UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

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

As of November 2, 2004, there were 16,078,854 outstanding shares of the registrant's common stock.

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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
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	1,075	1,075
Restricted current assets – marketing funds	1,776	959
Total current assets	15,896	17,557
Property and equipment, at cost, net	189,843	151,061
Deferred tax asset	4,663	4,710
Goodwill, net	25,720	25,720
Other intangible assets, net	7,690	8,118
Other assets, net	2,819	3,047
Total assets	$246,631	$ 210,213
Liabilities and Stockholders' Equity		
Current Liabilities:		
Trade accounts payable	$ 11,717	$ 9,139
Accrued payroll and payroll-related liabilities	16,877	12,931
Unredeemed gift certificates	2,604	3,997
Accrued liabilities	11,661	6,622
Accrued liabilities – marketing funds	1,776	959
Current portion of long-term debt and capital lease obligations	1,503	1,422
Total current liabilities	46,138	35,070
Deferred rent payable	5,802	5,296
Long-term debt and capital lease obligations	40,564	36,206
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 compensation	(70)	(130)
Receivables from stockholders/officers	(6,531)	(6,432)
Accumulated other comprehensive loss, net of tax benefit	(34)	(108)
Retained earnings	36,705	18,111
Total stockholders' equity	154,127	133,641
Total liabilities and stockholders' equity	$246,631	$ 210,213

See Notes to Condensed Consolidated Financial Statements.

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
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	22,357	18,087	70,538	56,452
Labor	32,872	27,410	104,579	85,117
Operating	13,439	11,542	43,068	36,362
Occupancy	6,099	5,142	19,128	16,376
Depreciation and amortization	4,796	3,984	15,004	12,110
General and administrative	6,771	4,816	21,430	17,150
Franchise development	446	459	3,400	2,180
Pre-opening costs	1,002	1,058	3,098	2,414
Total costs and expenses	87,782	72,498	280,245	228,161
Income from operations	11,868	6,822	29,902	19,643
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	11,358	5,965	28,323	17,292
Provision for income taxes	(3,868)	(1,990)	(9,729)	(5,751)
Net income	$ 7,490	$ 3,975	$ 18,594	$ 11,541
Net income per share:				
Basic	$ 0.47	$ 0.26	$ 1.16	$ 0.76
Diluted	$ 0.46	$ 0.26	$ 1.14	$ 0.75
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
Cash Flows From Operating Activities:		
Net income	$ 18,594	$ 11,541
Non-cash adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	15,004	12,110
Other, net	749	731
Changes in operating assets and liabilities	12,496	7,184
Net cash flows provided by operating activities	46,843	31,566
Cash Flows From Investing Activities:		
Proceeds from sales of property and equipment	1,101	115
Purchases of property and equipment	(54,064)	(43,052)
Net cash flows used in investing activities	(52,963)	(42,937)
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)
Proceeds from repayment of promissory notes	114	79
Proceeds from sales of common stock	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

See Notes to Condensed Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(In thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Receivables From Stockholders/ Officers	Accumulated Other Comprehensive Loss, net of tax	Retained Earnings	Total
	Shares	Amount						
Balance, December 28, 2003	15,970	$ 16	$122,184	$ (130)	$ (6,432)	$ (108)	$18,111	$133,641
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	—	—	—	—	—	—	18,594	18,594
Unrealized gain on cash flow hedge	—	—	—	—	—	74	—	74
Comprehensive income								18,668
Balance, October 3, 2004	16,078	$ 16	$124,041	$ (70)	$ (6,531)	$ (34)	$36,705	$154,127

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 for the year ended December 28, 2003.

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 U.S. generally accepted accounting principles 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. 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 forty weeks ended October 3, 2004, a total of 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 third quarter 2004, a total of 22,200 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 per share.

RED ROBIN GOURMET BURGERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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	$ 7,490	$ 3,975	$ 18,594	$ 11,541
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, net of tax benefit	577	261	1,680	755
Pro forma net income	$ 6,925	$ 3,727	$ 16,951	$ 10,823
Earnings Per Share:				
Basic - as reported	$ 0.47	$ 0.26	$ 1.16	$ 0.76
Basic - pro forma	$ 0.43	$ 0.25	$ 1.06	$ 0.72
Diluted - as reported	$ 0.46	$ 0.26	$ 1.14	$ 0.75
Diluted - pro forma	$ 0.42	$ 0.24	$ 1.04	$ 0.71

The fair value of options granted during the periods presented have been 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%

3. Borrowings

Borrowings consists 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

RED ROBIN GOURMET BURGERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

4. Franchise Operations

Results of franchise operations consists 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	307	206	1,257	673
General and administrative	252	260	1,053	737
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

5. Earnings Per Share

The Company presents both basic and diluted earnings per share amounts. Basic earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share amounts are based upon the weighted-average number of common and common equivalent shares outstanding during the period. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. Diluted earnings per share reflects the potential dilution that could occur if holders of options exercised their holdings into common stock. The Company uses the treasury stock method to calculate the impact of outstanding stock options (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	$ 7,490	$ 3,975	$ 18,594	$ 11,541
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	$ 0.47	$ 0.26	$ 1.16	$ 0.76
Diluted	$ 0.46	$ 0.26	$ 1.14	$ 0.75

Unvested shares issued upon early exercise, as described in Note 6, 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.

RED ROBIN GOURMET BURGERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. 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 $201,904 and $199,130 has been recognized in the forty weeks ended October 3, 2004 and October 5, 2003, respectively.

During the forty weeks ended October 3, 2004, the Company's chief financial officer repaid $114,075 of principal related to his $600,000 full recourse note and $21,852 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.

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 forty weeks ended October 3, 2004 and October 5, 2003, the Company recognized interest income of $32,888 and $31,560, 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 $716,753 and $703,392 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 $698,576 and $654,560 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.

7. Recent Accounting Pronouncements

In December 2003, the FASB issued FASB Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities and 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, there are no entities that were consolidated with our financial statements as a result of FIN 46R.

In October 2004, the Financial Accounting Standards Board (FASB) concluded that the 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.

RED ROBIN GOURMET BURGERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

  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.

8. 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 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 for the year ended December 28, 2003. This section includes the following discussions:

- 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 Developments
- Forward-Looking Statements

Overview

Red Robin is a casual dining restaurant chain which operates company-owned restaurants throughout the United States. We also sell franchises and receives 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.

Unit Data and Comparable Restaurant Sales

The following table details the number of restaurants opened during third quarter 2004 and the current fiscal year ended 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 the date of this filing, 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	23.5
Labor	34.0	35.6	34.7	35.4
Operating	13.9	15.0	14.3	15.1
Occupancy	6.3	6.7	6.4	6.8
Total restaurant operating costs	77.3	80.8	78.9	80.8
Depreciation and amortization	4.8	5.0	4.8	4.9
General and administrative	6.8	6.1	6.9	6.9
Franchise development	0.4	0.6	1.1	0.9
Pre-opening costs	1.0	1.3	1.0	1.0
Income from operations	11.9	8.6	9.6	7.9
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	11.4	7.5	9.1	7.0
Provision for income taxes	(3.9)	(2.5)	(3.1)	(2.3)
Net income	7.5 %	5.0 %	6.0 %	4.7 %

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 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 $22.4 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 $1.9 million, or 16.4%, to $13.4 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 $956,200, or 18.6%, 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 0.4%, to 6.3%, from 6.7%. The improvement as a percentage of restaurant revenues was attributable to leverage from our 8.8% increase in comparable restaurant sales.

Depreciation and amortization. Depreciation and amortization increased $812,500, or 20.4%, to $4.8 million, from $4.0 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 improved 0.2%, to 4.8%, from 5.0%.

General and administrative. General and administrative expenses increased by $2.0 million, or 40.6%, 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 $56,200, or 5.3%, to $1.0 million, from $1.1 million due in part to the fact that pre-opening costs for third quarter 2004 included $373,600 for restaurants we have subsequently opened during the fourth quarter of 2004, compared to $123,300 in the prior year comparable period for restaurants we subsequently opened in fourth quarter 2003. In addition, 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 1.0%, from 1.3%. Pre-opening costs for restaurants we opened in third quarter 2004 were 2.2% higher on average than the costs for restaurants we 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 $5.4 million, or 90.4%, to $11.4 million, from $6.0 million.

Provision for income taxes. The provision for income taxes increased $1.9 million, or 94.4%, to $3.9 million, from $2.0 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 34.1%, compared to 33.4% for third quarter 2003.

Net income. As a result of the above, net income increased by $3.5 million, or 88.4%, to $7.5 million, from $4.0 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 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 $14.0 million, or 25.0%, to $70.5 million, from $56.5 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 improved 0.1%, to 23.4%, 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 $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 $6.7 million, or 18.4%, 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 $2.8 million, or 16.8%, to $19.1 million, from $16.4 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 0.3%, to 6.4%, from 6.8%. Occupancy expense as a percentage of restaurant revenues at our comparable restaurants was 6.7%, compared to 6.9% the prior year. Occupancy expense as a percentage of restaurant revenues at our non-comparable restaurants was 5.0%, which was lower than our comparable restaurants due in part to the fact that we own, or have ground leases, on a greater percentage of our non-comparable restaurants.

Depreciation and amortization. Depreciation and amortization increased $2.9 million, or 23.9%, to $15.0 million, from $12.1 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 improved 0.1%, to 4.8% from 4.9%.

General and administrative. General and administrative expenses increased by $4.2 million, or 25.0%, to $21.4 million, from $17.2 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 due to the increase in comparable restaurant sales and franchise royalties and fees.

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 $683,900, or 28.3%, to $3.1 million, from $2.4 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. In addition, pre-opening costs for the forty weeks ended October 3, 2004 included $373,600 for restaurants we subsequently opened during the fourth quarter of 2004, compared to $123,300 in the prior year comparable period for restaurants we opened in the fourth quarter of 2003. Pre-opening costs as a percentage of total revenues remained unchanged at 1.0% for both periods presented. Pre-opening costs for restaurants we opened in the forty weeks ended October 3, 2004 were 2.9% higher on average than the costs for restaurants we opened 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 $11.0 million, or 63.8%, to $28.3 million, from $17.3 million.

Provision for income taxes. The provision for income taxes increased $4.0 million, or 69.2%, to $9.7 million, from $5.7 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 34.4%, compared to 33.3% for the forty weeks ended October 5, 2003.

Net income. As a result of the above, net income increased by $7.1 million, or 61.1%, to $18.6 million, from $11.5 million.

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 operations	$ 46,843	$ 31,566
Cash used by investing activities	(52,963)	(42,937)
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 $15.3 million, or 48.4%, to $46.8 million, compared to $31.6 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 $10.0 million, or 23.3%, to $53.0 million, compared to $42.9 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 $54.1 million for new restaurant construction, remodels, capital improvements and various corporate initiatives. During the forty weeks ended October 5, 2003, we spent $43.1 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 purchases 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 ABR 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

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, requires significant judgments and estimates on the part of management.

Goodwill, Intangible Assets and Other Long-Lived Assets. Goodwill and other intangible assets must be tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and at least once annually for goodwill. We completed our most recent annual impairment test in December 2003, and determined that there were no impairment losses related to goodwill. In assessing the recoverability of goodwill, market values and projections regarding estimated future cash flows and other factors are used to determine the fair value of the respective assets. If these estimates or related projections change in the future, we may be required to record impairment charges for these assets.

We assess intangible assets subject to amortization and other long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We perform this assessment on a restaurant-by-restaurant basis and will recognize an impairment loss when we believe the sum of undiscounted expected future cash flows is less than the carrying amount of such assets. The measurement for such an impairment loss is then based on the fair value of the asset as determined by discounted cash flows or appraisals, if available.

Revenue Recognition for Franchise Royalties and Fees. Royalties are accrued as earned, and are calculated each period based on the reporting franchisee's adjusted sales. Under certain circumstances, where collection of franchise royalties is not probable, we do not recognize royalty income until cash is received. We typically grant franchise rights for a term of 20 years, with the right to extend the term for an additional ten years if certain conditions are satisfied. We provide management expertise, training, pre-opening assistance and restaurant operating assistance in exchange for area development fees, franchise fees, license fees and royalties of 3.0% to 4.0% of the franchised restaurant's adjusted sales. Under our current form of area development agreement, we collect a $10,000 area development fee for each restaurant the franchisee agrees to develop at the time we enter into the area development agreement. When a franchisee opens a new restaurant, we collect an additional franchise fee of $25,000. We may charge lower area development fees and franchise fees for existing franchisees. Area development fees and franchise fees are recognized as income when all material obligations of and initial services to be provided by us have been performed, generally upon the opening of the restaurant. Until earned, these fees are accounted for as deferred income, a liability.

Income Taxes. Current tax liabilities or assets are recognized for the estimated taxes payable or refundable on tax returns for the current year. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains, and losses, differences arise between the amount of taxable income and pretax financial income for a year and the tax bases of assets or liabilities and their reported amounts in financial statements. Our effective tax rate differs from the federal statutory rate principally as a result of state income taxes, general business and other tax credits and changes in deferred tax asset valuation allowances. We realize significant tax credits because our employees receive cash tips from customers. In addition, we are required to make estimates in determining various state income tax rates. Estimating FICA tip credits and state income tax rates is inherently difficult, and actual results may differ materially from the estimates we use when reporting income taxes in our financial statements.

Deferred tax liabilities are recognized for the estimated effects of all taxable temporary differences, and deferred tax assets are recognized for the estimated effects of all deductible temporary differences and operating loss and tax credit carryforwards. The measurement of our current and deferred tax liabilities and assets is based on provisions of enacted tax laws. Current financial accounting standards do not require us to consider the effects of future changes in tax laws or rates when making our estimates. The measurement of our deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. Our provision or benefit for income taxes each year includes the tax consequences of most events that are recognized in the financial statements for that year.

Property and Equipment. Property and equipment are 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 on the straight-line method for financial reporting purposes, based on the shorter of the estimated useful life or the term of the underlying lease of the related asset. We use other depreciation methods, generally accelerated, for tax purposes where appropriate. We capitalize interest incurred on funds used to construct property and equipment. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Depreciation expense represents a significant estimate of the decline in usefulness of assets. However, we believe that the estimated useful lives we assign to our assets result in an accurate allocation of depreciation expense during the periods benefited by use.

Recent Accounting Developments

In December 2003, the FASB issued FASB Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities and 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, there are no entities that were consolidated with our financial statements as a result of FIN 46R.

In October 2004, the Financial Accounting Standards Board (FASB) concluded that the 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.

We would be required to apply the proposed Exposure Draft, if approved, 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.

  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.

Forward-Looking Statements

Certain information contained in this Form 10-Q 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 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;
- 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 cost 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;
- cost of and availability to raise capital in the future;
- the effect of competition in the restaurant industry;
- additional costs associated with compliance, including the Sarbanes-Oxley Act and related regulations and requirements;
- our ability to comply with Section 404 of the Sarbanes-Oxley Act. We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our Independent Auditors addressing these assessments. During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly; 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 for the year ended December 28, 2003, 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.

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

As of the end of the period covered by this report, we performed an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

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

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

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SIGNATURE

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

Red Robin Gourmet Burgers, Inc.

November 5, 2004	/s/ James P. McCloskey
(Date)	James P. McCloskey Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Michael J. Snyder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Red Robin Gourmet Burgers, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the registrant's disclosure control and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2004	/s/ Michael J. Snyder
(Date)	Michael J. Snyder Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, James P. McCloskey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Red Robin Gourmet Burgers, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the registrant's disclosure control and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2004	/s/ James P. McCloskey
(Date)	James P. McCloskey Chief Financial Officer

Exhibit 32.1

Written Statement
Pursuant To
18 U.S.C. Section 1350

The undersigned, Michael J. Snyder, Chief Executive Officer, and James P. McCloskey, Chief Financial Officer, of Red Robin Gourmet Burgers, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350 that;

(i.) the quarterly report on Form 10-Q for the period ended October 3, 2004 of the Company (the "Periodic Report") fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

(ii.) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2004

/s/ Michael J. Snyder

Michael J. Snyder
Chief Executive Officer

/s/ James P. McCloskey

James P. McCloskey
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Red Robin Gourmet Burgers, Inc. and will be retained by Red Robin Gourmet Burgers, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.