives or allowances under operating leases (tenant improvement allowances) were not in accordance with GAAP. As a result, the Company has restated its condensed consolidated financial statements as of October 3, 2004 and for the twelve and forty weeks ended October 3, 2004.

See Note 2 to the condensed consolidated financial statements of this Quarterly Report on Form 10-Q/A for a summary of the effects of restatements of the Company s condensed consolidated financial statements.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our SEC filings 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 management, including our chief executive and chief financial officers, as appropriate, to allow timely decisions regarding required disclosure based on the definition of disclosure controls and procedures in Rule 13a-15(e) promulgated under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply judgment in evaluating our controls and procedures.

Our management, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. In performing this evaluation, management reviewed the Company s lease accounting practices. As a result of this review, we concluded that our previously established lease accounting practices were not appropriate under GAAP. Accordingly, as described above, management has restated its condensed consolidated financial statements as of October 3, 2004 and for the twelve and forty weeks ended October 3, 2004, to reflect the correction of these errors. These errors were attributed to deficiencies in the Company s controls relative to the selection, monitoring, and review of assumptions and factors affecting lease accounting practices as of October 3, 2004, resulting from errors in the Company s interpretation of GAAP. Based on the aforementioned evaluation, management, under the supervision and with the participation of our chief executive officer and chief financial officer, concluded that the Company s disclosure controls and procedures were not effective as of October 3, 2004.

Changes in Internal Controls over Financial Reporting

No change in internal controls over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

To remediate the material weakness in the Company s internal control over financial reporting, the Company has implemented additional review procedures over the selection and monitoring of appropriate assumptions and factors affecting lease accounting and leasehold depreciation practices.

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PART II - OTHER INFORMATION

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

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.

Red Robin Gourmet Burgers, Inc.

May 19, 2005
(Date)

/s/ James P. McCloskey
James P. McCloskey
Chief Financial Officer

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