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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 26, 2004
- 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)

6312 S Fiddler's Green Circle, Suite 200N Greenwood Village, CO
(Address of Principal Executive Offices)

84-1573084
(I.R.S. Employer
Identification No.)

80111
(Zip Code)

(303) 846-6000
(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act: **None**

Securities Registered Pursuant to Section 12(g) of the Act: **Common Stock, \$0.001 par value**

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates (based on the closing price on the last business day of the registrant's most recently completed second fiscal quarter on The NASDAQ National Market) was \$336.9 million. All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission with respect to the registrant's common stock have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

There were 16,178,727 shares of common stock outstanding as of April 1, 2005.

Certain information required for Items 10, 11, 12, 13 and 14 of Part III of this annual report on Form 10-K is incorporated by reference to the registrant's definitive proxy statement for the 2005 annual meeting of stockholders.

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PART I

ITEM 1. Business

Overview

Red Robin Gourmet Burgers, Inc., together with its subsidiaries, is a casual dining restaurant chain focused on serving an imaginative selection of high quality gourmet burgers in a family-friendly atmosphere. Unless otherwise provided in this annual report on Form 10-K, references to “Red Robin,” “we,” “us” and “our” refer to Red Robin Gourmet Burgers, Inc. and our consolidated subsidiaries. As of April 1, 2005, Red Robin owns and operates 141 restaurants in 17 states, with an additional 122 restaurants operating under franchise or license agreements in 24 states and two Canadian provinces.

Our menu features our signature product, the gourmet burger, which we make from premium quality beef, chicken, veggie patties, pot roast, pork, fish or turkey and serve in a variety of recipes. We offer a wide selection of toppings for our gourmet burgers, including fresh guacamole, roasted green chilies, honey mustard sauce, grilled pineapple, crispy onion straws, sautéed mushrooms and a choice of six different cheeses. In addition to gourmet burgers, which accounted for approximately 47.2% of our total food sales in 2004, we serve an array of other food items that are designed to appeal to a broad group of guests, including a variety of appetizers, salads, soups, pastas, seafoods, other entrees, desserts and our signature Mad Mixology® alcoholic and non-alcoholic specialty beverages.

Our restaurants are designed to create a fun and memorable dining experience in a family-friendly atmosphere and provide our guests with an exceptional dining value. Our concept attracts a broad guest base by appealing to the entire family, particularly women, teens, kids ages 8 to 12 whom we refer to as tweens, and younger children. Our mascot “Red” appeals to toddlers, and our carousel horses, televisions in the floors, three dimensional art and humorous posters appeal to children of all ages. We believe that our quick meal preparation, upbeat, popular music and enthusiastic team members enable us to achieve high sales productivity and create a sense of activity and excitement. All of our menu items are designed to be delivered to guests in a time-efficient manner, and we have a per person average check of approximately \$10.36, including beverages.

To increase guest traffic, we locate our restaurants near high activity areas, such as regional malls, lifestyle centers, big box shopping centers and entertainment centers. We believe that women, teens and tweens are extremely attractive consumers to real estate developers in these types of locations as they often strive to attract a consumer base similar to ours. We further believe that these individuals are the primary visitors to the high activity areas where our restaurants are located and are predominantly responsible for family dining decisions. Data from an independent source indicates that in 2003 approximately 30.0% of our guests are in the highly desirable under 18 consumer segment, which compared to 20.0% in the major casual dining bar and grill chains. In addition, approximately 54.0% of our guests are females and approximately 58.0% of our guest visits include families accompanied by teens and tweens. We believe our unique guest demographic mix provides us with a competitive advantage over other casual dining chains, enhancing our ability to enter into real estate locations favorable to us.

We believe that the appeal of our imaginative, high quality product offerings, our fun, family-friendly atmosphere, and our ability to operate in a wide variety of real estate formats and geographic locations have created an attractive restaurant model, providing us with significant opportunities for continued growth through both new company-owned and franchised restaurants.

History

The first Red Robin® restaurant was opened in Seattle, Washington in September 1969. In 1979, the first franchised Red Robin® restaurant was opened in Yakima, Washington by Mike Snyder and his brother. Mike Snyder subsequently became our president and chief operating officer in 1996, and was elected chief executive

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officer in 1997. In 2000, we completed a series of financing transactions that helped position our company for future growth. At that time, we acquired The Snyder Group, a 14-restaurant franchise company owned by Mike Snyder, in exchange for equity, cash and notes. In addition, a private equity firm, whose principals had substantial experience in the restaurant industry, made an equity investment of \$25.0 million in our company through its affiliates. As a result of these two transactions, Mike Snyder acquired a significant equity interest in our company and the private equity firm became, at the time, our largest stockholder. In January 2001, our management formed Red Robin Gourmet Burgers, Inc., a Delaware corporation, to facilitate a reorganization of the company. The reorganization was consummated in August 2001, and since that time, Red Robin Gourmet Burgers, Inc. has owned all of the outstanding capital stock of Red Robin International, Inc., and our other operating subsidiaries through which our company-owned restaurants are operated. We completed an initial public offering of our common stock in July 2002.

Concept and business strategy

Our objective is to be the leading gourmet burger and casual dining restaurant destination. To achieve our objective, we have developed the following strategies.

- *Focus on key guiding principles, or “cornerstones,” that drive our success.* In managing our operations, we focus on four cornerstones that we believe are essential to our business. Our four cornerstones are:
 - *Values.* To enhance the dining experience of our guests, we strive to maintain our core values: honor, integrity, seeking knowledge and having fun.
 - *People.* We recognize that our team members are our strongest asset. We seek to hire high quality team members and provide them with comprehensive training programs to ensure that we deliver superior service to our guests.
 - *Burgers.* We strive to be the number one casual dining destination for gourmet burgers in the markets in which we operate.
 - *Time.* We believe in giving our guests the “gift of time.” Our service sequence is designed to consistently prepare every menu item in less than eight minutes, which allows guests to enjoy time-efficient lunches and dinners. We strive to provide guests with a 37-minute dining experience at lunch and a 42-minute experience at dinner.
- *Offer high quality, imaginative menu items.* Our restaurants feature menu items that use imaginative toppings and showcase recipes that capture tastes and flavors that our guests do not typically associate with burgers, salads and sandwiches. We believe the success of our concept is due to our ability to interpret the latest food trends and incorporate them into our gourmet burgers, pastas, carnitas fajitas, appetizers, salads, sandwiches and beverages. Our menu items are cooked to order, using high-quality, fresh ingredients and premium meats and are based on unique recipes. One of our signature menu items is our Royal Red Robin Burger, which features a gourmet burger topped with a fried egg, along with bacon, cheese, lettuce, tomato and mayonnaise. We offer a wide selection of toppings for our gourmet burgers, including fresh guacamole, roasted green chilies, honey mustard sauce, grilled pineapple, crispy onion straws, sautéed mushrooms and a choice of six different cheeses. We serve all of our gourmet burgers and sandwiches with “bottomless” french fries.
- *Create a fun, festive and memorable dining experience.* We promote an exciting, high-energy and family-friendly atmosphere by decorating our restaurant interiors with an eclectic selection of celebrity posters, three-dimensional artwork, carousel horses and statues of our mascot “Red.” We enhance the excitement and energy levels in our restaurants by placing televisions in our main dining areas, in our floors and in our bathrooms and by playing upbeat, popular music throughout the day.
- *Provide an exceptional dining value with broad consumer appeal.* We offer generous portions of high quality, imaginative food and beverages for a per person average check of approximately \$10.36, including beverages. We believe this price-to-value relationship differentiates us from our competitors,

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many of whom have significantly higher average guest checks, and allows us to appeal to a broad base of consumers with a wide range of income levels. In addition to attracting families and groups, our restaurant features seating in the bar area, which is often used by our single diners. Our restaurants are popular during both the day and evening hours as evidenced by our almost equal split between lunch and dinner sales. We believe that our diverse menu further enhances our broad appeal by accommodating groups with different tastes.

- *Build awareness of the Red Robin® America's Gourmet Burgers & Spirits® brand.* We believe that the Red Robin name has achieved substantial brand equity among our guests and has become well known within our markets for our signature menu items. We intend to strengthen this brand loyalty by continuing to offer new menu items and by delivering a consistently memorable guest experience. Additionally, we believe that Red Robin is recognized for the family-friendly, high-energy and exciting atmosphere our restaurants offer. Key brand attributes that we continue to build upon are our high-quality imaginative food items, commitment to guest service and a strong price-to-value relationship.
- *Continue to capitalize on favorable lifestyle and demographic trends.* We believe that we have benefited from several key lifestyle and demographic trends that have helped drive our business. These trends include:
 - *Increase in consumption of food away from home.* According to an April 2002 report, the National Restaurant Association estimated that the restaurant industry captured 45.3% of all consumer dollars spent on food in 2000 and projected the restaurant industry's share to increase to 53.0% by 2010. Given our attractive average guest check, family-friendly atmosphere and fun, festive and memorable dining experience, we believe we are well-positioned to continue to benefit from this expected increase in food consumed away from home.
 - *The large and growing teen population.* According to a January 2000 study conducted by the United States Census Bureau, the teen segment of the population, persons 12 to 19 years old, is expected to grow 36.6% faster than the overall population from 31.6 million in 2000 to 33.6 million by 2005. Given that our concept attracts a significant number of teens and tweens, we believe we will continue to benefit from the strong growth in this segment of the population.

We believe these and other lifestyle and demographic trends will continue to be favorable to us and offer us strong opportunities for future restaurant expansion.

Unit level economics

In 2004, our comparable company-owned restaurants generated average sales of \$3.2 million. The average cash investment cost for our free-standing restaurants opened in 2004 was \$2.2 million, excluding land and pre-opening costs. Pre-opening costs averaged \$227,100 per restaurant during 2004.

Our existing restaurants range in size from 3,800 square feet to 10,700 square feet. Our prototype restaurant is a free-standing building with approximately 6,350 square feet, approximately 200 seats and a patio. Based on this prototype, we expect that our average cash investment cost for our free-standing restaurants in 2005 will be \$2.3 million, excluding land and pre-opening costs. We expect pre-opening costs will average \$245,000 per restaurant in 2005.

Expansion strategy and site selection

We are pursuing a disciplined growth strategy that includes the addition of company-owned and franchised restaurants. Our restaurant expansion strategy focuses primarily on further penetrating existing markets with a cluster strategy and selectively entering into new markets. We believe this clustering strategy enables us to gain operating efficiencies, increase brand awareness and enhance convenience and ease of access for our guests, all of which we believe leads to significant repeat business. For example, clustering enables us to reduce costs

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associated with regional supervision of restaurant operations. We also believe this approach reduces the risks involved with opening new restaurants given that we better understand the competitive conditions, consumer tastes, demographics and discretionary spending patterns in our existing markets. In addition, our ability to hire qualified team members is enhanced in markets in which our brand is well known.

We believe that our site selection strategy is critical to our success and we devote substantial time and effort to evaluating each site. Our site selection criteria focuses on identifying markets, trade areas and other specific sites that are likely to yield the greatest density of desirable demographic characteristics, heavy retail traffic and a highly visible site.

In order to maximize our market penetration potential, we have developed a flexible physical site format that allows us to operate in a range of real estate venues located near high activity areas such as regional malls, lifestyle centers, big box shopping centers and entertainment centers. Approved sites generally have a population of at least 70,000 people within a three-mile radius and at least 100,000 people within a five-mile radius. Sites generally require a strong daytime and evening population, adequate parking and a visible and easy entrance and exit.

Our real estate team focuses on site selection and future development, and thoroughly analyzes each prospective site before we sign a lease or purchase agreement. Prior to committing to a restaurant site, members of our senior management team visit and thoroughly evaluate the proposed site. Our chief executive officer and/or our chief financial officer personally visit and approve all new sites.

With the exception of the 21 sites for which we own the real estate, we operate our restaurants under leases. Our primary site objective is to secure a suitable site, with the decision to buy or lease as a secondary objective. We believe that our unique guest demographic mix provides us with a major competitive advantage in securing sites. Our long-standing relationships with several major retail developers and owners and our favorable demographics afford us the opportunity to negotiate additional sites in their new developments.

Restaurant locations

We believe that there are significant opportunities to grow our concept and brand on a nationwide basis, and we continue to believe that our concept and brand can support as many as 755 additional company-owned or franchised restaurants throughout the United States.

In 2004, we opened 22 new company-owned restaurants. In 2005, we expect to open 26 to 28 new company-owned restaurants. In 2004, our franchisees opened 17 new restaurants, and we believe our franchisees will open an additional 15 to 17 new franchise restaurants in 2005.

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As of April 1, 2005, we have 141 company-owned restaurants and 122 franchised restaurants in 31 states and two Canadian provinces as shown in the table below:

	Number of Restaurants As of April 1, 2005		
	Company-Owned	Franchised	Total
Alaska	—	2	2
Arizona	9	3	12
Arkansas	1	—	1
California	37	17	54
Colorado	19	—	19
Connecticut	—	2	2
Delaware	—	1	1
Idaho	—	3	3
Illinois	1	5	6
Indiana	1	1	2
Kansas	—	2	2
Maryland	7	—	7
Michigan	—	12	12
Minnesota	—	4	4
Missouri	4	1	5
Montana	—	1	1
Nebraska	3	—	3
Nevada	3	1	4
New Jersey	—	1	1
New Mexico	—	2	2
New York	—	2	2
North Carolina	2	—	2
Ohio	11	1	12
Oklahoma	2	—	2
Oregon	11	3	14
Pennsylvania	3	9	12
Texas	—	9	9
Utah	—	4	4
Virginia	10	—	10
Washington	17	13	30
Wisconsin	—	5	5
Total United States	141	104	245
Canada	—	18	18
Total	141	122	263

Menu

Our menu features our signature product, the gourmet burger, which we define as “anything that can go in, on or between two buns”. We make our gourmet burgers from premium quality beef, chicken, veggie patties, pot roast, pork, fish or turkey, and serve them in a variety of recipes. We offer a wide selection of toppings for our gourmet burgers, including fresh guacamole, roasted green chilies, honey mustard sauce, grilled pineapple, crispy onion straws, sautéed mushrooms and a choice of six different cheeses. For example, one of our signature creations, the Banzai Burger, is marinated in teriyaki and topped with grilled pineapple, cheddar cheese, lettuce, tomato and mayonnaise.

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In addition to gourmet burgers, which accounted for approximately 47.2% of our total food sales in 2004, we serve an array of other food items that are designed to appeal to a broad group of guests, including a variety of appetizers, salads, soups, pastas, seafoods, other entrees and desserts. One of our top selling non-burger menu items is the Crispy Chicken Tender Salad, which features crisp greens topped with lightly fried chicken breast, hard-boiled egg, diced tomato, cheddar cheese, bacon bits and green onion served with house bread and a choice of dressing. We serve all of our burgers and sandwiches with “bottomless” french fries. Our guests can also choose from a wide variety of beverages, including fountain beverage products, smoothies, monster milkshakes, our Strawberry Ecstasy and our signature Mad Mixology® alcoholic and non-alcoholic specialty beverages, including our Freckled Lemonade.

All of our menu items are prepared to order in our restaurants. The food items currently on our menu range in price from \$2.99 to \$11.49, with a per person average check of approximately \$10.36, including beverages. Sales of alcoholic beverages represented approximately 7.7% and sales of non-alcoholic beverages represented 13.8% of total restaurant sales in 2004.

We continuously experiment with food and beverage items and flavor combinations to create selections that are imaginative and exciting to our guests. Ideas for new menu items are generated at the restaurant level as well as through consumer research and franchisees. Menu items are rotated on and off the menu based on the changing tastes of our guests. Every new recipe idea goes through our test menu development process. The proposed menu item must appeal to a sufficient number of guests and require a preparation time of less than eight minutes to be added to our menu. In addition, the corresponding ingredients must retain or improve the overall menu quality while meeting our gross profit margin targets. All new menu items are then test marketed for 8 to 12 weeks in selected restaurants. Our franchisees are given the opportunity to review proposed menu items and offer feedback before the recipes are finalized and added to the menu.

Guest loyalty and experience

Through our unique guest service philosophy, which we describe as “unbridled”, we feel we have created a culture that has enabled us to build a strong and loyal guest base. Unbridled acts are common in our company, as our team members have a history of going far beyond the customary level of guest service. In 2002, we were proud to be recognized as a gold winner of Restaurants & Institutions 2002 Choice in Chains Award for excellence in customer service, food quality and overall dining experience, as voted on by a nationally representative sample of consumers. In 2004, we were proud to be a large business category finalist of the Colorado Restaurant Association’s, Restaurant Neighbor Award, which celebrates restaurateurs’ commitment to community involvement.

We use many industry standard techniques to measure our guests’ experiences at our restaurants. These include comment cards, mystery shoppers, internet feedback, market area and in-restaurant consumer research. We also employ several additional techniques at the restaurant level, including a “systems check” performed each week by our general managers to track and measure our guests’ experiences. This “systems check” evaluates our speed of service, our food preparation times, seating utilization measures and guest feedback for each week. The key measurement criteria evaluated in our “systems check” contribute to our ability to give our guests the “gift of time.” We strive to provide guests with a 37-minute dining experience at lunch and a 42-minute experience at dinner. Our regional operations directors utilize these and other reports to determine which restaurants in their region may need additional support to address any problems.

Marketing and advertising

During 2004, we spent an aggregate of 2.7% of restaurant sales on marketing efforts. Of this amount, we spent less than 1.0% of restaurant sales on major media initiatives such as television commercials, radio advertisements and free-standing inserts in newspapers and other print media. We expect to continue investing a similar percentage of restaurant sales in marketing efforts in the future, primarily in connection with driving

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comparable restaurant sales and new restaurant openings. Our marketing strategy focuses on building positive, long term relationships by making emotional connections with our team members and guests. We do this by:

- driving comparable restaurant sales through attracting new guests and increasing the frequency of visits by current guests;
- supporting new restaurant openings to achieve their sales and profit goals; and
- communicating a unique, powerful and consistent brand.

We accomplish these objectives through four major marketing initiatives.

In-restaurant marketing

We spend a significant portion of our marketing funds communicating with our guests while they are in our restaurants. The core of our strategy revolves around keeping our menu items fresh, with innovative gourmet burgers and other offerings. Throughout the year, we promote new burgers and new non-burger items. These items are featured along with our existing gourmet burgers and entrees on table merchandising and other printed materials throughout our restaurants. This strategy focuses on highlighting both our core menu burgers along with new burgers and other food items and beverages. The goal is to enhance our brand by creating variety and excitement for our guests and team members, which we believe drives frequency of visits.

New restaurant openings

We use new restaurant openings as opportunities to reach out to the local community and media. Our openings are often covered by local media. We employ a variety of marketing techniques in connection with our new restaurant openings, including community “Sneak Preview” parties, with invitations to media personalities, community leaders and local businesses. We also typically tie our openings to a charitable organization.

Local restaurant marketing

We believe we are a wholesome, values-focused leader in family casual dining. With our focus on women, teens and tweens, we have a unique opportunity to market our restaurants locally. We reach out to schools, churches, charities, and community organizations to build brand awareness within the communities that we serve.

Advertising

Although our restaurant concept is not media driven, we do spend a limited amount of our marketing dollars on media vehicles in select markets to build brand awareness. This includes radio, free-standing newspaper inserts, outdoor billboards, and on-screen cinema advertising.

Operations

Restaurant management

Our restaurant operations are divided into four distinct geographic regions which are overseen by a senior regional operations director who reports to our vice president of restaurant operations. In general, each geographic region contains four to six regional operations directors, one to three regional recruiters, a regional training manager and one to two regional kitchen managers. Our regional directors oversee five to eight company-owned restaurants each, which we believe enables them to better support the general managers and achieve sales and cash flow targets for each restaurant within their region. In certain instances, regional operations directors invest a limited portion of their time on franchised operations in their respective regions.

Our typical restaurant management team consists of a general manager, an assistant general manager, a kitchen manager and one or two assistant managers. Most of our restaurants employ approximately 85 hourly

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team members, many of whom work part-time. The general manager of each restaurant is responsible for the day-to-day operation of that restaurant, including hiring, training and development of team members, as well as operating results. The kitchen manager is responsible for product quality, daily production, shift execution, food costs and kitchen labor costs. Our restaurants are generally open Sunday through Thursday from 11:00 AM until 10:00 PM and on Friday and Saturday from 11:00 AM to 11:00 PM.

Operational tools and programs

We utilize a customized food and beverage analysis program that determines the optimal food and beverage costs for each restaurant and provides additional tools and reports to help us identify opportunities, such as waste management, which we believe affords us lower than industry average food and beverage costs. We also utilize a labor program to determine the optimal staffing needs of each restaurant based on its actual guest flow and demand.

We employ several additional operational tools. For example, each week every general manager performs a “systems check” that tracks and measures our guests’ experiences based upon key criteria. This “systems check” evaluates our speed of service, food preparation times, seating utilization measures and guest feedback for each week. Our regional operations directors utilize these and other reports to determine which restaurants in their region may need additional support to address any problems.

Training

We strive to maintain quality and consistency in each of our restaurants through the careful training and supervision of team members and the establishment of, and adherence to, high standards relating to personnel performance, food and beverage preparation and maintenance of our restaurants. Each location has eight to ten certified trainers who provide classroom and on-the-job instruction for new team members. All of our trainers participate in an eight-hour training seminar on good training skills, which provides them with knowledge and tactics to enable them to be better trainers and coaches. We provide all new team members with complete orientation and one-on-one training for their positions to ensure they are able to meet our high standards. All of our new team members are trained by partnering with a certified designated trainer to assure that the training and information they receive is complete and accurate. Team members are certified for their positions by passing a series of tests.

New restaurant managers are required to complete an eight-week training program that includes service, kitchen and management responsibilities. Newly trained managers are then assigned to their home restaurant where they spend one additional training week with their general manager. We place a high priority on our continuing management development programs in order to ensure that qualified managers are available for our future openings. We conduct semi-annual performance reviews with each manager to discuss prior performance and future performance goals. Once a year, we hold a general manager conference in which our general managers receive additional training on financial management, food preparation, hospitality and other relevant topics.

When we open a new restaurant, we provide training to team members in each position to ensure the smooth and efficient operation of the restaurant from the first day it opens to the public. Prior to opening a new restaurant, our dedicated training and opening team travels to the location to prepare for an intensive seven-day training program for all team members hired for the new restaurant opening. Part of the training team stays on-site during the first week of operation and an additional team of training support arrives for on-site support during the second and third weeks. We believe this additional investment in our new restaurants is important because it helps us provide our guests with a quality dining experience from day one. We also make on-site training teams available when our franchisees open new restaurants. After a restaurant has been opened and is operating smoothly, the general manager supervises the training of new team members.

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Recruiting and retention

In 2004, we were proud to be a recipient of Nation's Restaurant News' 2004 People and Performance Awards, sponsored by Coca-Cola®. This award honors multi-unit food service operators for excellence in recruiting, retention and recognition of hourly and management team members. We seek to hire experienced general managers and team members. We support our team members by offering competitive wages and benefits, including a 401(k) plan, an employee stock purchase plan, medical insurance and stock options for general managers. We motivate and prepare our team members by providing them with opportunities for increased responsibilities and advancement, as well as significant performance-based incentives tied to sales, profitability, certain qualitative measures and length of service at one of our restaurant locations. For example, we provide our general managers with the use of a Jeep Wrangler for two years if they increase restaurant sales in a single restaurant by 15.0% for four consecutive quarters. If this increase is maintained for eight consecutive quarters, we give the manager outright title to the Jeep Wrangler. We also provide various other incentives including vacations, car allowances and quarterly sales and profit bonuses. Our most successful general managers are eligible for promotion to training general manager status and are entitled to receive more lucrative compensation packages based on various performance criteria. We also provide monetary rewards for general managers who develop future managers for our restaurants.

Restaurant franchise and licensing arrangements

As of April 1, 2005, we have 27 franchisees that operate 122 restaurants in 24 states and two Canadian provinces, and we have 21 exclusive franchise development arrangements with these franchisees. Our two largest franchisees are Red Robin Restaurants of Canada, Ltd., with 18 restaurants throughout Alberta and British Columbia, Canada, and Top Robin Ventures, Inc., with 16 restaurants in Southern California. In 2004, our franchisees opened 17 new restaurants and we expect our franchisees to open 15 to 17 additional new restaurants in 2005. The success of our current franchisees and the popularity of our concept have created significant interest by potential franchisees.

Each franchise arrangement typically consists of an area development agreement and a separate franchise agreement for each restaurant. Our current form of area development agreement grants exclusive rights to a franchisee to develop a minimum number of restaurants in a defined area, typically over a five-year period. Individual franchise agreements relate to the operation of each restaurant opened and typically have a term of 20 years with a renewal option for an additional ten years if certain conditions are satisfied.

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 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. Our current form of franchise agreement requires the franchisee to pay a royalty fee equal to 4.0% of adjusted restaurant sales.

Franchisees are required to spend a minimum of 1.5% of adjusted restaurant sales on local advertising or promotional activities and to pay an advertising fee of 0.5% of adjusted restaurant sales to a cooperative advertising fund for marketing studies and the development of commercials or other print and electronic media promotional material. We also have the ability under most of our franchise agreements to require the franchisee to contribute up to 4.0% of adjusted sales to a separate national advertising and marketing fund. The royalty fee and advertising and marketing contributions of our franchisees vary depending on when the agreements were executed and the number of restaurants that the franchisee committed to open during the term of the area development agreement.

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Franchise compliance assurance

We have instituted a comprehensive system to ensure the selection of quality franchisees and compliance with our systems and standards, both during the development and operating of franchise restaurants.

- *Selection process.* We generally select franchisees that are experienced, well capitalized, multi-unit restaurant operators or that have demonstrated the ability to raise capital and rapidly grow a multi-unit retail or service organization. During the selection process, we conduct comprehensive background, financial and reference checks on all candidates. Key department heads will typically meet with each franchisee candidate and often visit their current business operations to assess his or her level of relevant expertise. References are obtained from the candidates as well as through industry sources, such as former suppliers, executives, managers or other business associates. We will generally not grant development rights for the development of a single restaurant.
- *Development and operations.* After a franchise agreement is signed, we actively work with and monitor our franchisees to ensure successful franchise operations as well as compliance with Red Robin systems and procedures. During the development phase, we assist in the selection of restaurant sites and the development of prototype and building plans, including all required changes by local municipalities and developers. After construction is completed, we review the building for compliance with our standards and provide eight trainers to assist in the opening of the restaurant. We advise the franchisee on menu, management training, and equipment and food purchases. At least once a year, we review all menu items and descriptions to ensure compliance with our requirements and standards. We require all suppliers of ground beef, if different than ours, to pay for and pass an annual inspection performed by third party auditors. Finally, on an ongoing basis, we conduct brand equity reviews on all franchise restaurants to determine their level of effectiveness in executing our concept at a variety of operational levels. Reviews are conducted by seasoned operations teams, last approximately two to three days, and focus on seven key areas including health, safety, brand foundation, and execution proficiency.

To continuously improve our operations, we maintain a franchise marketing advisory council, a franchise business advisory council and a food and beverage committee. The councils provide advice to us regarding operations and consist of three franchisee representatives and three members of our senior management. The food and beverage committee, which is also comprised of three franchisee representatives and three members of our senior management team, helps determine which items are selected for menu testing and which items will be featured in future promotions. In addition, several times each year we solicit feedback and insights on specific topics from the broad group of franchisees and then get together with them to discuss and share their insights. These gatherings are an effort to attain a high level of franchisee buy-in and to assure the system is evolving in a positive direction through the exchange of best practices.

Management information systems

All of our restaurants use computerized management information systems, which are designed to improve operating efficiencies, provide corporate management with timely access to financial and marketing data, and reduce restaurant and corporate administrative time and expense. We believe our management information systems are sophisticated and are sufficient to support our restaurant expansion plans.

With the data provided by our information systems, we can report daily, weekly and period-to-date numbers on an automated daily report that is delivered electronically to our restaurants and our field personnel. On a weekly and a periodic basis, we issue other electronic reports that provide comparative data regarding food, labor and other cost information. Our information systems also enable us to automatically post restaurant-level data, such as restaurant sales, cash and credit card receipts and promotion usage into our corporate accounting software. We also use our information systems to capture information regarding our payroll and the status of new and existing team members. Specifically, we use Menulink, a Windows-based product, to perform our restaurant-level bookkeeping, electronic ordering and food cost and management functions. Our Radiant Systems, formally Aloha Technologies, point-of-sale system facilitates the supply of data to Menulink and also assists with labor

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scheduling and credit card authorizations. Our new Scheduling Team Members and Reporting System (NuSTaRs) helps our managers schedule the optimal amount of team members at any time. We believe these systems enable both restaurant-level and corporate-level management to adequately supervise the operational and financial performance of our restaurants as necessary to support our planned expansion.

Food preparation, quality control and purchasing

We believe that we have some of the highest food quality standards in the industry. Our systems are designed to protect our food supply throughout the preparation process. We provide detailed specifications to suppliers for our food ingredients, products and supplies. We inspect specific qualified manufacturers and growers. Our purchasing team and restaurant managers are certified in a comprehensive safety and sanitation course by the National Restaurant Association. Minimum cook temperature requirements and twice-a-day line checks ensure the safety and quality of both burgers and other items we use in our restaurants.

We rely on SYSCO Corporation, a national food distributor, as the primary distributor of our food ingredients, supplies and other products. Our current contract with SYSCO ends on June 30, 2007. To maximize our purchasing efficiencies and obtain the lowest possible prices for our ingredients, products and supplies, while maintaining the highest quality, our centralized purchasing team generally negotiates fixed price contracts with terms of between one month and one year or monthly commodity pricing formulas. In order to provide the freshest ingredients and products, and to maximize operating efficiencies between purchase and usage, each restaurant's kitchen manager determines the restaurant's daily usage requirements for food ingredients, products and supplies. Accordingly, the kitchen manager orders from approved local suppliers and our national master distributor and all deliveries are inspected to ensure that the items received meet our quality specifications and negotiated prices. We believe that competitively priced, high quality alternative manufacturers, suppliers, growers and distributors are available should the need arise.

Team members

As of March 6, 2005, we had just over 13,000 employees, whom we refer to as team members, consisting of approximately 12,900 team members at company-owned restaurants and 176 team members at our corporate headquarters and in our regional offices. During our higher volume summer months, we experience an increase in the number of hourly team members in our restaurants of approximately 10.0%. None of our team members are covered by any collective bargaining agreement. We consider our team member relations to be good.

Competition

The restaurant industry is highly competitive. We compete on the basis of the taste, quality, price of food offered, guest service, ambiance, location and overall dining experience. We believe that our guest demographics, our gourmet burger concept, attractive price-value relationship, and the quality of our food and service enable us to differentiate ourselves from our competitors. Although we believe we compete favorably with respect to each of these factors, many of our direct and indirect competitors are well-established national, regional or local chains, and some have substantially greater financial, marketing, and other resources than we do. We also compete with many other restaurant and retail establishments for site locations and team members.

Seasonality

Our business is subject to seasonal fluctuations. Historically, sales in most of our restaurants have been higher during the summer months and winter holiday season. 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.

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Trademarks

Our registered trademarks and service marks include, among others, the marks “Red Robin[®]”, “America’s Gourmet Burgers & Spirits[®]”, “Mad Mixology[®]” and our logo. We have registered these marks with the United States Patent and Trademark Office. We have registered or have registrations pending in Canada for our most significant trademarks and service marks. In order to better protect our brand, we have also registered the Internet domain name www.redrobin.com. We believe that our trademarks, service marks, and other proprietary rights have significant value and are important to our brand-building efforts and the marketing of our restaurant concepts. We have in the past, and expect to continue to vigorously protect our proprietary rights. We cannot predict, however, whether steps taken by us to protect our proprietary rights will be adequate to prevent misappropriation of these rights or the use by others of restaurant features based upon, or otherwise similar to, our concept. It may be difficult for us to prevent others from copying elements of our concept and any litigation to enforce our rights will likely be costly and may not be successful. Although we believe that we have sufficient rights to all of our trademarks and service marks, we may face claims of infringement that could interfere with our ability to market our restaurants and promote our brand. Any such litigation may be costly and divert resources from our business. Moreover, if we are unable to successfully defend against such claim(s), we may be prevented from using our trademarks and/or service marks in the future and may be liable for damages.

Government regulation

Our restaurants are subject to licensing and regulation by state and local health, safety, fire and other authorities, including licensing and regulation requirements for the sale of alcoholic beverages and food. To date, we have not experienced an inability to obtain or maintain any necessary licenses, permits or approvals, including restaurant, alcoholic beverage and retail licensing. The development and construction of additional restaurants will also be subject to compliance with applicable zoning, land use, and environmental regulations. We are also subject to federal regulation and state laws that regulate the offer and sale of franchises and substantive aspects of a franchisor-franchisee relationship. Various federal and state labor laws govern our relationship with our team members and affect operating costs. These laws include minimum wage requirements, overtime, unemployment tax rates, workers’ compensation rates, citizenship requirements and sales taxes. In addition, the Federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment.

Available Information

We maintain a link to investor relations information on our website, www.redrobin.com, where we make available, free of charge, our Securities and Exchange Commission filings, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. We are providing the address to our website solely for the information of investors. Information contained on our website is not incorporated by reference herein and our web address is included as an inactive textual reference only.

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Executive officers

The following table sets forth information about our executive officers and other key officers as of April 1, 2005:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Executive Officers:		
Michael J. Snyder	55	Chairman of the Board, Chief Executive Officer, President
James P. McCloskey	54	Chief Financial Officer
Michael E. Woods	55	Senior Vice President of Franchise Development
Robert J. Merullo	50	Senior Vice President of Restaurant Operations
Todd A. Brighton	47	Vice President of Development
Eric C. Houseman	37	Vice President of Restaurant Operations
Other Key Officers:		
G. Dwayne Chambers	39	Vice President of Marketing
John W. Grant	58	Vice President and General Counsel
Jeffrey T. Neely	44	Vice President of Franchise Operations
Robert F. Fix	52	Vice President of Franchise Sales
Douglas D. Gammon	58	Vice President of Human Resources
Lisa A. Dahl	46	Vice President and Controller
Robert K. Jakoby	39	Vice President of Management Information Systems
Ray S. Masters	45	Vice President of Purchasing
Scott A. Schooler	37	Vice President of Food and Beverage

Michael J. Snyder. Mr. Snyder was elected as our president, chief operating officer and as a director in April 1996, and currently serves in these positions under the terms of his employment agreement with the Company. In March 1997, Mr. Snyder was elected as our chief executive officer. In May 1997, Mr. Snyder was elected as our chairman of the board. From 1979 to May 2000, Mr. Snyder also served as president of The Snyder Group Company.

James P. McCloskey. Mr. McCloskey was elected as our chief financial officer and secretary in June 1996. From March 1994 to January 1996, Mr. McCloskey served as chief financial officer for Avalon Software in Tucson, Arizona. From July 1988 to March 1994, Mr. McCloskey served as chief financial officer for Famous Amos Cookies in San Francisco, California.

Michael E. Woods. Mr. Woods joined us in January 1997 as our vice president of franchise development and was appointed senior vice president in January 1999. From 1992 to June 1999, Mr. Woods also served as director of corporate development for The Snyder Group Company.

Robert J. Merullo. Mr. Merullo joined us in April 2000 as our senior vice president of restaurant operations. Mr. Merullo was the director of operations for The Snyder Group Company from November 1991 to April 2000.

Todd A. Brighton. Mr. Brighton joined us in April 2001 as our vice president of development with management responsibility over real estate and design and construction. From August 1999 to April 2001, Mr. Brighton was director of real estate with RTM Restaurant Group and was responsible for strategic analysis and market planning for three restaurant chains. From November 1996 to July 1999, Mr. Brighton was the western development manager for Blockbuster Entertainment, Inc. and was responsible for all real estate development in 17 states and select international markets.

Eric C. Houseman. Mr. Houseman joined us in 1993 and has served as our vice president of restaurant operations since March 2000. From 1993 to March 2000, Mr. Houseman served in various regional operations management positions with our company.

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G. Dwayne Chambers. Mr. Chambers joined us in August 2003 as our vice president of marketing with responsibility for marketing, advertising, media buying and public relations. From July 1999 to May 2003, Mr. Chambers served as vice president of marketing for Sonic Drive Ins. From May 1987 to June 1999, Mr. Chambers served in various positions including vice president at Moroch and Associates in Dallas, where he directed the agency's McDonald's account.

John W. Grant. Mr. Grant joined us in January 1995 as our director of real estate and legal and was promoted to vice president and general counsel in August 1996. From December 1993 to December 1994, Mr. Grant was self-employed as an attorney in Santa Barbara, California.

Jeffrey T. Neely. Mr. Neely joined us in November 2003 as our vice president of franchise operations. From February 2000 to October 2003, Mr. Neely served as senior director of franchise and license operations at Einstein & Noah Bagel Corporation. From September 1989 to January 2000, Mr. Neely served as president and chief executive officer of Domino's Pizza Neely Enterprises of Wichita.

Robert F. Fix. Mr. Fix joined us in March 2001 as our vice president of franchise sales. From 1996 until March 2001, Mr. Fix was director of U.S. franchise development for Boston Pizza International of Richmond in British Columbia, Canada.

Douglas D. Gammon. Mr. Gammon joined us in November 2003 as our vice president of human resources. From March 1997 to October 2003, Mr. Gammon served as senior vice president of human resources and people development at Taco Cabana, Inc. From December 1989 to March 1997, Mr. Gammon served as vice president of human resources at Marriott International.

Lisa A. Dahl. Ms. Dahl joined us in March 1997 as our corporate controller and was promoted to vice president in January 2003. Prior to joining us, Ms. Dahl was an accounting director for Vicorp Restaurants. Ms. Dahl is a certified public accountant and has served as chairperson for the National Restaurant Association Finance Executive Group.

Robert K. Jakoby. Mr. Jakoby joined us in March 1997 as manager of restaurant systems, was later promoted to director of management information systems and in January 2004 was promoted to vice president of management information systems and chief information officer. From May 1993 to March 1997, Mr. Jakoby was store systems project manager for Boston Chicken, Inc. Mr. Jakoby currently serves as chairman of the National Restaurant Association MIS executive study group and also serves on the Nation's Restaurant News Foodservice Technology Advisory Board.

Ray S. Masters. Mr. Masters joined us in May 1996 as director of purchasing and was promoted to vice president of purchasing in October 1998. Prior to joining us, Mr. Masters held multi-unit national account executive sales positions with SYSCO Foods and Johnsonville Foods.

Scott A. Schooler. Mr. Schooler joined us in April 2000 as vice president of food and beverage. He was the director of food and beverage for The Snyder Group Company from March 1987 to April 2000.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully read and consider the risks described below before deciding to invest in our common stock. If any of the following risks actually occurs, our business, financial condition, results of operations or cash flows could be materially harmed. In any such case, the trading price of our common stock could decline, and you could lose all or part of your investment. When determining whether to invest in our common stock, you should also refer to the other information contained or incorporated by reference in this annual report on Form 10-K, including our consolidated financial statements and the related notes.

Risks related to our business

Our growth strategy depends on opening new restaurants. Our ability to expand our restaurant base is influenced by factors beyond our control, which may slow restaurant development and expansion and impair our growth strategy.

We are pursuing an aggressive but disciplined growth strategy, which, to be successful, will depend in large part on our ability and the ability of our franchisees to open new restaurants and to operate these restaurants on a profitable basis. We anticipate that our new restaurants will generally take several months to reach planned operating levels due to inefficiencies typically associated with new restaurants, including lack of market awareness, the need to hire and train sufficient team members and other factors. We cannot guarantee that we, or our franchisees, will be able to achieve our expansion goals or that new restaurants will be operated profitably. Further, we cannot assure you that any restaurant we open will obtain operating results similar to those of our existing restaurants. One of our biggest challenges in meeting our growth objectives will be to locate and secure an adequate supply of suitable new restaurant sites. We have experienced delays in opening some of our restaurants and may experience delays in the future. Delays or failures in opening new restaurants could materially and adversely affect our planned growth. The success of our planned expansion will depend upon numerous factors, many of which are beyond our control, including the following:

- the hiring, training and retention of qualified operating personnel, especially managers;
- reliance on the knowledge of our executives and franchisees to identify available and suitable restaurant sites;
- competition for restaurant sites;
- negotiation of favorable lease terms;
- timely development of new restaurants, including the availability of construction materials and labor;
- management of construction and development costs of new restaurants;
- securing required governmental approvals and permits in a timely manner, or at all;
- cost and availability of capital;
- competition in our markets; and
- general economic conditions.

Our restaurant expansion strategy focuses primarily on further penetrating existing markets. This strategy could cause sales in some of our existing restaurants to decline.

Our areas of highest concentration are California, Colorado, Washington and Oregon. In accordance with our expansion strategy, we intend to open new restaurants primarily in our existing markets. Because we typically draw guests from a relatively small radius around each of our restaurants, the sales performance and guest counts for restaurants near the area in which a new restaurant opens may decline due to the opening of new restaurants.

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Our expansion into new markets may present increased risks due to our unfamiliarity with the area.

Some of our new restaurants will be located in areas where we have little or no meaningful experience. Those markets may have different competitive conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new restaurants to be less successful than restaurants in our existing markets. An additional risk in expansion into new markets is the lack of market awareness of the Red Robin® brand. Restaurants opened in new markets may open at lower average weekly sales volumes than restaurants opened in existing markets, and may have higher restaurant-level operating expense ratios than in existing markets. Sales at restaurants opened in new markets may take longer to reach average annual company-owned restaurant sales, if at all, thereby affecting the profitability of these restaurants.

Our expansion may strain our infrastructure and other resources, which could slow our restaurant development or cause other problems.

We face the risk that our existing systems and procedures, restaurant management systems, financial controls, information and accounting systems, management resources and human resources will be inadequate to support our planned expansion of company-owned and franchised restaurants. We may not be able to respond on a timely basis to all of the changing demands that our planned expansion will impose on our infrastructure and other resources. If we fail to continue to improve our infrastructure or to manage other factors necessary for us to achieve our expansion objectives, this could have a material adverse effect on our operating results.

Our ability to utilize our revolving credit agreement and our ability to raise capital in the future may be limited, which could adversely impact our business.

Our revolving credit agreement contains a number of restrictive covenants that limit 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. Our revolving credit agreement also requires us to maintain compliance with specified financial ratios and tests. These restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. In addition, because our revolving credit agreement expires in May 2006, we cannot give any assurance that we will be able to renew this agreement at or prior to that time.

Changes in our operating plans, acceleration of our expansion plans, lower than anticipated sales, increased expenses or other events, including those described in this section, may cause us to seek additional debt or equity financing on an accelerated basis. Financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could negatively impact our growth and other plans as well as 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.

If our franchisees cannot develop or finance new restaurants or build them on suitable sites or open them on schedule, our growth and success may be impeded.

Under our current form of area development agreement, franchisees must develop a predetermined number of restaurants in their area according to a schedule that lasts for the term of their development agreement. Franchisees may not have access to the financial or management resources that they need to open the restaurants required by their development schedules, or be able to find suitable sites on which to develop them. Franchisees may not be able to negotiate acceptable lease or purchase terms for the sites, obtain the necessary permits and government approvals or meet construction schedules. In the past, we have agreed to extend or modify development schedules for certain area developers, and we may do so in the future. Any of these problems could slow our growth and reduce our franchise revenues.

Additionally, our franchisees depend upon financing from banks and other financial institutions in order to construct and open new restaurants. Over the past several years, financing has been difficult to obtain for some

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small operators. Should these conditions continue, the lack of adequate availability of debt financing could adversely affect the number and rate of new restaurant openings by our franchisees and adversely affect our future franchise revenues.

Our franchisees could take actions that could harm our business.

Franchisees are independent contractors and are not our employees. We provide training and support to franchisees, but the quality of franchised restaurant operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other restaurant personnel. Our image and reputation, and the image and reputation of other franchisees, may suffer materially and system-wide sales could significantly decline if our franchisees do not operate successfully.

The acquisition of existing restaurants from our franchisees may have unanticipated consequences that could harm our business and financial condition.

We may seek to selectively acquire existing restaurants from our franchisees. To do so, we would need to identify suitable acquisition candidates, negotiate acceptable acquisition terms and obtain appropriate financing. Any acquisition that we pursue, whether or not successfully completed, may involve risks, including:

- material adverse effects on our operating results, particularly in the fiscal quarters immediately following the acquisition as it is integrated into our operations;
- risks associated with entering into markets or conducting operations where we have no or limited prior experience; and
- the diversion of management's attention from other business concerns.

Future acquisitions of existing restaurants from our franchisees, which may be accomplished through a cash purchase transaction or the issuance of our equity securities, or a combination of both, could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and impairment charges related to goodwill and other intangible assets, any of which could harm our business and financial condition.

Our operations are susceptible to changes in food availability and cost which could adversely affect our operating results.

Our profitability depends in part on our ability to anticipate and react to changes in food costs. We rely on SYSCO Corporation, a national food distributor, as the primary distributor of our food ingredients, supplies and other products. Any increase in distribution prices or failure to perform by SYSCO could cause our food costs to increase. There also could be a significant short-term disruption in our supply chain if SYSCO failed to meet our distribution requirements or our relationship was terminated at the end of the contract term on June 30, 2007 or earlier by SYSCO upon breach or material deterioration of our financial position.

Various factors beyond our control, including adverse weather conditions, governmental regulation, production, availability, recalls of food products and seasonality may affect our food costs or cause a disruption in our supply chain. Chicken represented approximately 18.0% and beef represented approximately 10.6% of our food purchases in 2004. We enter into annual contracts with our beef and chicken suppliers. Our contracts for chicken are fixed price contracts. Our contracts for beef are generally based on current market prices plus a processing fee. Changes in the price or availability of chicken or beef could materially adversely affect our profitability. We cannot predict whether we will be able to anticipate and react to changing food costs by adjusting our purchasing practices and menu prices, and a failure to do so could adversely affect our operating results. In addition, because we provide a "value-priced" product, we may not be able to pass along price increases to our guests.

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Our quarterly operating results may fluctuate significantly and could fall below the expectations of securities analysts and investors due to seasonality and other factors, resulting in a decline in our stock price.

Our quarterly operating results may fluctuate significantly because of several factors, including:

- the timing of new restaurant openings and related expenses;
- restaurant operating costs for our newly-opened restaurants, which are often materially greater during the first several months of operation than thereafter, and pre-opening costs;
- labor availability and costs for hourly and management personnel;
- profitability of our restaurants, especially in new markets;
- franchise development costs;
- increases and decreases in comparable restaurant sales;
- impairment of long-lived assets, including goodwill, and any loss on restaurant closures;
- changes in borrowings and interest rates;
- general economic conditions;
- changes in consumer preferences and competitive conditions;
- fluctuations in food and commodity prices; and
- fluctuations in costs attributable to public company compliance costs, including Sarbanes-Oxley Act related costs.

Our business is also subject to seasonal fluctuations. Historically, sales in most of our restaurants have been higher during the summer months and winter holiday season of each fiscal year. As a result, our quarterly and annual operating results and comparable restaurant sales may fluctuate significantly as a result of seasonality and the factors discussed above. Accordingly, results for any one quarter 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.

A decline in visitors to any of the regional malls, lifestyle centers, big box shopping centers and entertainment centers near the locations of our restaurants could negatively affect our restaurant sales.

Our restaurants are primarily located near high activity areas such as regional malls, lifestyle centers, big box shopping centers and entertainment centers. We depend on high visitor rates at these centers to attract guests to our restaurants. If visitors to these centers decline due to economic conditions, changes in consumer preferences or shopping patterns, changes in discretionary consumer spending or otherwise, our restaurant sales could decline significantly and adversely affect our results of operations.

If we lose the services of any of our key management personnel, our business could suffer.

Our future success significantly depends on the continued services and performance of our key management personnel, particularly Mike Snyder, our chief executive officer and president; Jim McCloskey, our chief financial officer; Mike Woods, our senior vice president of franchise development; Bob Merullo, our senior vice president of restaurant operations; Todd Brighton, our vice president of development; and Eric Houseman, our vice president of restaurant operations. Our future performance will depend on our ability to motivate and retain these and other key officers and key team members, particularly regional operations directors, restaurant general managers and kitchen managers. Competition for these employees is intense. The loss of the services of members of our senior management or key team members or the inability to attract additional qualified personnel as needed could materially harm our business.

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Approximately 68% of our company-owned restaurants are located in the Western United States and, as a result, we are sensitive to economic and other trends and developments in this region.

As of April 1, 2005, we operate a total of 96 company-owned restaurants in the Western United States. As a result, we are particularly susceptible to adverse trends and economic conditions in this region, including its labor market. In addition, given our geographic concentration, negative publicity regarding any of our restaurants in the Western United States could have a material adverse effect on our business and operations, as could other regional occurrences such as local strikes, energy shortages or increases in energy prices, droughts, earthquakes, fires or other natural disasters.

Our future success depends on our ability to protect our proprietary information.

Our business prospects will depend in part on our ability to develop favorable consumer recognition of the Red Robin® name and logo. Although Red Robin®, America's Gourmet Burgers & Spirits® and Mad Mixology® are federally registered trademarks with the United States Patent and Trademark Office and in Canada, our trademarks could be infringed in ways that leave us without redress, such as by imitation. In addition, we rely on trade secrets and proprietary know-how, and we employ various methods, to protect our concepts and recipes. However, such methods may not afford adequate protection and others could independently develop similar know-how or obtain access to our know-how, concepts and recipes. Moreover, we may face claims of infringement that could interfere with our use of our proprietary know-how, concepts, recipes or trade secrets. Defending against such claims may be costly and, if we are unsuccessful, we may be prevented from continuing to use such proprietary information in the future and/or be forced to pay damages. We do not maintain confidentiality and non-competition agreements with all of our executives, key personnel or suppliers. In the event competitors independently develop or otherwise obtain access to our know-how, concepts, recipes or trade secrets, the appeal of our restaurants could be reduced and our business could be harmed. We franchise our system to various franchisees. While we try to ensure that the quality of our brand and compliance with our operating standards, and the confidentiality thereof are maintained by all of our franchisees, we cannot assure that our franchisees will avoid actions that adversely affect the reputation of Red Robin or the value of our proprietary information.

Future changes in financial accounting standards may cause adverse unexpected operating results and affect our reported results of operations.

Changes in accounting standards can have a significant effect on our reported results and may affect our reporting of transactions completed before the change is effective. As an example, the recent change requiring that we record compensation expense in the statement of operations for employee stock options using the fair value method may likely have a significant negative effect on our reported results. New pronouncements and varying interpretations of pronouncements have occurred and may occur in the future. Changes to existing rules or differing interpretations with respect to our current practices may adversely affect our reported financial results.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Keeping abreast of, and in compliance with, changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and The NASDAQ National Market rules, has required an increased amount of management attention and external resources. We remain committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest all reasonably necessary resources to comply with evolving standards, and this investment has resulted in and will continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. During 2004, we incurred \$822,500 of costs to comply with the Section 404 internal control requirements of the

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Sarbanes-Oxley Act of 2002. These costs were primarily related to professional services and additional independent auditor fees. We anticipate that we will continue to incur significant costs related to ongoing compliance with Section 404 in the future.

Risks related to the restaurant industry

Changes in consumer preferences or discretionary consumer spending could negatively impact our results of operations.

Our restaurants feature burgers, salads, soups, appetizers, other entrees such as carnitas fajitas and pasta, desserts and our signature Mad Mixology[®] alcoholic and non-alcoholic beverages in a family-friendly atmosphere. Our continued success depends, in part, upon the popularity of these foods and this style of casual dining. Shifts in consumer preferences away from this cuisine or dining style could have a material adverse affect on our future profitability. The restaurant industry is characterized by the continual introduction of new concepts and is subject to rapidly changing consumer preferences, tastes and eating and purchasing habits. While burger consumption in the United States has grown over the past 20 years, the demand may not continue to grow or taste trends may change. Our success will depend in part on our ability to anticipate and respond to changing consumer preferences, tastes and eating and purchasing habits, as well as other factors affecting the food service industry, including new market entrants and demographic changes. Also, our success depends to a significant extent on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could harm our results of operations.

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

Like other restaurant chains, consumer preferences could be affected by health concerns about the consumption of beef, the key ingredient in many of our menu items, or negative publicity concerning food quality, illness and injury generally, such as negative publicity concerning E. coli, “mad cow” or “foot-and-mouth” disease, publication of government or industry findings concerning food products served by us, or other health concerns or operating issues stemming from one restaurant or a limited number of restaurants. This negative publicity may adversely affect demand for our food and could result in a decrease in guest traffic to our restaurants. If we react to the negative publicity by changing our concept or our menu, we may lose guests who do not prefer the new concept or menu, and may not be able to attract a sufficient new guest base to produce the revenue needed to make our restaurants profitable. In addition, we may have different or additional competitors for our intended guests as a result of a concept change and may not be able to compete successfully against those competitors. A decrease in guest traffic to our restaurants as a result of these health concerns or negative publicity or as a result of a change in our menu or concept could materially harm our business.

Labor shortages could slow our growth or harm our business.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified, high-energy team members. Qualified individuals of the requisite caliber and number needed to fill these positions are in short supply in some areas. The inability to recruit and retain these individuals may delay the planned openings of new restaurants or result in high employee turnover in existing restaurants, which could harm our business. Additionally, competition for qualified team members could require us to pay higher wages to attract sufficient team members, which could result in higher labor costs. Most of our employees are paid on an hourly basis. These employees are paid in accordance with applicable minimum wage regulations. Accordingly, any increase in the minimum wage, whether state or federal, could have a material adverse impact on our business.

We are subject to extensive government laws and regulations that govern various aspects of our business. Our operations and our ability to expand and develop our restaurants may be adversely affected by these laws and regulations, which could cause our revenues to decline and adversely affect our growth strategy.

The restaurant industry is subject to various federal, state and local government regulations, including those relating to the sale of food and alcoholic beverages. While in the past we have been able to obtain and maintain

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the necessary governmental licenses, permits and approvals, our failure to maintain these licenses, permits and approvals, including food and liquor licenses, could adversely affect our operating results. Difficulties or failures in obtaining the required licenses and approvals could delay or result in our decision to cancel the opening of new restaurants. Local authorities may suspend or deny renewal of our food and liquor licenses if they determine that our conduct does not meet applicable standards or if there are changes in regulations.

We are subject to “dram shop” statutes in some states. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. A judgment substantially in excess of our insurance coverage could harm our financial condition.

Various federal and state labor laws govern our relationship with our employees and affect operating costs. These laws include minimum wage requirements, overtime pay, unemployment tax rates, workers’ compensation rates, citizenship or residency requirements and sales taxes. Additional government-imposed increases in minimum wages, overtime pay, paid leaves of absence and mandated health benefits such as those to be imposed by recently enacted legislation in California, increased tax reporting and tax payment requirements for employees who receive gratuities, or a reduction in the number of states that allow tips to be credited toward minimum wage requirements could harm our operating results.

The federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. Although our restaurants are designed to be accessible to the disabled, we could be required to make modifications to our restaurants to provide service to, or make reasonable accommodations for, disabled persons.

We are also subject to federal regulation and state laws that regulate the offer and sale of franchises and aspects of the licensor-licensee relationship. Many state franchise laws impose restrictions on the franchise agreement, including limitations on non-competition provisions and the termination or non-renewal of a franchise. Some states require that franchise materials be registered before franchises can be offered or sold in the state.

A significant increase in litigation could have a material adverse effect on our results of operations, financial condition and business prospects.

As a participant in the restaurant industry, we are sometimes the subject of complaints or litigation from guests alleging illness, injury or other food quality, health or operational concerns. Recently, the restaurant industry also has been subject to an increase in claims that the menus and practices of restaurant chains have led to the obesity of some guests. Adverse publicity resulting from these allegations could harm our restaurants, regardless of whether the allegations are valid or whether we are liable. In fact, we are subject to the same risks of adverse publicity resulting from these sorts of allegations even if the claim actually involves one of our franchisees. Further, employee claims against us based on, among other things, discrimination, harassment or wrongful termination may divert our financial and management resources that would otherwise be used to benefit the future performance of our operations.

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

Competition in the restaurant industry is increasingly intense. We compete on the basis of the taste, quality, and price of food offered, guest service, ambiance and overall dining experience. We believe that our operating concept, attractive dining value, quality of food and guest service, enable us to differentiate ourselves from our competitors. Our competitors include a large and diverse group of restaurant chains and individual restaurants that range from independent local operators that have opened restaurants in various markets, to well-capitalized national restaurant companies. In addition, we compete with other restaurants and with retail establishments for real estate. Many of our competitors are well established in the casual dining market segment and some of our competitors have substantially greater financial, marketing and other resources than do we.

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Risks related to our company

Our stock price may be volatile.

The market for equity securities has been extremely volatile. The following factors could cause the price of our common stock in the public market to fluctuate significantly:

- actual or anticipated variations in our quarterly results of operations;
- changes in market valuations of companies in our industry;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- fluctuations in stock market prices and volumes;
- issuances of common stock or other securities in the future; and
- the addition or departure of key personnel.

Our common stock began trading on July 19, 2002, and prior to this date there was no public market for shares of our common stock. The stock market is subject to significant price and volume fluctuations. Fluctuations or decreases in the trading price of our common stock may adversely affect stockholders' ability to trade their shares. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs and divert management's attention and resources that would otherwise be used to benefit the future performance of our operations.

Some of our stockholders could exert influence over us, and may not make decisions that are in the best interests of all stockholders.

As of March 15, 2005, Mike Snyder owns 9.5% of our outstanding common stock. Our officers, directors and principal stockholders, i.e., stockholders holding more than 5.0% of our common stock, including Mike Snyder, together hold approximately 12.8% of our outstanding common stock. These stockholders, acting individually or together, could exert influence over various matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership could delay or prevent a change in control of our company, and make some transactions more difficult without the support of these stockholders. The interests of these stockholders may not always coincide with our interests as a company or the interest of other stockholders. Accordingly, Mike Snyder and these other stockholders could cause us to enter into transactions or agreements that our other stockholders might not approve. Our certificate of incorporation and bylaws require a 66²/₃% supermajority vote of our stockholders to remove a director or to amend specified provisions of our certificate of incorporation or bylaws.

Provisions in Delaware law and our charter may prevent or delay a change of control, even if that change of control may be beneficial to our stockholders.

We are subject to the Delaware anti-takeover laws regulating corporate takeovers. These anti-takeover laws prevent Delaware corporations from engaging in business combinations with any stockholder, including all affiliates and associates of the stockholder, who owns 15.0% or more of the corporation's outstanding voting stock, for three years following the date that the stockholder acquired 15.0% or more of the corporation's voting stock unless specified conditions are met.

Our amended and restated certificate of incorporation and our amended and restated bylaws include a number of provisions that may deter or impede hostile takeovers or changes of control. These provisions:

- authorize our board of directors to establish one or more series of preferred stock, the terms of which can be determined by the board of directors at the time of issuance;

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- create a three class structure for our board of directors, with each class serving a staggered three-year term. As the classification of the board of directors generally increases the difficulty of replacing a majority of the directors, it may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us and may maintain the composition of the board of directors;
- do not provide for cumulative voting in the election of directors unless required by applicable law. Under cumulative voting, a minority stockholder holding a sufficient percentage of a class of shares may be able to ensure the election of one or more directors;
- provide that a director may be removed from our board of directors only for cause, and then only by a supermajority vote of the outstanding shares;
- require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing;
- state that special meetings of our stockholders may be called only by the chairman of the board of directors, our chief executive officer, by the board of directors after a resolution is adopted by a majority of the total number of authorized directors, or by the holders of not less than 10.0% of our outstanding voting stock;
- provide that the chairman or other person presiding over any stockholder meeting may adjourn the meeting whether or not a quorum is present at the meeting;
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting;
- provide that certain provisions of our certificate of incorporation can be amended only by supermajority vote of the outstanding shares, and that our bylaws can be amended only by supermajority vote of the outstanding shares or our board of directors;
- allow our directors, not our stockholders, to fill vacancies on our board of directors; and
- provide that the authorized number of directors may be changed only by resolution of the board of directors.

ITEM 2. Properties

We currently lease the majority of our company-owned restaurant facilities under operating leases with remaining terms ranging from less than one year to just over 20 years. These leases generally contain renewal options which permit the Company to renew the leases at defined contractual rates or prevailing market rates. Certain leases provide for contingent rents, which are determined as a percentage of adjusted restaurant sales in excess of specified levels. The Company records a contingent rent liability and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable. Certain lease agreements also require the Company to pay maintenance, insurance and property tax costs.

We own real estate for 21 company-owned restaurants located in Mesa, Peoria, and Prescott, Arizona; Fayetteville, Arkansas; Moreno Valley and Yuba City, California; Castle Rock, Greeley and Highlands Ranch, Colorado; Columbia, Maryland; St. Peters, Missouri; Chagrin Highlands, North Olmstead and Westchester, Ohio; Homestead and Oxford Valley, Pennsylvania; Chesapeake, Fairfax, Glen Allen and Potomac Mills, Virginia; and Issaquah, Washington. See “Restaurant Locations” under Item I for additional information regarding our restaurants.

We own real estate in Oswego, Illinois; Grove City, Ohio; Toringdon, North Carolina and Monroe, Washington where we plan to develop new company-owned restaurants. In addition, we own one property in Lake Howell, Florida and a second property in Grapevine, Texas, both of which we lease to others.

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Our corporate headquarters are located in Greenwood Village, Colorado. We occupy this facility under a lease that expires on May 30, 2011. We lease approximately 1,500 square feet of regional office space in Seattle, Washington, under an agreement expiring in October 2005. In addition, we lease approximately 2,900 square feet of regional office space in Tustin, California, under an agreement expiring in December 2007.

ITEM 3. Legal Proceedings

Occasionally, we are a defendant in litigation arising in the ordinary course of our business, including claims resulting from “slip and fall” accidents, employment related claims and claims from guests or team members alleging illness, injury or other food quality, health or operational concerns. To date, none of these types of litigation, all of which are generally covered by insurance policies, has had a material effect on us, and as of the date of this filing, we are not a party to any litigation that we believe would have a material adverse effect on our business or financial condition.

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

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on The NASDAQ National Market under the symbol RRGB. The table below sets forth the high and low per share sales prices for our common stock as reported by The NASDAQ National Market.

	Sales Price	
	High	Low
2004		
4th Quarter	\$54.30	\$41.69
3rd Quarter	44.94	29.00
2nd Quarter	29.38	26.21
1st Quarter	32.37	26.06
2003		
4th Quarter	\$31.71	\$25.07
3rd Quarter	27.05	20.95
2nd Quarter	22.66	14.50
1st Quarter	15.69	11.50

As of April 1, 2005, there were approximately 3,750 registered owners of our common stock.

Dividends

We did not declare or pay any cash dividends on our common stock during 2004 or 2003. We currently anticipate that we will retain any future earnings for the operation and expansion of our business. In addition, our revolving credit agreement prohibits us from declaring or paying any dividends or making any other distributions on any of our shares, subject to specified exceptions. Accordingly, we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future.

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Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on then existing conditions including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

Issuer Purchases of Equity Securities

We did not repurchase any of our registered securities during the fourth quarter of 2004. As of April 1, 2005, the Company has no programs which have been approved by stockholders pursuant to which we would repurchase any of our equity securities. As of April 1, 2005, we have a right to repurchase 11,495 shares of common stock at the lower of fair value or issuance price related to unvested early exercise options that were exercised in April 2002. This right expires when the shares vest on January 29, 2006.

Securities Authorized for Issuance Under Equity Compensation Plans

We maintain five equity-based compensation plans—the 1996 Stock Plan, the 2000 Stock Plan, the 2002 Stock Plan, the 2004 Stock Plan and the employee stock purchase plan. Our stockholders have approved each of these plans.

The following table sets forth for each of our equity compensation plans, the number of shares of our common stock subject to outstanding options and rights under these plans, the weighted-average exercise price of outstanding options, and the number of shares remaining available for future award grants under these plans as of December 26, 2004 (in thousands, except per share data):

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,136(1)(2)	\$ 20.88	1,718(3)
Equity compensation plans not approved by security holders	N/A	N/A	N/A
	<u>1,136</u>	<u>\$ 20.88</u>	<u>1,718</u>

(1) 54,185 of these shares were subject to options then outstanding under the 1996 Stock Plan; 152,560 of these shares were subject to options then outstanding under the 2000 Stock Plan; 725,686 of these shares were subject to options then outstanding under the 2002 Stock Plan; and 203,268 of these shares were subject to options then outstanding under the 2004 Stock Plan.

(2) Excludes 275,649 shares that were available for issuance under the employee stock purchase plan.

(3) Of the aggregate number of shares that remained available for future issuance, 275,649 shares were available for issuance under the employee stock purchase plan and 1,442,191 shares were available for issuance under the 2004 Stock Plan. A total of 9,175 shares were issued in 2005 prior to the filing of this report on Form 10-K for the employee stock purchase plan period that ended on December 31, 2004. Any shares subject to options granted under the employee stock purchase plan or the 1996 Stock Plan, the 2000 Stock Plan or the 2002 Stock Plan that are not exercised before they expire or are terminated will become available for additional award grants under the 2004 Stock Plan. No new awards may be granted under the 1996 Stock Plan, the 2000 Stock Plan or the 2002 Stock Plan.

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ITEM 6. Selected Financial Data

The table below, which contains selected consolidated financial and operating data, gives effect to corrections for lease accounting and certain other immaterial adjustments for all years presented. The statement of income, cash flow and balance sheet data for each year has been derived from our consolidated financial statements. You should read this information together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this annual report on Form 10-K.

	Fiscal Year Ended				
	2004	2003(1)	2002(1)	2001(1)	2000(1)
(in thousands, except per share data, restaurant-related data and footnotes)					
Statement of Income Data:					
Revenue:					
Restaurant	\$ 396,995	\$ 318,878	\$ 265,518	\$ 214,963	\$ 180,414
Franchise royalties and fees	11,769	9,320	8,565	9,002	8,247
Rent revenue	300	409	327	520	509
	<u>409,064</u>	<u>328,607</u>	<u>274,410</u>	<u>224,485</u>	<u>189,170</u>
Costs and expenses:					
Restaurant operating costs:					
Cost of sales	93,280	75,067	61,009	50,850	43,896
Labor	136,817	112,872	94,030	74,854	64,566
Operating	57,158	48,085	40,428	33,195	27,959
Occupancy	25,242	21,248	17,830	14,034	10,670
Restaurant closures and impairment	—	—	1,393	36	1,302
Depreciation and amortization(2)	21,070	16,395	13,198	10,786	8,461
General and administrative	28,675	21,990	20,239	16,784	16,987
Franchise development	4,063	2,848	3,256	3,704	3,386
Pre-opening costs	5,143	3,891	2,265	1,354	3,228
Gain on lease buy-out	—	—	(945)	—	—
Impairment of property held for sale	—	—	150	—	—
	<u>371,448</u>	<u>302,396</u>	<u>252,853</u>	<u>205,597</u>	<u>180,455</u>
Total costs and expenses	371,448	302,396	252,853	205,597	180,455
Income from operations	37,616	26,211	21,557	18,888	8,715
Other (income) expense:					
Interest expense(3)	2,706	2,974	5,769	7,850	6,482
Interest income	(322)	(341)	(398)	(746)	(742)
Loss on extinguishment of debt	—	258	4,336	—	—
Gain on sale of property	(257)	—	—	—	—
Other	89	(14)	106	190	19
	<u>2,216</u>	<u>2,877</u>	<u>9,813</u>	<u>7,294</u>	<u>5,759</u>
Total other expenses	2,216	2,877	9,813	7,294	5,759
Income before income taxes	35,400	23,334	11,744	11,594	2,956
Provision (benefit) for income taxes(4)	12,019	7,888	3,857	3,779	(12,524)
	<u>23,381</u>	<u>15,446</u>	<u>7,887</u>	<u>7,815</u>	<u>15,480</u>
Net income(4)	\$ 23,381	\$ 15,446	\$ 7,887	\$ 7,815	\$ 15,480
Earnings per share(4)					
Basic	\$ 1.46	\$ 1.02	\$ 0.64	\$ 0.77	\$ 2.08
Diluted	\$ 1.43	\$ 1.00	\$ 0.62	\$ 0.76	\$ 2.08
Shares used in computing earnings per share					
Basic	16,022	15,182	12,278	10,085	7,444
Diluted	16,406	15,465	12,660	10,236	7,444

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	Fiscal Year Ended				
	2004	2003(1)	2002(1)	2001(1)	2000(1)
	(in thousands, except per share data, restaurant-related data and footnotes)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 4,980	\$ 4,871	\$ 4,797	\$ 18,992	\$ 8,317
Total assets(2)(3)	264,501	214,382	173,774	157,786	142,837
Long-term debt, including current portion(3)	47,743	37,628	39,980	80,088	78,413
Total stockholders' equity(3)	\$161,733	\$132,386	\$ 98,022	\$ 46,388	\$ 38,792
Cash Flow Data:					
Net cash provided by operating activities	\$ 55,521	\$ 44,044	\$ 30,268	\$ 27,507	\$ 9,480
Net cash used in investing activities	(69,551)	(53,894)	(46,178)	(18,128)	(22,156)
Net cash provided by financing activities	14,139	13,924	1,715	1,296	15,817
Selected Operating Data:					
Average annual comparable restaurant sales	\$ 3,236	\$ 3,045	\$ 2,982	\$ 3,066	\$ 2,896
Comparable restaurant sales increase	7.5%	4.1%	1.8%	1.8%	7.1%
Company-owned restaurants open at end of period	137	115	96	77	73
Franchised restaurants open at end of period	118	103	98	105	91

- (1) The consolidated financial statements included elsewhere in this annual report on Form 10-K contain restated results for 2003 and 2002. A description of the adjustments related to the restatement of the consolidated balance sheet as of December 28, 2003 as well as the effects of the restatement of our consolidated statements of income and cash flows for 2003 and 2002 can be found in Note 3 to our consolidated financial statements. Our consolidated balance sheet as of December 29, 2002, December 30, 2001 and December 31, 2000 and our consolidated statements of income and cash flows for the years ended December 30, 2001 and December 31, 2000 have been restated from the amounts previously reported to reflect the effect of the adjustments discussed in Note 3 to our consolidated financial statements.
- (2) We ceased amortizing goodwill as of the beginning of 2002 in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.
- (3) In November 2003, we received proceeds of \$18.0 million from a secondary offering of common stock. These proceeds were used to repay \$18.0 million of borrowings outstanding under our revolving credit agreement. In July 2002, we received proceeds of \$42.8 million from our initial public offering of common stock. These proceeds, along with borrowings from our revolving credit agreement, were used to repay \$55.0 million of borrowings then outstanding.
- (4) Net income in 2000 included a tax benefit of \$12.5 million as a result of the reversal of previously recorded deferred tax asset valuation allowance.

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ITEM 7. 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 and the related notes included elsewhere in this annual report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Future 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 this annual report on Form 10-K. This section includes the following discussions:

- Overview
- Restatement
- Unit Data and Comparable Restaurant Sales
- Results of Operations
- Liquidity and Capital Resources
- Contractual Obligations
- Inflation
- Critical Accounting Policies and Estimates
- Recent Accounting Pronouncements
- Forward-Looking Statements

Overview

Red Robin, which was founded in 1969, is a casual dining restaurant chain focused on serving an imaginative selection of high quality gourmet burgers in a family-friendly atmosphere. As of April 1, 2005, we operate 141 company-owned restaurants in 17 states. We began franchising the Red Robin® brand in 1979 and as of April 1, 2005, we have 27 franchisees that operate 122 restaurants in 24 states and two Canadian provinces. Our objective is to be the leading gourmet burger and casual dining restaurant destination. In managing our operations, we focus on four cornerstones that we believe are essential to the success of our business: Values, People, Burgers and Time.

Our restaurants are designed to create a fun and memorable dining experience in a family-friendly atmosphere and provide our guests with an exceptional dining value. Our concept attracts a broad guest base by appealing to the entire family, particularly women, teens, kids ages 8 to 12 whom we refer to as tweens, and younger children. All of our menu items are prepared to order in our restaurants. The food items currently on our menu range in price from \$2.99 to \$11.49, with a per person average check in 2004 of approximately \$10.36, including beverages. During 2004, our company-owned comparable restaurants had average unit volumes that exceeded \$3.2 million.

We are pursuing a disciplined growth strategy that includes the addition of company-owned and franchised restaurants. Our restaurant expansion strategy focuses primarily on further penetrating existing markets with a cluster strategy and selectively entering into new markets. We believe that our site selection strategy is critical to our success and we devote substantial time and effort to evaluating each site. Our site selection criteria focus on identifying markets, trade areas and other specific sites that are likely to yield the greatest density of desirable demographic characteristics, heavy retail traffic and a highly visible site. Our prototype restaurant is a free-standing building with approximately 6,350 square feet, approximately 200 seats and a patio. Based on this prototype, we expect that our average cash investment cost for our free-standing restaurants in 2005 will be \$2.3 million, excluding land and pre-opening costs.

Our fiscal years ended December 26, 2004, December 28, 2003 and December 29, 2002 are referred to as 2004, 2003 and 2002, respectively. Each year presented included 52 weeks. We also refer to our fiscal year ending December 25, 2005 as 2005.

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Restatement

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 our lease accounting and determined that our 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, we have restated our audited consolidated financial statements for the fiscal years ended December 28, 2003 and December 29, 2002. Our restated financial statements also reflect certain immaterial adjustments as further described in Note 3 to the consolidated financial statements, included elsewhere herein.

See Note 3 to the consolidated financial statements of this Annual Report on Form 10-K for a summary of the effects of the restatement of the Company's consolidated balance sheet as of December 28, 2003, as well as on the Company's consolidated statements of income and cash flows for 2003 and 2002. The accompanying Management's Discussion and Analysis gives effect to these corrections. In 2005, we will amend our 2004 quarterly filings to reflect this restatement. See Note 18 to the consolidated financial statements.

The cumulative effect of this restatement resulted in an increase in the accumulated deficit of \$590,000 as of December 30, 2001, and decreases in net income of \$288,000 and \$377,000 for the fiscal years ended December 28, 2003 and December 29, 2002, respectively.

Unit Data and Comparable Restaurant Sales

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

	2004	2003	2002
Company-owned:			
Beginning of period	115	96	77
Opened during period	22	18	10
Acquired or assumed from franchisees	—	1	10
Closed during period	—	—	(1)
End of period	137	115	96
Franchised:			
Beginning of period	103	98	105
Opened during period	17	10	5
Sold or transferred to company-owned	—	(1)	(10)
Closed during period	(2)	(4)	(2)
End of period	118	103	98
Total Number of Red Robin® restaurants	255	218	194

Since December 26, 2004 and through April 1, 2005, we have opened 4 additional company-owned restaurants and our franchisees have opened 4 additional franchise restaurants. These openings bring our total restaurant count as of April 1, 2005, to 141 company-owned restaurants, 122 franchised restaurants and 263 total restaurants. We expect to open an additional 22 to 24 company-owned restaurants and anticipate that our franchisees will open 11 to 13 additional restaurants during the remainder of 2005.

We reflect restaurants as comparable in the first period following five full quarters of operations. Our company-owned comparable restaurant sales increased 7.5% in 2004, 4.1% in 2003 and 1.8% in 2002.

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Results of Operations

Operating results for each period presented below are expressed as a percentage of total revenues, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant revenues:

	2004	2003	2002
Revenues:			
Restaurant	97.0%	97.1%	96.8%
Franchise royalties and fees	2.9	2.8	3.1
Rent revenue	0.1	0.1	0.1
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant operating costs:			
Cost of sales	23.5	23.5	23.0
Labor	34.5	35.4	35.4
Operating	14.4	15.1	15.2
Occupancy	6.4	6.7	6.7
Restaurant closures and impairment	—	—	0.5
Total restaurant operating costs	78.8	80.7	80.8
Depreciation and amortization	5.2	5.0	4.8
General and administrative	7.0	6.7	7.4
Franchise development	1.0	0.9	1.2
Pre-opening costs	1.3	1.2	0.8
Gain on lease buy-out	—	—	(0.3)
Impairment of property held for sale	—	—	0.1
Income from operations	9.2	8.0	7.9
Other (income) expense:			
Interest expense	0.7	0.9	2.1
Interest income	(0.1)	(0.1)	(0.1)
Loss on extinguishment of debt	—	0.1	1.6
Gain on sale of property	(0.1)	—	—
Other	—	—	—
Total other expenses	0.5	0.9	3.6
Income before income taxes	8.7	7.1	4.3
Provision for income taxes	(3.0)	(2.4)	(1.4)
Net income	5.7%	4.7%	2.9%

2004 compared to 2003

Total revenues. Total revenues increased by \$80.5 million, or 24.5%, to \$409.1 million, from \$328.6 million, due primarily to a \$78.1 million increase in restaurant revenues. The increase in restaurant revenues was due to \$32.3 million of revenues from 22 new restaurants opened during 2004, \$23.4 million in additional revenues from the non-comparable restaurants we opened in 2003 and 2002, and \$22.4 million from a comparable restaurant sales increase of 7.5%. The increase in comparable restaurant sales was driven by an increase in guest counts of 3.9% and an increase in the average guest check of 3.6%.

Franchise royalties and fees increased \$2.5 million, or 26.3%, to \$11.8 million from \$9.3 million. Franchise royalties increased \$2.2 million, or 24.6%, to \$11.2 million, from \$9.0 million, due primarily to royalties generated from the 27 franchise restaurants opened in 2003 and 2004. Our franchisees reported that annual comparable sales for U.S. and Canadian franchise restaurants increased 5.8% and 4.8%, respectively. Franchise

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fees increased \$236,400, or 74.7%, to \$553,100, from \$316,700, due to the fact that there were seven additional franchise restaurants opened in 2004 compared to 2003.

Cost of sales. Cost of sales increased by \$18.2 million, or 24.3%, to \$93.3 million, from \$75.1 million, due primarily to more restaurants being operated during 2004. Cost of sales as a percentage of restaurant revenues remained constant at 23.5%, primarily due to the menu price increases we implemented during January and mid-June of 2004, offset by higher commodity costs.

Labor. Labor expenses increased by \$23.9 million, or 21.2%, to \$136.8 million, from \$112.9 million, due primarily to more restaurants being operated in 2004. Labor expense as a percentage of restaurant revenues improved 0.9%, to 34.5% compared to 35.4% in 2003. Overall, labor as a percentage of restaurant revenues averaged 34.0% at our comparable restaurants and 36.4% at our non-comparable restaurants. Total wages as a percentage of restaurant revenues improved 0.9% during 2004 due to a 1.2% improvement in controllable labor and a 0.1% improvement in workers' compensation costs offset by a 0.4% increase in bonus expenses. The improvement in workers' compensation expense as a percentage of restaurant revenues was attributable to recent lower claims experience and per claim costs. We cannot predict with certainty whether or not our workers' compensation expense and controllable labor costs will increase or decrease during 2005. The increase in bonus expenses as a percentage of restaurant revenues was due primarily to improved comparable restaurant sales.

Operating. Operating expenses increased by \$9.1 million, or 18.9%, to \$57.2 million, from \$48.1 million, due primarily to more restaurants being operated in 2004. Operating expenses as a percentage of restaurant revenues improved 0.7%, to 14.4% compared to 15.1% in 2003. The improvement as a percentage of restaurant revenues was due primarily to leverage from our comparable restaurant sales increase offset by cost pressures in certain supplies and energy-related items, such as plastic wrap, fuels and utilities, particularly during the fourth quarter of 2004.

Occupancy. Occupancy expenses increased by \$4.0 million, or 18.8%, to \$25.2 million, from \$21.2 million, due primarily to more restaurants being operated in 2004. Occupancy expense as a percentage of restaurant revenues improved 0.3%, to 6.4% compared to 6.7% in 2003. Our occupancy expense 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 in 2004 compared to 2003, and free-standing units generally have lower occupancy costs than in-line units.

Depreciation and amortization. Depreciation and amortization increased \$4.7 million, or 28.5%, to \$21.1 million, from \$16.4 million. The increase was primarily due to the addition of 22 new restaurants in 2004 and a full year of depreciation related to the 18 restaurants opened in 2003. Depreciation and amortization expense as a percentage of total revenues increased 0.2%, to 5.2% compared to 5.0% in 2003. The increase as a percentage of total revenues is primarily a result of newer restaurants having a higher depreciable costs basis than older restaurants.

General and administrative. General and administrative expenses increased by \$6.7 million, or 30.4%, to \$28.7 million, from \$22.0 million, generally due to additional headcount, higher salaries and related costs attributable to operating more company-owned restaurants and to costs associated with our public company reporting requirements. General and administrative expenses as a percentage of total revenues increased 0.3%, to 7.0% compared to 6.7% in 2003. During 2004 we incurred \$822,500 of costs to comply with the Section 404 internal control requirements of the Sarbanes-Oxley Act. There were no comparable Section 404 costs incurred during 2003. These costs were primarily related to professional services and additional independent auditor fees. We anticipate that we will continue to incur additional costs related to ongoing compliance with Section 404 in the future. In addition, we incurred approximately \$200,000 of additional audit and legal expenses related to the restatement of our financial statements as previously discussed.

Franchise development. Franchise development expenses increased \$1.2 million, or 42.7%, to \$4.1 million, from \$2.8 million. Approximately one quarter of this increase was attributable to our annual leadership

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conference which takes place in January each year. Costs for the 2004 leadership conference were higher than in 2003 due in part to the increased number of attendees. Franchise development expenses as a percentage of total revenues increased 0.1%, to 1.0% compared to 0.9% in 2003. We substantially increased the size of our franchise development and support teams during the second half of 2003 in order to support 2004 franchisee restaurant openings and the growing franchisee restaurant base. Our franchisees opened 17 restaurants during 2004 compared to ten in 2003.

Pre-opening costs. Pre-opening costs increased \$1.2 million, or 32.2%, to \$5.1 million, from \$3.9 million, due primarily to the fact that there were 22 company-owned restaurants opened during 2004, compared to 18 during 2003. Pre-opening costs as a percentage of total revenues were 1.3% and 1.2% for 2004 and 2003, respectively. Overall, pre-opening costs for the restaurants we opened in 2004 averaged \$227,100 per restaurant compared to an average of \$209,900 per restaurant in 2003. On a per unit basis, pre-opening expenses for restaurants that we opened in 2004 were higher as a result of increased costs related to opening restaurants in newer markets. Labor, training, travel and marketing costs are typically higher for newer markets compared to opening restaurants in more mature markets.

Interest expense. Interest expense declined by \$268,200, or 9.0%, to \$2.7 million, from \$3.0 million. Our interest expense was lower in 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 increased loan amortization and unused loan fees related to our revolving credit agreement as well as increased interest expense on borrowings from our revolving credit agreement.

Interest income. Interest income was \$321,600 in 2004 compared to \$340,700 in 2003. Interest income in 2004 and 2003 included \$303,000 and \$298,800, respectively, from related party notes receivable. During December 2004 and February 2005, certain officers repaid their notes in full, and as a result, we expect interest income to decrease by at least \$125,000 during 2005.

Loss on extinguishment of debt. During 2003, we incurred \$257,500 of charges related to debt extinguishment, which included a \$186,400 non-cash write-off of capitalized debt issuance costs. There were no similar charges in 2004.

Gain on sale of property. During 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 2003.

Other. Other expense was \$88,400 in 2004, compared to other income of \$14,200 in 2003.

Income before income taxes. As a result of the above, income before income taxes increased \$12.1 million, or 51.7%, to \$35.4 million, from \$23.3 million.

Provision for income taxes. The provision for income taxes increased \$4.1 million, or 52.4%, to \$12.0 million, from \$7.9 million. The increase was due primarily to increased pre-tax earnings. Our effective income tax rate for 2004 was 34.0% compared to 33.8% for 2003.

Net income. As a result of the above, net income increased by \$7.9 million, or 51.4%, to \$23.4 million, from \$15.4 million.

2003 compared to 2002

Total revenues. Total revenues increased by \$54.2 million, or 19.8%, to \$328.6 million, from \$274.4 million, due primarily to a \$53.4 million increase in restaurant revenues. The increase in restaurant revenues was due to \$28.1 million of revenues from 18 new restaurants opened and the one franchise restaurant we assumed operation of during 2003, \$13.6 million in additional revenues from the non-comparable restaurants that we

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opened in 2002, \$1.7 million related to a full year of revenues for the ten restaurants we acquired from two franchisees during first quarter 2002 and \$10.0 million from comparable restaurant sales increases of 4.1%. The increase in comparable restaurant sales was driven by an increase in guest counts of 4.0% and an increase in the average guest check of 0.1%.

Franchise royalties and fees increased \$754,600, or 8.8%, to \$9.3 million from \$8.6 million. Franchise royalties increased \$603,700, or 7.2%, to \$9.0 million, from \$8.4 million, due to an increase in royalties attributable to new franchise restaurants, comparable U.S. franchise restaurant revenues increases of 3.7%, and an increase in royalties from our Canadian franchisee primarily due to more favorable currency exchange rates. Royalties from the ten new franchise restaurants opened during 2003 were partially offset because four franchise restaurants closed and we assumed the operations of one additional franchise restaurant in April 2003. Franchise fees increased \$150,900, or 91.0%, to \$316,700, from \$165,800, because ten franchise restaurants were opened in 2003 compared to five in 2002.

Cost of sales. Cost of sales increased by \$14.1 million, or 23.0%, to \$75.1 million, from \$61.0 million, due primarily to more restaurants being operated during 2003. Cost of sales as a percentage of restaurant revenues increased 0.5%, to 23.5%, from 23.0%. Overall, the increase as a percentage of restaurant revenues was attributable to increases in certain food costs during 2003, including gourmet breads, hamburger, produce and pork.

Labor. Labor expenses increased by \$18.9 million, or 20.0%, to \$112.9 million, from \$94.0 million, due primarily to more restaurants being operated in 2003. Overall, labor expense as a percentage of restaurant revenues was 35.4% in 2003 and 2002. Labor as a percentage of restaurant revenues was 35.1% at our comparable restaurants and 37.1% at our non-comparable restaurants. Total wages as a percentage of restaurant revenues decreased 0.7% during 2003, due to improvements in controllable labor and floor supervisory wages at our non-comparable restaurants and the ten restaurants we acquired in 2002. However, these improvements were entirely offset by an increase of 0.4% for self-insured workers' compensation expenses, 0.2% for bonus expenses and 0.1% for payroll tax expenses. The increase in bonus expenses was primarily due to higher bonuses earned as a result of improved comparable restaurant sales. Our workers' compensation expense increased during 2003 due to a combination of higher claims experienced and higher per claim costs.

Operating. Operating expenses increased by \$7.7 million, or 18.9%, to \$48.1 million, from \$40.4 million, due primarily to more restaurants being operated in 2003. Operating expenses as a percentage of restaurant revenues decreased 0.1%, to 15.1%, from 15.2%. We believe the improvement as a percentage of restaurant revenues was due in part to our 4.1% increase in comparable restaurant sales and the discontinuance of one of our marketing funds midway through first quarter 2003, for which we had previously contributed 0.3% of restaurant revenues. These improvements were partially offset by higher utilities, paper packaging costs, telecommunications charges and credit card processing fees.

Occupancy. Occupancy expenses increased by \$3.4 million, or 19.2%, to \$21.2 million, from \$17.8 million, due primarily to more restaurants being operated in 2003. Occupancy expense as a percentage of restaurant revenues was 6.7% for both 2003 and 2002.

Restaurant closures and impairment. We recorded a \$1.4 million non-cash impairment charge in 2002 to fully write-down all of the long-lived assets related to one restaurant, which we continue to operate.

Depreciation and amortization. Depreciation and amortization increased \$3.2 million, or 24.2%, to \$16.4 million, from \$13.2 million. The increase was primarily due to the addition of 18 new restaurants opened in 2003 and a full year of depreciation related to the ten restaurants we opened during 2002. Depreciation and amortization expense as a percentage of total revenues increased 0.2%, to 5.0%, from 4.8%. The increase as a percentage of total revenues is primarily a result of newer restaurants having a higher depreciable costs basis than older restaurants.

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General and administrative. General and administrative expenses increased by \$1.8 million, or 8.6%, to \$22.0 million, from \$20.2 million, generally due to additional headcount, higher salaries and related costs attributable to operating more company-owned restaurants and to costs associated with our public company reporting requirements. General and administrative expenses as a percentage of total revenues, however, improved 0.7%, to 6.7%, from 7.4%. The improvement in general and administrative expenses as a percentage of total revenues is due primarily to a decrease in marketing expenditures and to our 4.1% increase in comparable restaurant sales. In addition, we had unfilled positions in 2003 that we did not fill until fourth quarter 2003 that positively impacted our results in 2003.

Franchise development. Franchise development expenses decreased \$407,900, or 12.5%, to \$2.8 million, from \$3.3 million. Franchise development expenses as a percentage of total revenues decreased 0.3%, to 0.9%, from 1.2%, due primarily to several unfilled positions that we did not fill until fourth quarter 2003 and to a related reduction in other franchise development expenses, including travel and legal.

Pre-opening costs. Pre-opening costs increased \$1.6 million, or 71.8%, to \$3.9 million, from \$2.3 million, due primarily to the fact that there were 18 company-owned restaurants opened during 2003, compared to ten during 2002. Pre-opening costs as a percentage of total revenues increased 0.4%, to 1.2%, from 0.8%. Pre-opening costs for the restaurants we opened in 2003 averaged \$209,900 per restaurant compared to an average of \$207,600 per restaurant for new restaurants we opened in 2002.

Gain on lease buy-out. During 2002, we realized a non-recurring gain of \$945,000 due to a landlord lease buy-out of one of our company-owned restaurants and, as a result, we relocated the restaurant to a new location during 2002.

Impairment of property held for sale. During 2002, we recognized a \$150,000 charge to reduce the carrying value of real estate held for sale to its estimated fair value less cost to sell. This property was subsequently sold in 2002 for its approximate carrying value.

Interest expense. Interest expense decreased by \$2.8 million, or 48.4%, to \$3.0 million, from \$5.8 million. The decrease was due primarily to lower average borrowings outstanding and a reduction in the overall interest rate of our debt in 2003, compared to 2002. Our average borrowings outstanding decreased because net proceeds from our July 2002 initial public offering and our November 2003 secondary offering were used to repay significant portions of our then outstanding borrowings.

Interest income. Interest income decreased \$57,200, or 14.4%, to \$340,700, from \$397,900. The 2003 results include interest income of \$298,800 from related party notes receivable, compared to \$252,200 in 2002. The remaining change was attributable to decreases in interest income from franchisees and interest earned on our overnight sweep accounts.

Loss on extinguishment of debt. During 2003, we incurred \$257,500 of charges related to debt extinguishment, which included a non-cash write-off of \$186,400 of capitalized debt issuance costs. During 2002, we incurred \$4.3 million of charges related to prepayment penalties of \$1.9 million and a \$2.4 million non-cash write-off of capitalized debt issuance costs. Debt extinguished in 2003 had a carrying value of \$11.4 million compared to \$52.9 million in 2002, excluding penalties and fees.

Other. Other income was \$14,200 in 2003, compared to other expense of \$105,800 in 2002. Other expense principally includes holding costs associated with real estate held for sale, offset in 2003 by a gain on the sale of real estate.

Income before income taxes. As a result of the above, income before income taxes increased \$11.6 million, or 98.7%, to \$23.3 million, from \$11.7 million.

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Provision for income taxes. The provision for income taxes increased \$4.0 million, or 104.5%, to \$7.9 million, from \$3.9 million. The increase was due primarily to increased pre-tax earnings and an increase in our estimated effective income tax rate. Our effective income tax rate for 2003 was 33.8%, compared to 32.8% for 2002.

Net income. As a result of the above, net income increased by \$7.6 million, or 95.8%, to \$15.4 million, from \$7.9 million.

Liquidity and Capital Resources

Cash and cash equivalents increased by \$109,300 in 2004. 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 short-term borrowings under our revolving credit agreement. The change in cash and cash equivalents for the periods presented are as follows (in thousands):

	2004	2003	2002
Cash provided by operating activities	\$ 55,521	\$ 40,044	\$ 30,268
Cash used by investing activities	(69,551)	(53,894)	(46,178)
Cash provided by financing activities	14,139	13,924	1,715
Increase (decrease) in cash and cash equivalents	\$ 109	\$ 74	\$(14,195)

Operating Activities

Cash provided by operating activities during 2004 increased \$15.5 million, or 38.6%, to \$55.5 million, compared to \$40.0 million in 2003, reflecting increased cash flows from restaurant and franchise operations, lower cash payments for interest, increased cash from the gain on the sale of a property and increased cash flows from changes in operating assets and liabilities. These increases were offset by higher income tax payments.

Investing Activities

Cash used in investing activities during 2004 increased \$15.7 million, or 29.1%, to \$69.6 million, compared to \$53.9 million in 2003. Our investing activities consist primarily of purchases of property and equipment related to the construction of restaurants as well as remodels and capital improvements of our existing restaurants. We may also have activity related to the acquisition of franchise restaurants. Cash provided by investing activities generally relates to proceeds generated from the sale of real estate, property and equipment.

Capital Expenditures. In 2004, we invested \$62.1 million for construction of restaurants and \$7.5 million on remodels and capital improvements of our existing restaurants. In addition, we spent \$1.1 million for corporate initiatives primarily related to information systems and computer equipment and our corporate relocation that occurred in March 2004. During 2003, we invested \$42.4 million for construction of restaurants and \$10.4 million on remodels and capital improvements of our existing restaurants including assets related to the exercise of three capital lease purchase options. In addition, we spent \$2.0 million for corporate initiatives primarily related to information systems and computer equipment.

During 2005, we expect to open 26 to 28 new company-owned restaurants for a total cost of \$79.0 million to \$82.0 million, and we anticipate that we will spend \$7.0 million to \$8.0 million on restaurant remodels and capital improvements of our existing restaurants. In addition, we expect to invest \$1.5 million to \$2.0 million for corporate initiatives, including information systems and computer equipment. For 2005, we expect that our net cash used in investing activities will exceed our net cash provided by operating activities. As a result, we anticipate that we will continue to make additional borrowings under our revolving credit agreement

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Proceeds from Investing Activities. Proceeds of \$1.1 million in 2004 were generated primarily from the sale of one property compared to proceeds of \$860,000 in 2003, which were generated primarily from the sale of one property.

Financing Activities

Cash provided by financing activities during 2004 increased \$214,800. 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 borrowings. During 2005, 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 2004, we received \$1.7 million from the exercise of stock options and purchases of stock under our employee stock purchase plan, compared to \$695,000 in 2003.

Borrowings. We maintain a revolving credit agreement with a maximum borrowing capacity to \$85.0 million, which expires on May 19, 2006. This agreement 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. We are currently in compliance with all covenants related to the revolving credit agreement. Our borrowing activity in 2004 was as follows (in thousands):

	<u>Additions</u>	<u>Payments</u>	<u>Total</u>
Revolving credit agreement	\$ 22,948	\$(11,448)	\$ 11,500
New capital lease obligations (non-cash)	28	—	28
Repayments of capital leases and collateralized notes payable	—	(1,413)	(1,413)
	<u>\$ 22,976</u>	<u>\$(12,861)</u>	<u>\$ 10,115</u>

Debt outstanding during 2004 had stated interest rates ranging from 2.1% to 13.4% and maturities ranging from 2005 through 2021. As of December 26, 2004, borrowings outstanding under our revolving credit agreement bore interest at approximately 4.3%. Borrowings under our revolving credit agreement, as well as certain other existing borrowings, are subject to variable rates of interest as discussed further in "Quantitative and Qualitative Disclosures About Market Risk". We expect that interest rates related to our variable rate borrowings will increase during 2005. Rising interest rates, combined with our anticipated increase in borrowings during 2005, will likely lead to higher financing costs.

On October 25, 2004, an irrevocable letter of credit issued under our revolving credit agreement was increased to approximately \$2.7 million. This letter is being maintained to back our self-insured workers' compensation program and reduces the amount of borrowings available on our revolving credit agreement.

Our total committed borrowing capacity, capacity used and unused borrowing capacity as of December 26, 2004 were as follows (in thousands):

	<u>Committed Capacity</u>	<u>Capacity Used</u>	<u>Unused Capacity</u>
Revolving credit agreement	\$ 85,000	\$34,191	\$50,809

The revolving credit agreement requires that capital expenditures, as defined, will not exceed specified amounts for each fiscal year. To the extent we do not exceed the annual limitations any unused amount up to \$10.0 million in any fiscal year will be carried forward to the following fiscal year and will increase the limit in

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the succeeding year by such carry-forward amount. We did not carry-forward any amount from 2004 that would increase the limit for 2005 as set forth in the following table (in thousands):

	<u>Amount</u>
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 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%.

At the end of 2004, we had \$9.1 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 December 26, 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, which expires on May 19, 2006. Based on current market conditions and the Company's financial condition and expected cash flows, we believe we will be able to raise additional equity and/or restructure our debt financing prior to May 19, 2006. 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.

Contractual Obligations

We have contractual obligations which are recorded as liabilities in our consolidated financial statements. However, other items, including various purchase commitments and other executory contracts, are not recognized as liabilities in our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. For example, we are contractually committed to fulfill various operating lease obligations related to our company-owned restaurants and other properties.

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The following table summarizes the amounts of payments due under specified contractual obligations as of December 26, 2004 (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations(1)	\$ 47,743	\$ 3,148	\$35,952	\$ 2,663	\$ 5,980
Capital lease obligations(2)	12,000	1,066	3,281	1,914	5,739
Operating lease obligations(3)	222,596	15,545	30,631	30,960	145,460
Purchase obligations(4)	24,539	15,110	2,437	694	6,298
Other non current liabilities(5)	3,219	320	1,354	464	1,081

- (1) Long-term debt obligations represent borrowings under our revolving credit agreement and other collateralized notes payable, excluding interest.
- (2) Capital lease obligations include interest of \$4.9 million.
- (3) Operating lease obligations represent future minimum lease commitments payable for land, buildings and equipment used in our operations. This table excludes contingent rents, including amounts which are determined as a percentage of adjusted sales in excess of specified levels.
- (4) Purchase obligations include commitments for the construction of new restaurants and other capital improvement projects; lease commitments for company-owned restaurants where leases have been executed but construction has not begun; information technology contracts, including software licenses, maintenance and service agreements; commitments to purchase land related to new restaurants; employment agreements for two officers and other contractual obligations. Purchase obligations exclude food and beverage contracts for which no firm commitment exists.
- (5) Other non current liabilities include deferred revenue and deferred compensation.

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 during 2004, 2003 and 2002 due primarily to rising commodity prices for certain foods we purchase at market rates. We also experienced higher costs for materials and labor related to construction of our new restaurants, which became somewhat more evident during 2004. 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 2005 and beyond.

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

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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. In 2002, we recognized a \$1.4 million charge for the writedown of asset values related to one restaurant which we continue to operate. There were no asset impairment charges in 2004 and 2003.

We completed our most recent impairment test in December 2004, and determined that there were no impairment losses related to goodwill, other intangible assets or 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

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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 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123R, *Share-Based Payment*, a revision of SFAS 123, *Accounting for Stock-Based Compensation*. SFAS 123R will require us to, among other things, measure all employee stock-based compensation awards using a fair value method and record such expense in our consolidated financial statements. The provisions of SFAS 123R are effective for the first interim or annual reporting period that begins after June 15, 2005; therefore, we will adopt the new requirements no later than the beginning of our third quarter of 2005. Adoption of the expensing requirements will reduce our future reported earnings in a manner similar to that described in Note 1 to the accompanying notes to the consolidated financial statements under employee stock compensation plans. Management is currently evaluating the specific impacts of adoption, which include whether we should adopt the requirements on a retrospective basis and which valuation model is most appropriate.

In November 2004, the FASB issued SFAS 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. SFAS 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS 151 are effective for fiscal years beginning after June 15, 2005. The adoption of SFAS 151 is not expected to have any impact on our consolidated financial position or results of operations.

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

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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.

Forward-Looking Statements

Certain information contained in this annual report on Form 10-K and the documents incorporated by reference into the Form 10-K 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 annual report on Form 10-K and the documents incorporated by reference into the Form 10-K are based on information available to us on 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;
- 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;
- 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;
- the continued listing of our common stock on the NASDAQ National Market; 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” could cause our actual results to differ materially from those projected in any forward-looking statements we make. The list of factors

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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 7A. 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 one of the following rates we select: an ABR, based on the Prime Rate plus 1.0% to 1.75%, or a LIBOR, 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 party to a variable-to-fixed interest rate swap agreement which expires on January 30, 2006. The agreement has been designated as a cash flow hedge under which we will 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 was initially based on the 1-month LIBOR rate determined two banking days prior to the effective date. Thereafter, the interest rate 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 SFAS 133, and there were no gains or losses recognized in earnings during 2004 or 2003. At the end of 2004, the unrealized gain on derivative instruments designated and qualifying as cash flow hedging instruments that are reported in accumulated other comprehensive income was not material.

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 December 26, 2004, we had \$30.3 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 \$303,000 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.

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ITEM 8. Financial Statements and Supplementary Data

**RED ROBIN GOURMET BURGERS, INC. AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Red Robin Gourmet Burgers, Inc.
Greenwood Village, Colorado

We have audited the accompanying consolidated balance sheets of Red Robin Gourmet Burgers, Inc. and subsidiaries (the "Company") as of December 26, 2004 and December 28, 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for the years ended December 26, 2004, December 28, 2003 and December 29, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Red Robin Gourmet Burgers, Inc. and subsidiaries as of December 26, 2004 and December 28, 2003, and the results of their operations and their cash flows for the years ended December 26, 2004, December 28, 2003 and December 29, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the accompanying consolidated financial statements as of December 28, 2003 and for the years ended December 28, 2003 and December 29, 2002 have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 26, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 6, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado
April 6, 2005

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RED ROBIN GOURMET BURGERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	<u>December 26, 2004</u>	<u>December 28, 2003</u>
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 4,980	\$ 4,871
Accounts receivable, net	2,345	1,146
Inventories	5,422	4,357
Prepaid expenses and other current assets	4,401	3,977
Income tax refund receivable	1,779	1,172
Deferred tax asset	1,605	757
Restricted current assets—marketing funds	1,145	959
	<u>21,677</u>	<u>17,239</u>
Property and equipment, net	205,304	154,410
Deferred tax asset	1,468	5,848
Goodwill, net	25,720	25,720
Other intangible assets, net	7,584	8,118
Other assets, net	2,748	3,047
	<u>\$ 264,501</u>	<u>\$ 214,382</u>
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Trade accounts payable	\$ 9,759	\$ 9,139
Accrued payroll and payroll related liabilities	14,637	12,161
Unredeemed gift certificates	5,646	3,997
Accrued liabilities	7,241	5,913
Accrued liabilities—marketing funds	1,145	959
Current portion of long-term debt and capital lease obligations	3,148	1,422
	<u>41,576</u>	<u>33,591</u>
Deferred rent payable	13,378	10,655
Long-term debt and capital lease obligations	44,595	36,206
Other non-current liabilities	3,219	1,544
Commitments and contingencies	—	—
Stockholders' Equity:		
Common stock; \$.001 par value: 30,000,000 shares authorized; 16,146,486 and 15,969,723 shares issued and outstanding	16	16
Preferred stock, \$.001 par value: 3,000,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	125,685	122,184
Deferred stock compensation	(50)	(130)
Receivables from stockholders/officers	(4,155)	(6,432)
Accumulated other comprehensive loss, net of tax	—	(108)
Retained earnings	40,237	16,856
	<u>161,733</u>	<u>132,386</u>
Total liabilities and stockholders' equity	<u>\$ 264,501</u>	<u>\$ 214,382</u>

See Notes to Consolidated Financial Statements.

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RED ROBIN GOURMET BURGERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Year Ended		
	December 26, 2004	December 28, 2003	December 29, 2002
	(As Restated, See Note 3)		
Revenues:			
Restaurant	\$ 396,995	\$ 318,878	\$ 265,518
Franchise royalties and fees	11,769	9,320	8,565
Rent revenue	300	409	327
Total revenues	409,064	328,607	274,410
Costs and expenses:			
Restaurant operating costs:			
Cost of sales	93,280	75,067	61,009
Labor	136,817	112,872	94,030
Operating	57,158	48,085	40,428
Occupancy	25,242	21,248	17,830
Restaurant closures and impairment	—	—	1,393
Depreciation and amortization	21,070	16,395	13,198
General and administrative	28,675	21,990	20,239
Franchise development	4,063	2,848	3,256
Pre-opening costs	5,143	3,891	2,265
Gain on lease buy-out	—	—	(945)
Impairment of property held for sale	—	—	150
Total costs and expenses	371,448	302,396	252,853
Income from operations	37,616	26,211	21,557
Other (income) expense:			
Interest expense	2,706	2,974	5,769
Interest income	(322)	(341)	(398)
Loss on extinguishment of debt	—	258	4,336
Gain on sale of property	(257)	—	—
Other	89	(14)	106
Total other expenses	2,216	2,877	9,813
Income before income taxes	35,400	23,334	11,744
Provision for income taxes	12,019	7,888	3,857
Net income	\$ 23,381	\$ 15,446	\$ 7,887
Earnings per share:			
Basic	\$ 1.46	\$ 1.02	\$ 0.64
Diluted	\$ 1.43	\$ 1.00	\$ 0.62
Weighted average shares outstanding:			
Basic	16,022	15,182	12,278
Diluted	16,406	15,465	12,660

See Notes to Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Receivables From Stockholders/ Officers	Accumulated Other Comprehensive Loss, net of tax	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount						
Balance, December 30, 2001 (as previously reported)	10,090	\$ 10	\$ 53,455	\$ —	\$ (600)	\$ —	\$ (5,887)	\$ 46,978
Prior period adjustments (See Note 3)	—	—	—	—	—	—	(590)	(590)
Balance, December 30, 2001 (as restated, see Note 3)	10,090	10	53,455	—	(600)	—	(6,477)	46,388
Deferred compensation	—	—	289	(289)	—	—	—	—
Amortization of deferred compensation	—	—	—	80	—	—	—	80
Issuance of common stock for notes	922	1	5,399	—	(5,400)	—	—	—
Interest on notes from stockholders/officers	—	—	—	—	(252)	—	—	(252)
Shares issued upon initial public offering, net of offering costs of \$5,203	4,000	4	42,793	—	—	—	—	42,797
Options exercised for common stock	96	—	554	—	—	—	—	554
Tax benefit on exercise of stock options	—	—	652	—	—	—	—	652
Net income (as restated, see Note 3)	—	—	—	—	—	—	7,887	7,887
Unrealized loss on cash flow hedge	—	—	—	—	—	(84)	—	(84)
Comprehensive income								7,803
Balance, December 29, 2002 (as restated, see Note 3)	15,108	15	103,142	(209)	(6,252)	(84)	\$ 1,410	\$ 98,022
Amortization of deferred compensation	—	—	—	79	—	—	—	79
Shares issued upon offering, net of offering costs of \$1,912	750	1	17,962	—	—	—	—	17,963
Interest on notes from stockholders/officers	—	—	—	—	(299)	—	—	(299)
Repayment of stockholders/officers notes and related interest	—	—	—	—	119	—	—	119
Options exercised for common stock	103	—	597	—	—	—	—	597
Tax benefit on exercise of stock options	—	—	385	—	—	—	—	385
Common stock issued through employee stock purchase plan	9	—	98	—	—	—	—	98
Net income (as restated, see Note 3)	—	—	—	—	—	—	15,446	15,446
Unrealized loss on cash flow hedge	—	—	—	—	—	(24)	—	(24)
Comprehensive income								15,422
Balance, December 28, 2003 (as restated, see Note 3)	15,970	16	122,184	(130)	(6,432)	(108)	\$ 16,856	\$132,386
Amortization of deferred compensation	—	—	—	80	—	—	—	80
Interest on notes from stockholders/officers	—	—	—	—	(303)	—	—	(303)
Repayment of stockholders/officers notes and related interest	—	—	—	—	2,580	—	—	2,580
Options exercised for common stock	161	—	1,434	—	—	—	—	1,434
Tax benefit on exercise of stock options	—	—	1,771	—	—	—	—	1,771
Common stock issued through employee stock purchase plan	15	—	296	—	—	—	—	296
Net income	—	—	—	—	—	—	23,381	23,381
Unrealized gain on cash flow hedge	—	—	—	—	—	108	—	108
Comprehensive income								23,489
Balance, December 26, 2004	16,146	\$ 16	\$ 125,685	\$ (50)	\$ (4,155)	\$ —	\$ 40,237	\$161,733

See Notes to Consolidated Financial Statements.

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RED ROBIN GOURMET BURGERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	December 26, 2004	December 28, 2003	December 29, 2002
	(As Restated, see Note 3)		
Cash Flows From Operating Activities:			
Net income	\$ 23,381	\$ 15,446	\$ 7,887
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,070	16,395	13,198
Provision for deferred income taxes	3,532	3,245	1,142
Income tax benefit on exercise of stock options	1,771	385	652
Amortization of debt issuance costs	546	493	360
Write-off of unamortized debt issuance costs	—	186	2,448
Amortization of deferred stock-based compensation	80	80	80
Provision for doubtful accounts, net of charge-offs	7	10	119
(Gain) loss on sale of property and equipment	(256)	(43)	17
Accrued interest on stockholders/officers notes, net	(44)	(259)	(252)
Impairment of property held for sale	—	—	150
Non cash restaurant closure and impairment costs	—	—	1,393
Non-cash gain on lease buy-out	—	—	(452)
Changes in operating assets and liabilities:			
Accounts receivable	(1,206)	486	905
Inventories	(1,065)	(1,068)	(425)
Prepaid expenses and other current assets	(424)	(859)	(882)
Income tax refund receivable	(607)	(1,017)	(130)
Other assets	(458)	(1,650)	(237)
Trade accounts payable and accrued liabilities	7,856	7,149	2,746
Deferred rent payable	1,338	1,065	1,549
	<u>55,521</u>	<u>40,044</u>	<u>30,268</u>
Cash Flows From Investing Activities:			
Proceeds from sales of real estate, property and equipment	1,101	860	921
Purchases of property and equipment	(70,652)	(54,754)	(40,803)
Acquisition, net of cash acquired	—	—	(6,296)
	<u>(69,551)</u>	<u>(53,894)</u>	<u>(46,178)</u>
Cash Flows From Financing Activities:			
Borrowings of long-term debt	22,948	38,000	18,769
Payments of long-term debt and capital leases	(12,861)	(42,057)	(58,876)
Debt issuance costs	—	(756)	(1,529)
Proceeds from sale of common stock, net of offering costs	—	17,963	42,797
Proceeds from exercise of stock options and employee stock purchase plan	1,731	695	554
Repayment of stockholders/officers note	2,321	79	—
	<u>14,139</u>	<u>13,924</u>	<u>1,715</u>
Net increase (decrease) in cash and cash equivalents	\$ 109	\$ 74	\$ (14,195)
Cash and cash equivalents, beginning of period	4,871	4,797	18,992
	<u>\$ 4,980</u>	<u>\$ 4,871</u>	<u>\$ 4,797</u>

See Notes to Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

The first Red Robin® restaurant was opened in Seattle, Washington in September 1969. In 1979, the first franchised Red Robin® restaurant was opened in Yakima, Washington. Red Robin Gourmet Burgers, Inc. (Red Robin or the Company) was formed as a Delaware corporation in 2001. Red Robin Gourmet Burgers, Inc., together with its subsidiaries, is a casual dining restaurant chain, which as of December 26, 2004 operates 137 company-owned restaurants located in 17 states from facilities that are owned or leased. The Company also sells franchises and receives royalties from the operation of franchised restaurants. As of December 26, 2004, there were 118 restaurants operating under franchise or license agreements in 24 states and two Canadian provinces. Red Robin and its subsidiaries also own and lease to third parties certain land, buildings and equipment.

Principles of Consolidation—The consolidated financial statements of the Company include the accounts of Red Robin and its wholly owned subsidiaries after elimination of all material intercompany accounts and transactions.

Fiscal Year—The Company's fiscal year ends on the last Sunday in December. The Company's fiscal years ended December 26, 2004, December 28, 2003 and December 29, 2002 each included 52 weeks. For the purposes of the accompanying consolidated financial statements, the fiscal years ended December 26, 2004, December 28, 2003 and December 29, 2002 are referred to as 2004, 2003 and 2002, respectively. The fiscal year ending December 25, 2005 is referred to as 2005.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 periods. Some of the more significant estimates included in the preparation of the Company's financial statements pertain to valuation of long-lived assets, fixed asset lives, impairment of goodwill and other intangible assets, income taxes, self-insurance and workers' compensation reserves. Actual results could differ from those estimates.

Revenue Recognition—The Company typically grants franchise rights to private operators for a term of 20 years, with the right to extend the term for an additional ten years if various conditions are satisfied. The Company provides management expertise, training, pre-opening assistance and restaurant operating assistance in exchange for area development fees, franchise fees, license fees and royalties of 3% to 4% of the franchised restaurant's adjusted sales. Franchise fee revenue from individual sales are recognized when all material obligations and initial services to be provided by the Company have been performed, generally upon the opening of the restaurant. Until earned, these fees are accounted for as deferred revenue. Deferred revenue totaled \$1.1 million and \$1.3 million as of December 26, 2004 and December 28, 2003, respectively. Area franchise fees are dependent upon the number of restaurants in the territory as are the Company's obligations under the area franchise agreement. Consequently, as the Company's obligations are met, area franchise fees are recognized proportionately with the opening of each new restaurant. Royalties are accrued as earned, and are calculated each period based on the franchisee's reported adjusted sales.

Cash Equivalents—The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable—Accounts receivables consist primarily of trade receivables due from franchisees for royalties. The allowance for doubtful accounts as of December 26, 2004 and December 28, 2003 was \$15,800 and \$13,300, respectively.

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

Inventories—Inventories consist of food, beverages and supplies valued at the lower of cost (first-in, first-out method) or market. As of December 26, 2004 and December 28, 2003, food and beverage inventories were \$2.3 million and \$1.9 million, respectively, and supplies inventories were \$3.1 million and \$2.5 million, respectively.

Prepaid Expenses and Other Current Assets—Prepaid expenses consist primarily of rental payments and insurance. Prepaid expenses are recognized during the period in which goods or services are received.

Restricted Current Assets-Marketing Funds—Restricted current assets, which are comprised primarily of cash, are restricted solely for use by the Company's marketing fund programs and have been segregated from the Company's assets. Certain franchisees and Company restaurants contribute between 0.3% and 0.5% of adjusted sales to one or more marketing funds to be used for future advertising in accordance with the terms of each program. A liability related to the restricted current assets is recorded when the funds are received.

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 lives or the terms of the underlying leases of the related assets. The Company uses other depreciation methods, generally accelerated, for tax purposes where appropriate. Interest incurred on funds used to construct company-owned restaurants is capitalized and amortized over the estimated useful life of the related assets. Capitalized interest totaled \$435,000 in 2004, \$339,200 in 2003 and \$167,500 in 2002.

Goodwill and Intangible Assets—Beginning with the adoption of Statement of Financial Accounting Standards (SFAS) 142 in 2002, the price paid over the net fair value of the tangible net assets and identifiable intangible assets of acquired businesses, or goodwill, is no longer amortized. Franchise rights are amortized over their estimated useful life of 20 years, using the straight-line method. Liquor licenses are amortized over their respective useful lives, generally ranging from one to five years. The recoverability of goodwill and other intangible assets is evaluated annually, at a minimum, or on an interim basis if events or circumstances indicate a possible inability to realize the carrying amount. Goodwill and other intangible assets are tested for impairment on an annual basis. There have been no impairment losses related to goodwill and other intangible assets during the years presented in the accompanying financial statements. In assessing the recoverability of goodwill and other intangible assets, 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, the Company may be required to record impairment charges for these assets.

Valuation of Long-Lived Assets—The Company tests its long-lived assets, including property and equipment, for impairment at least annually, or sooner if events or changes in circumstances indicate that the carrying amount may not be recoverable. This assessment is performed on a restaurant-by-restaurant basis and the Company will recognize an impairment loss when it concludes that 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.

Other Assets—Other assets consist primarily of trust assets related to the employee deferred compensation plan, unamortized debt issuance costs and deposits.

Debt Issuance Costs—Direct costs incurred for the issuance of debt are capitalized and amortized to interest expense using the interest method over the term of the debt. Debt issuance costs as of December 26, 2004

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and December 28, 2003 was \$2.1 million. Unamortized debt issuance cost as of December 26, 2004 and December 28, 2003 was \$852,400 and \$1.4 million, respectively.

Operating Leases—The Company leases land, restaurant facilities and office space under operating leases. Most lease agreements contain rent holidays, tenant improvement allowances, rent escalation clauses and/or contingent rent provisions. For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date it becomes legally obligated for future rental payments to begin amortization, which is generally when the Company waives contract contingencies and takes possession of the site to begin to make improvements in preparation for intended use.

For scheduled rent escalation clauses during the lease term the Company records minimum rental expenses on a straight-line basis over the lease term.

For rent holidays and tenant improvement allowances, the Company records a deferred rent liability in deferred rent payable and amortizes the deferred rent over the terms of the leases as reductions to rent expense. The Company recognizes rent costs incurred during a period of construction as a period costs in its statement of income. No rent costs are capitalized as a cost of the constructed asset.

Certain leases provide for contingent rents, which are determined as a percentage of adjusted sales in excess of specified levels. The Company records a contingent rent liability in accrued liabilities on the consolidated balance sheets and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable.

Deferred Rent Payable—Deferred rent payable represents rental expense, recorded on a straight-line basis, in excess of actual rental payments.

Advertising—Advertising costs are expensed as incurred. Advertising costs were \$10.9 million, \$10.1 million, and \$10.9 million in 2004, 2003 and 2002, respectively, and are included in restaurant operating expenses and general and administrative expenses in the consolidated statements of income.

Self-Insurance Programs—The Company utilizes a paid loss self-insurance plan for health, general liability and workers' compensation coverage. Predetermined loss limits have been arranged with insurance companies to limit the Company's per occurrence cash outlay. Accrued liabilities and accrued payroll and payroll-related liabilities include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims.

Pre-opening Costs—Pre-opening costs are expensed as incurred. Pre-opening costs include rental expenses through the date of opening for each restaurant.

Income Taxes—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. Measurement of the Company's current and deferred tax liabilities and assets is based on provisions of enacted tax laws. Current financial accounting standards do not require the Company to consider the effects of future changes in tax laws or rates when making its estimates. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

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

Earnings Per Share—Basic earnings per share amounts are calculated by dividing net income by the weighted-average number of common shares outstanding during the year. Diluted earnings per share amounts are calculated based upon the weighted average number of common and potentially dilutive common shares outstanding during the year. 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 2004, 2003 and 2002, a total of 7,000, 9,000 and 60,600 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 for the periods presented. The Company uses the treasury stock method to calculate the impact of outstanding stock options.

The computations for basic and diluted earnings per share are as follows (in thousands, except per share data):

	2004	2003	2002
Net income	\$ 23,381	\$ 15,446	\$ 7,887
Basic weighted average shares outstanding	16,022	15,182	12,278
Dilutive effect of stock options	384	283	382
Diluted weighted average shares outstanding	16,406	15,465	12,660
Earnings per share:			
Basic	\$ 1.46	\$ 1.02	\$ 0.64
Diluted	\$ 1.43	\$ 1.00	\$ 0.62

Unvested shares issued upon early exercise, as described in Note 14, 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 calculating diluted earnings per share. Unvested shares issued upon early exercise totaled 22,989 as of December 26, 2004 and 34,483 as of December 28, 2003.

Derivatives—The Company follows SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133, as amended, requires derivative instruments to be recorded in the balance sheet at their fair value with changes in fair value being recognized in earnings unless specific hedge accounting criteria are met.

Comprehensive Income—Comprehensive income consists of the net income and other gains and losses affecting stockholders' equity that, under accounting principles generally accepted in the United States, are excluded from net income. Other comprehensive income (loss) as presented in the consolidated statements of stockholders' equity for 2004, 2003 and 2002 consisted of the unrealized gain or loss, net of tax, on our cash flow hedge.

Employee Stock Compensation Plans—The Company follows Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, in accounting for its stock based compensation to employees whereby any intrinsic value as determined on the measurement date results in compensation. Accordingly, compensation expense of \$79,600 was recognized during each of 2004, 2003 and 2002, for options granted with intrinsic value on the date of grant. No compensation expense is recognized in the Company's financial statements for employee stock options granted at a price equal to or greater than the market price of the Company's common stock on the date of grant. If under SFAS 123, *Accounting for Stock Based Compensation*, the Company determined compensation costs based on the fair value at the date of grant for its stock options, net

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

income and earnings per share would have been reduced to the following pro forma amounts (in thousands, except per share data):

	2004	2003	2002
Net income, as reported	\$ 23,381	\$ 15,446	\$ 7,887
Add: Stock-based employee compensation costs included in reported net income, net of tax benefit	53	53	53
Deduct: Stock-based employee compensation costs, net of tax benefit	2,328	1,072	560
Pro forma net income	\$ 21,106	\$ 14,427	\$ 7,380
Basic earnings per share:			
As reported	\$ 1.46	\$ 1.02	\$ 0.64
Pro forma	\$ 1.32	\$ 0.95	\$ 0.60
Diluted earnings per share:			
As reported	\$ 1.43	\$ 1.00	\$ 0.62
Pro forma	\$ 1.29	\$ 0.93	\$ 0.58

The weighted average fair values of options at their grant date during 2004, 2003 and 2002, where the exercise price equaled the market price on the grant date were \$12.08, \$8.19 and \$6.10, respectively. The estimated fair value of each option granted is calculated using the Black-Scholes multiple option-pricing model. The assumptions used in the model were as follows:

	2004	2003	2002
Risk-free interest rate	3.4%	3.1%	4.3%
Expected years until exercise	5.5	5.5	5.5
Expected stock volatility	41.0%	47.8%	56.1%
Dividend yield	0.0%	0.0%	0.0%

Fair Value of Financial Instruments—The following disclosure of the estimated fair value of financial instruments has been determined using available market information and appropriate valuation methodologies. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair values due to the short-term maturities of these instruments. The fair value of the Company's revolving credit agreement approximates its carrying amount, as the applicable interest rates approximate market rates. The fair values of the Company's debt has been estimated using discounted cash flow analyses based on market rates obtained from independent third parties for similar type debt. The carrying amounts and related estimated fair values for the Company's debt is as follows (in thousands):

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revolving credit agreement	\$ 31,500	\$ 31,500	\$ 20,000	\$ 20,000
Collateralized notes and capital leases	16,243	17,995	17,628	19,793

Concentration of Risk—Financial instruments that potentially subject the Company to concentrations of credit risk are cash equivalents and accounts receivable. The Company attempts to limit its credit risk associated with cash equivalents by placing the Company's financial instruments with major financial institutions. The

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

Company's trade accounts receivable are comprised principally of amounts due from its franchisees. With respect to accounts receivable, the Company limits its credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, guarantees or collateral. Management does not believe significant risk exists in connection with the Company's concentrations of credit at December 26, 2004.

Reclassifications—Certain amounts in the 2003 and 2002 consolidated financial statements have been reclassified to conform to the 2004 presentation.

2. Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123R, *Share-Based Payment*, a revision of SFAS 123, *Accounting for Stock-Based Compensation*. SFAS 123R will require the Company to, among other things, measure all employee stock-based compensation awards using a fair value method and record such expense in the Company's consolidated financial statements. The provisions of SFAS 123R are effective for the first interim or annual reporting period that begins after June 15, 2005; therefore, the Company will adopt the new requirements no later than the beginning of its third quarter of 2005. Adoption of the expensing requirements will reduce the Company's future reported earnings in a manner similar to that described in Note 1 under employee stock compensation plans. Management is currently evaluating the specific impacts of adoption, which include whether the Company should adopt the requirements on a retrospective basis and which valuation model is most appropriate.

In November 2004, the FASB issued SFAS 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. SFAS 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS 151 are effective for fiscal years beginning after June 15, 2005. The adoption of SFAS 151 is not expected to have any impact on the Company's consolidated financial position or results of operations.

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 FIN 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 are consolidated with our financial statements as a result of adopting FIN 46R.

3. Restatement of 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, 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 consolidated financial statements for the fiscal years ended December 28, 2003 and December 29, 2002, have been restated from the amounts previously reported.

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

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 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 for the years ended December 28, 2003 and December 29, 2002 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 consolidated balance sheets and increasing depreciation and amortization expense and decreasing restaurant occupancy costs in the 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 generally led to an increase in property and equipment, net and a decrease in depreciation and amortization expense in the financial statements.

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

The cumulative effect of this restatement resulted in an increase in the accumulated deficit of \$590,000 as of December 30, 2001, and decreases in net income of \$288,000 and \$377,000 for the fiscal years ended December 28, 2003 and December 29, 2002, respectively.

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

Following is a summary of the significant effects of the restatement on the Company's consolidated balance sheet as of December 28, 2003 as well as the effects of these changes on the Company's consolidated statements of income for the fiscal years ended December 28, 2003 and December 29, 2002 (in thousands, except per share data):

Consolidated Balance Sheet			
December 28, 2003	As Previously Reported	Adjustments	As Restated
Property and equipment, net	\$151,061	\$ 3,349	\$154,410
Current deferred tax asset	1,075	(318)	757
Non-current deferred tax asset	4,710	1,138	5,848
Accrued payroll and payroll-related liabilities	12,931	(770)	12,161
Accrued liabilities	6,622	(709)	5,913
Deferred rent payable	5,296	5,359	10,655
Other non-current liabilities	—	1,544	1,544
Retained earnings	18,111	(1,255)	16,856
Total stockholders' equity	133,641	(1,255)	132,386
Total liabilities and stockholders' equity	210,213	4,169	214,382
Consolidated Statements of Income			
Fiscal Year ended December 28, 2003	As Previously Reported	Adjustments	As Restated
Cost of sales	\$ 75,172	\$ (105)	\$ 75,067
Occupancy costs	21,637	(389)	21,248
Depreciation and amortization	16,126	269	16,395
General and administrative	22,022	(32)	21,990
Pre-opening costs	3,165	726	3,891
Income from operations	26,680	(469)	26,211
Income before income taxes	23,803	(469)	23,334
Provision for income taxes	8,069	(181)	7,888
Net income	\$ 15,734	\$ (288)	\$ 15,446
Earnings per share—Basic	\$ 1.04	\$ (0.02)	\$ 1.02
Earnings per share—Diluted	\$ 1.02	\$ (0.02)	\$ 1.00
Fiscal Year ended December 29, 2002			
Cost of sales	\$ 61,084	\$ (75)	\$ 61,009
Occupancy costs	18,095	(265)	17,830
Restaurant closures and impairment	1,133	260	1,393
Depreciation and amortization	12,883	315	13,198
General and administrative	20,260	(21)	20,239
Pre-opening costs	1,879	386	2,265
Income from operations	22,157	(600)	21,557
Income before income taxes	12,344	(600)	11,744
Provision for income taxes	4,081	(224)	3,857
Net income	\$ 8,264	\$ (377)	\$ 7,887
Earnings per share—Basic	\$ 0.67	\$ (0.03)	\$ 0.64
Earnings per share—Diluted	\$ 0.65	\$ (0.03)	\$ 0.62

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

4. Franchise Acquisitions

On January 14, 2002, a wholly owned subsidiary of Red Robin acquired all of the outstanding stock of Western Franchise Development, Inc. (WFD) for \$6.3 million in cash, net of \$148,700 of cash acquired. WFD operated six restaurants in Northern California under franchise agreements with the Company. The Company acquired WFD after exercising its right of first refusal upon reviewing an offer between the franchisee and a third party. The final purchase price was equal to the amount agreed upon between the franchisee and the third party. WFD's results of operations have been included in the accompanying consolidated statements of income from its date of acquisition. The Company accounted for the transaction as a purchase business combination and the purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition as follows (in thousands):

Current assets	\$ 251
Property and equipment	1,736
Goodwill	2,471
Intangible assets subject to amortization	2,903
Current liabilities	(1,065)
	<hr/>
Cash paid for acquisition, net of cash acquired	\$ 6,296
	<hr/>

Intangible assets subject to amortization included franchise rights of \$2.8 million and liquor licenses of \$102,600.

On January 28, 2002, the Company acquired the assets of two restaurants for \$2.8 million in cash from a franchisee. On February 11, 2002, the Company assumed operation of a restaurant which had been subleased by the Company to this franchisee. On February 19, 2002, the Company consummated the purchase of the assets of a restaurant from this same franchisee for \$1.0 million in cash. The results of operations for each of these restaurants have been included in the accompanying consolidated statements of income from their respective date of acquisition. Pro forma statement of income information for 2002 is not material.

5. Property and Equipment

Property and equipment consist of the following at December 26, 2004 and December 28, 2003 (in thousands):

	Estimated Lives	2004	2003
		<hr/>	<hr/>
Land	Indefinite	\$ 22,113	\$ 18,615
Buildings	5 to 20 years	36,273	24,846
Leasehold improvements	Shorter of lease term or estimated useful life, not to exceed 20 years	139,727	106,532
Furniture, fixtures and equipment	3 to 7 years	83,575	68,750
Restaurant property leased to others	3 to 20 years	6,132	6,132
Construction in progress		14,184	8,602
		<hr/>	<hr/>
		302,004	233,477
Accumulated depreciation and amortization		(96,700)	(79,067)
		<hr/>	<hr/>
Property and equipment, net		\$ 205,304	\$ 154,410
		<hr/>	<hr/>

Depreciation and amortization expense on property and equipment, including assets under capital lease, was \$20.3 million in 2004, \$15.7 million in 2003 and \$12.6 million in 2002.

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

During 2004, we sold a parcel of land for \$1.1 million, resulting in a pre-tax gain of \$256,900. During 2002, real estate with a carrying value of \$1.0 million was sold resulting in a loss of \$162,700, including a \$150,000 impairment of property held for sale that was recorded to adjust the property's carrying value prior to its sale.

During 2002, management determined that the carrying value of the assets for a restaurant which had experienced losses from operations and negative cash flows would not be recoverable. As a result, an impairment charge of \$1.4 million was recognized to write the carrying of those assets down to zero. There were no impairment charges recognized in 2004 or 2003.

6. Goodwill and Other Intangible Assets

As of December 26, 2004 and December 28, 2003, goodwill was \$25.7 million. The following table presents intangible assets subject to amortization as of December 26, 2004 and December 28, 2003 (in thousands):

	2004		2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Franchise rights	\$ 8,600	\$ (1,688)	\$ 8,600	\$ (1,258)
Liquor licenses	1,868	(1,196)	1,656	(880)
	<u>\$ 10,468</u>	<u>\$ (2,884)</u>	<u>\$ 10,256</u>	<u>\$ (2,138)</u>

The following table presents aggregate amortization expense for 2004, and estimated aggregate amortization expense related to intangible assets subject to amortization for each of the five succeeding fiscal years (in thousands):

Aggregate amortization expense	
For the year ended December 26, 2004	\$746
Estimated amortization expense	
For the year ending December 25, 2005	694
For the year ending December 31, 2006	614
For the year ending December 30, 2007	551
For the year ending December 28, 2008	517
For the year ending December 27, 2009	446

7. Accrued Payroll and Payroll Related Liabilities and Accrued Liabilities

Accrued payroll and payroll related liabilities consist of the following at December 26, 2004 and December 28, 2003 (in thousands):

	2004	2003
Payroll	\$ 3,672	\$ 3,115
Corporate and restaurants bonuses	3,609	3,005
Workers' compensation	2,394	1,916
Other	4,962	4,125
	<u>\$ 14,637</u>	<u>\$ 12,161</u>

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

Accrued liabilities consist of the following at December 26, 2004 and December 28, 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
State and city sales taxes	\$ 2,124	\$ 2,145
Utilities	981	734
Real estate and personal property taxes	872	483
Percentage rents	570	399
Other	2,694	2,152
	<u>\$ 7,241</u>	<u>\$ 5,913</u>

8. Borrowings

Borrowings at December 26, 2004 and December 28, 2003 are summarized below (in thousands):

	<u>2004</u>	<u>2003</u>
Revolving credit agreement	\$ 31,500	\$ 20,000
Capital leases	7,106	7,388
Collateralized notes payable	9,137	10,240
	<u>47,743</u>	<u>37,628</u>
Current portion	(3,148)	(1,422)
	<u>\$ 44,595</u>	<u>\$ 36,206</u>

Maturities of long-term debt and capital lease obligations as of December 26, 2004 are as follows (in thousands):

2005	\$ 3,148
2006	34,361
2007	1,591
2008	1,325
2009	1,338
Thereafter	5,980
	<u>\$ 47,743</u>

On July 24, 2002, the Company entered into a three-year, \$40.0 million revolving credit agreement with Wachovia Bank, N.A. and other financial institutions named therein. On May 20, 2003, the Company amended its revolving credit agreement to increase its maximum borrowing capacity to \$85.0 million and to extend the term of the agreement through May 19, 2006. The amendment of the Company's revolving credit agreement resulted in \$755,700 of debt issuance costs that are amortized ratably over the remaining life of the agreement. As of December 26, 2004, \$50.8 million remained available for future borrowings under the revolving credit agreement.

The Company was required under the revolving credit agreement to exercise the purchase options on three capital leases during 2003. These purchase options related to restaurant leases in Highlands Ranch, Colorado; Issaquah, Washington; and Grapevine, Texas. The exercise of the Highlands Ranch purchase option was completed in January 2003 for \$4.0 million, the exercise of the Issaquah purchase option was completed in August 2003 for \$3.7 million and the exercise of the Grapevine purchase option was completed in September 2003 for \$3.5 million. In addition, during 2003, the Company elected to repay \$3.1 million of various real estate and equipment loans. These real estate and equipment loans were payable monthly over remaining terms ranging

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

from three to eight years and were subject to fixed interest rates ranging from 7.9% to 9.7%. The exercise of the purchase options and prepayment of these real estate and equipment loans resulted in a \$257,500 charge for loss on extinguishment of debt, including \$186,400 of non-cash expense related to the write-off of capitalized debt issuance costs that were being amortized over the respective lives of the relevant agreements. The revolving credit agreement does not require the early extinguishment of any additional borrowings.

Borrowings under the amended revolving credit agreement bear interest at one of the following rates as selected by the Company: an Alternate Base Rate (ABR), which is based on 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 the Company's discretion, plus 2.0% to 2.75%. The spread, or margin, for ABR and LIBOR loans is adjusted quarterly based on the Company's 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 also on the last day of such interest period. In addition, the Company 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 under the amended credit agreement bear interest at a per annum rate equal to the prime rate plus 1.0% to 1.75%. As of December 26, 2004, borrowings outstanding under the Company's revolving credit agreement bore interest at approximately 4.3%.

The amended revolving credit agreement is secured by a first priority pledge of all of the outstanding capital stock of the Company's subsidiaries and a first priority lien on substantially all of the Company's tangible and intangible assets. The amended revolving credit agreement requires that the Company comply with a maximum leverage ratio as well as a minimum fixed charge coverage ratio, and minimum earnings before interest, taxes, depreciation and amortization (EBITDA) requirements. In addition, the Company must comply with certain consolidated capital expenditure maximums and operating lease restrictions. The credit agreement restricts the Company's ability to, among other things, engage in mergers, acquisitions, joint ventures and sale-leaseback transactions, and to sell assets, incur indebtedness, make investments and create liens. Additionally, the revolving credit agreement prohibits the Company from declaring or paying any dividends or making any other distributions on any shares of the Company's stock, subject to specified exceptions. As of December 26, 2004, the Company is in compliance with all covenants related to the amended credit agreement.

The amended revolving credit agreement is also subject to a commitment fee of 0.5% per annum on the average daily unused portion of the revolver. In addition, the Company must pay a fee in consideration of letter of credit commitments equal to 2.0% to 2.75% on the average daily maximum amount available to be drawn under each letter of credit from the date of issuance to the date of expiration. The Company must also pay the reasonable and customary charges of its lenders with respect to the amendment, transfer, administration, cancellation and conversion of, and drawings under, letters of credit. Commitment and letter of credit fees are payable quarterly, in arrears on the 15th day following the last day of each calendar quarter.

At December 29, 2002, an irrevocable letter of credit totaling \$841,000 was issued under the revolving credit agreement. On September 30, 2003, the letter of credit was increased to \$2,041,000 and on October 25, 2004, the letter of credit was further increased to \$2,691,000. 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 July 2002, the Company used proceeds from its initial public offering, together with borrowings under the revolving credit agreement, to repay \$48.0 million under its existing term loan, including a prepayment

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

penalty of \$1.8 million and \$289,000 of accrued interest. The term loan was originated on September 6, 2000, bore interest at 9.9% and was payable in equal monthly installments of \$593,800 with the final payment due September 1, 2012. The Company also repaid its \$5.0 million revolving credit facility with U.S. Bank. The facility was originated on April 25, 2002 and bore interest at LIBOR plus 3.0% payable monthly, in arrears. In addition, the Company repaid \$1.6 million outstanding under a real estate loan, including a 1% prepayment penalty and \$439,600 outstanding under three equipment loans. Termination of the term loan and the revolving credit facility resulted in additional non-cash charges of \$2.4 million during 2002 resulting from the write-off of capitalized debt issuance costs that were being amortized over the respective lives of the relevant credit agreements. These agreements were terminated upon repayment and the Company has no remaining obligations under these agreements. The Company early adopted SFAS 145 in 2002 and consequently did not record the loss on extinguishment of debt as an extraordinary item.

The collateralized notes payable are secured by certain property and equipment of the Company. Under some of these agreements, the Company is required to maintain certain financial ratios. As of December 26, 2004, the Company is in compliance with all covenants for collateralized notes payable. The collateralized notes payable require monthly principle and interest payments through 2016, with a weighted average interest rate of 6.0% at December 26, 2004.

9. Supplemental Disclosures to Consolidated Statements of Cash Flows

<u>(In thousands)</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Income taxes paid	\$ 7,424	\$ 5,281	\$ 1,816
Interest paid, net of amounts capitalized	2,207	2,599	5,740
Capital lease obligations incurred for real estate and equipment purchases	28	1,705	—
Tenant improvement allowance paid directly by landlord to general contractor	1,383	—	—
Notes receivable from stockholders related to early exercise of stock options	—	—	5,400

10. Derivative Instruments

The Company's 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, the Company may use interest rate swaps and caps to manage its net exposure to interest rate changes related to its portfolio of borrowings.

The Company has adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133, as amended, requires that all derivative instruments be recorded on the balance sheet at fair value. As appropriate, on the date derivative contracts are entered into, the Company designates the 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).

In December 2002, the Company entered into a variable-to-fixed interest rate swap agreement with an effective date of January 29, 2003, which expires on January 30, 2006. The agreement has been designated as a cash flow hedge under which the Company will 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

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

the Company is based on a 1-month LIBOR rate, initially determined two banking days prior to the effective date. Thereafter, the interest rate resets according to the then current 1-month LIBOR rate two days prior to the first day of each monthly calculation period. This hedge is highly effective as defined by SFAS 133, and there were no gains or losses recognized in earnings during the reporting periods presented.

11. Income Taxes

The provision for income taxes consists of the following (in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current:			
Federal	\$ 6,425	\$3,340	\$2,163
State	2,130	1,300	553
Deferred:			
Federal	3,686	3,335	892
State	(222)	(87)	249
	<u>\$12,019</u>	<u>\$7,888</u>	<u>\$3,857</u>

The reconciliation of income tax provision that would result from applying the federal statutory rate to income tax provision as shown in the accompanying consolidated statements of income is as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Tax provision at federal statutory rate	35.0%	35.0%	34.0%
State income taxes	4.5	3.5	5.0
General business and other tax credits	(5.6)	(5.4)	(8.9)
Other	0.1	0.7	2.7
Effective tax rate	<u>34.0%</u>	<u>33.8%</u>	<u>32.8%</u>

The Company's total deferred tax assets and liabilities at December 26, 2004 and December 28, 2003 are as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Deferred tax assets	\$ 12,910	\$ 11,667
Deferred tax liabilities	(9,837)	(5,062)
Deferred tax assets, net General business and other tax credits	<u>\$ 3,073</u>	<u>\$ 6,605</u>

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

The Company's federal and state deferred taxes at December 26, 2004 and December 28, 2003 are as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Current deferred tax assets and liabilities, net:		
Accrued compensation and related costs	\$ 1,775	\$ 612
General business and other tax credits	487	487
Net operating losses—state	44	27
Other, net	351	370
Supplies inventory Total current deferred tax assets	(1,052)	(739)
	<u>1,605</u>	<u>757</u>
Non-current deferred tax assets and liabilities, net:		
Deferred rent	5,435	4,256
General business and other tax credits	1,915	3,354
Alternative minimum tax credits	1,425	1,446
Accrued compensation and related costs	1,165	525
Other, net	271	520
Net operating losses—state	42	70
Property and equipment	(6,941)	(2,436)
Franchise rights	(1,844)	(1,887)
	<u>1,468</u>	<u>5,848</u>
	<u>\$ 3,073</u>	<u>\$ 6,605</u>

Realization of net deferred tax assets are dependent upon profitable operations and future reversals of existing taxable temporary differences. Although realization is not assured, the Company believes it is more likely than not that the net recorded benefits will be realized through the reduction of future taxable income. The amount of the net deferred tax assets is considered realizable, however, it could be reduced in the near term if actual future taxable income is lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable temporary differences.

As of December 26, 2004, the Company has State net operating losses totaling \$1.2 million available to reduce future taxes which expire through 2012. Additionally, the Company has federal alternative minimum tax credits of \$1.4 million available with no expiration date. The Company also has general business and other tax credits totaling \$2.4 million available to offset future taxes which expire through 2023.

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

12. Commitments and Contingencies

Leasing Activities—The Company leases land, buildings and equipment used in its operations under operating leases. The Company’s operating leases have remaining non-cancelable terms ranging from less than one year to more than 20 years. These leases generally contain renewal options which permit the Company to renew the leases at defined contractual rates or prevailing market rates. Certain equipment leases also include options to purchase equipment at the end of the lease term. Certain leases provide for contingent rents, which are determined as a percentage of adjusted restaurant sales in excess of specified levels. The Company records a contingent rent liability and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable. Certain lease agreements also require the Company to pay maintenance, insurance and property tax costs. Rental expense related to land, building and equipment leases, including related parties, is as follows (in thousands):

	2004	2003	2002
Minimum rent	\$ 16,287	\$ 14,065	\$ 12,150
Percentage rent	1,445	993	1,010
Equipment rent under operating leases	453	449	312
	<u>\$ 18,185</u>	<u>\$ 15,507</u>	<u>\$ 13,472</u>

The Company leases certain of its owned land, buildings and equipment to outside parties under non-cancelable operating leases. Cost of the leased land, buildings and equipment at December 26, 2004 and December 28, 2003 was \$6.1 million and related accumulated depreciation was \$2.5 million and \$2.3 million, respectively.

Future minimum lease commitments and minimum rental income under all leases as of December 26, 2004 are as follows (in thousands):

	Capital Leases	Operating Leases	Rental Income
2005	\$ 1,066	\$ 15,545	\$ 245
2006	2,342	15,383	245
2007	939	15,248	245
2008	954	15,422	182
2009	960	15,538	25
Thereafter	5,739	145,460	—
Total	<u>12,000</u>	<u>\$222,596</u>	<u>\$ 942</u>
Less amount representing interest at 3.8% to 13.4%	<u>(4,894)</u>		
Present value of future minimum lease payments	7,106		
Less current portion	<u>(354)</u>		
Long-term capital lease obligations	<u>\$ 6,752</u>		

As of December 26, 2004 and December 28, 2003, property and equipment included \$10.2 million and \$9.4 million of assets under capital lease, respectively, and \$2.5 million and \$1.7 million of related accumulated depreciation, respectively.

Contingencies—In the normal course of business, the Company has various claims in process, matters in litigation and other contingencies. While it is not possible to predict the outcome of these suits, other legal

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

proceedings and claims with certainty, management is of the opinion that adequate provision for potential losses has been made in the accompanying consolidated financial statements and that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position, results of operation or cash flows.

Lease Termination Fee—During 2002, the Company realized a \$945,000 non-recurring gain due to a landlord lease buy-out of an existing company-owned restaurant. As a result, the Company relocated the restaurant to a new location. The lease termination fee received of \$1.4 million has been presented net of related charges of \$235,600 for the disposal of property and equipment from the original restaurant that was non-transferable and other non-recurring charges associated with the relocation of \$204,400.

13. Franchise Operations

Results of franchise operations included in the consolidated statements of income consist of the following (in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Franchise royalties and fees			
Royalty income	\$ 11,216	\$ 9,003	\$ 8,399
Franchise fees	553	317	166
	<u>11,769</u>	<u>9,320</u>	<u>8,565</u>
Franchise development costs			
Payroll and employee benefit costs	1,792	1,231	1,614
General and administrative	2,271	1,617	1,642
	<u>4,063</u>	<u>2,848</u>	<u>3,256</u>
Operating income from franchise operations	<u>\$ 7,706</u>	<u>\$ 6,472</u>	<u>\$ 5,309</u>

14. Related Parties

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 held by certain executive officers under the Company's 2000 Stock Plan and the exercise of options to purchase an additional 146,552 shares of the Company's common stock related to fully vested options held by certain executive officers under the Company's 1990 and 1996 Stock Plans. 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 December 26, 2004, the number of unvested early exercise options totaled 22,989. The 775,862 early exercise options and 146,522 fully vested 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. These officer notes are recorded as a reduction of stockholders' equity and interest income of \$260,400, \$257,900 and \$170,600 was recognized in 2004, 2003 and 2002, respectively. During 2004, certain officers repaid \$2.3 million of principal related to these notes and \$259,400 of accrued interest thereon and during 2003 an officer repaid \$78,700 of principal and \$40,100 of accrued interest thereon. As a result, the outstanding principal and interest on these officer notes as of December 26, 2004 and December 28, 2003, was \$3.4 million and \$5.7 million, respectively.

The Company's chief executive officer had two \$300,000 notes payable to the Company which were issued in June 2000 and May 2001 in connection with his employment agreement. These notes bore interest at 6.62% and 5.07%, respectively, and the principal and related interest receivable was recorded as a reduction of

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

stockholders' equity. During 2004, 2003 and 2002 the Company recognized interest income of \$42,900, \$40,900 and \$81,600, respectively, on these notes. During February 2005, the Company's chief executive officer repaid these notes in full, including \$171,100 of interest accrued thereon.

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 \$924,700, \$912,700 and \$921,900 during 2004, 2003 and 2002, 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 \$909,000, \$853,400 and \$785,600 during 2004, 2003 and 2002, 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.

A relative of the Company's chief executive officer operates one of the Company's indoor plant maintenance suppliers. The Company paid this supplier \$348,700, \$273,200 and \$199,700 in 2004, 2003 and 2002, respectively.

The Company has engaged a legal firm for representation on various matters, including Securities and Exchange Commission filings, acquisitions, financings and other general corporate matters. The Company paid this firm \$273,400, \$392,900 and \$1.0 million in 2004, 2003 and 2002, respectively. A member of the Company's board of directors is a partner of this firm.

The Company uses a privately held transportation and relocation service provider. Red Robin paid this company \$162,000, \$79,800 and \$281,500 in 2004, 2003 and 2002, respectively. The chief executive officer of this company is a member of the Company's board of directors.

During 2002, the Company paid \$112,900 for consulting and financial advisory services to a firm that held a substantial equity interest in the Company at that time. In addition, two members of the Company's board of directors were affiliated with this advisory firm at that time. The agreement under which those fees were paid was terminated in conjunction with the Company's July 2002 initial public offering.

The Company has operating leases on two restaurants from an entity in which a franchisee has an ownership interest. Rent and other related payments under these leases in 2004, 2003 and 2002 was \$638,200, \$548,000 and \$588,600, respectively.

Pursuant to a registration rights agreement, the Company was required to bear substantially all expenses, other than underwriting discounts and commissions, of the selling stockholders in connection with the Company's secondary offering that were completed in November 2003. In connection with this offering, the Company also agreed to reimburse the selling stockholders for a portion of the underwriting discounts and commissions otherwise payable by them. At that time, two members of the Company's board of directors were affiliated with two of the selling stockholders. The Company paid the expenses of the registration and sale of 1,268,801 shares of the Company's common stock held by these selling stockholders and reimbursed them for underwriting discounts and commissions in the amount of \$84,100.

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

15. Stockholders' Equity

In August 2004, Red Robin completed a secondary offering of 1,937,543 shares of common stock, all of which were held by selling stockholders, at a price of \$32.36 per share. The Company did not receive any proceeds from this offering. Fees related to this offering, which were borne by the Company, totaled \$200,400 and were recorded in general and administrative expenses.

In November 2003, Red Robin completed a secondary offering of 3,458,673 shares of common stock, of which it sold 750,000 shares, at a price of \$26.50 per share. The remaining 2,708,673 shares were offered by selling stockholders. The Company received proceeds of \$18.0 million from the offering, net of \$1.0 million of underwriting fees and commissions and \$868,200 of other offering costs. In December 2003, the Company's underwriters exercised their over-allotment option with respect to 518,801 additional shares offered by selling stockholders. The Company received no proceeds from the over-allotment exercise.

In June 2003, stockholders approved an amendment to the Company's certificate of incorporation to reduce the authorized number of shares of common stock, \$0.001 par value per share, from 50 million shares to 30 million shares and to reduce the authorized number of shares of preferred stock, \$0.001 par value per share, from 5 million shares to 3 million shares.

In July 2002, Red Robin completed an initial public offering of 5,038,000 shares of common stock, of which it sold 4,000,000 shares, at a price to the public of \$12.00 per share. The remaining 1,038,000 shares were offered by selling stockholders. The Company received proceeds of \$42.8 million from the initial public offering, net of \$3.4 million of underwriting fees and commissions and \$1.8 million of other offering costs. On August 16, 2002, the Company's underwriters exercised their over-allotment option with respect to 400,000 additional shares offered by selling stockholders. The Company received no proceeds from the over-allotment exercise.

In June 2002, the Company's board of directors and shareholders approved a 1 for 2.9 reverse stock split. All share and per share amounts presented herein have been adjusted to reflect this reverse stock split as of the beginning of the first period presented.

16. Stock Incentive Plans

The Company has four stock based compensation plans: the 1996 Stock Option Plan (the 1996 Stock Plan), the 2000 Management Performance Common Stock Option Plan (the 2000 Stock Plan), the 2002 Incentive Stock Option Plan (2002 Stock Plan) and the 2004 Performance Incentive Plan (the 2004 Stock Plan).

As of December 26, 2004, there are no remaining options authorized for grant under the 1996, 2000 or 2002 Stock Plans. In general, options granted under these plans were issued at the estimated fair market value at the date of grant. In 2002, management determined that 49,776 options granted under the 2000 Stock Plan were issued at an exercise price less than the estimated market value on the date of grant and as a result the Company has recognized a stock option expense in its financial statements for these options in accordance with APB 25. Vesting of awards under these plans were generally time based over a period of one to four years; however, in some cases, options under these plans vested based on the attainment of certain financial results. As of December 26, 2004, options to acquire a total of 932,431 of the Company's common stock remain outstanding under these plans of which 350,660 were fully vested. Options granted under these plans expire no more than ten years from the date of grant.

In June 2004, stockholders approved the 2004 Stock Plan, which authorizes stock options, stock appreciation rights, restricted stock, stock bonuses and other forms of awards granted or denominated in the

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

Company's common stock or units of the Company's common stock, as well as cash bonus awards pursuant to the plan. Persons eligible to receive awards under the 2004 Stock Plan include officers or employees of the Company or any of the Company's subsidiaries, directors of the Company, and certain consultants and advisors to the Company or any of its subsidiaries. The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2004 Stock Plan is equal to 2,697,613 shares. Vesting of the awards under the 2004 Stock Plan is determined at the date of grant by the plan administrator. Each award granted under the 2004 Stock Plan may, at the discretion of the plan administrator, become fully vested, exercisable, and/or payable, as applicable, upon a change in control event if the award will not be assumed or substituted for or otherwise continued after the event. Each award expires on such date as shall be determined at the date of grant, however, the maximum term of options, SARs and other rights to acquire common stock under the plan is ten years after the initial date of the award, subject to provisions for further deferred payment in certain circumstances. Any shares subject to awards under the 1996 Stock Plan, the 2000 Stock Plan, the 2002 Stock Plan and the 2004 Stock Plan that are not paid or exercised before they expire or are terminated will become available for other award grants under the 2004 Stock Plan. The 2004 Stock Plan terminates on April 12, 2014, if not sooner terminated by the Company's board of directors. As of December 26, 2004, options to acquire a total of 203,268 shares of the Company's common stock have been granted under the 2004 Stock Plan at a price equal to the fair market value on the respective dates of grant. There have been no other awards granted under the 2004 Stock Plan.

The table below summarized the status of the Company's stock based compensation plans (in thousands, except per share data):

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	834	\$ 13.39	478	\$ 7.23	1,413	\$ 5.86
Awards granted	557	28.65	520	17.57	131	11.27
Awards forfeited	(93)	21.10	(62)	5.83	(48)	7.40
Awards exercised	(162)	8.87	(102)	13.43	(1,018)	5.85
Outstanding, end of year	1,136	\$ 20.88	834	\$ 13.39	478	\$ 7.23

The following table summarizes information about stock options outstanding at December 26, 2004 (in thousands, except per share data and contractual life):

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$5.80 – \$7.25	175	4.26	\$ 6.09	169	\$ 6.06
\$12.55 – \$14.98	42	7.52	13.72	26	13.54
\$17.52	325	8.13	15.30	138	15.27
\$21.99 – \$27.20	460	9.19	26.88	1	21.99
\$29.73 – \$33.54	89	9.11	30.66	17	29.73
\$44.80 – \$44.97	45	9.84	44.82	—	—
	1,136	8.09	\$ 20.88	351	\$ 11.40

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

During September 2002, the Company's board of directors approved accelerated vesting of 694,827 stock options that were originally granted in May 2000. Under the original terms of the agreement these options became exercisable at the earlier of (i) April 15, 2007, provided that the grantee was still an employee of the Company or its subsidiaries on such date or (ii) when specific vesting provisions were met. As of December 26, 2004, these options would not have vested under the terms of the original agreement. A modification to accelerate the vesting of a fixed award effectively results in the renewal of that award if, after modification, an employee is able to exercise (vest in) an award that, under the original terms, would have expired unexercisable. Under those circumstances, the intrinsic value of the award is measured at the date of the modification and any intrinsic value in excess of the amount measured at the original measurement date is recognized as compensation cost if, absent the acceleration, the award would have been forfeited unexercisable (unvested) pursuant to the original term. On the date of modification in September 2002, these awards had a total intrinsic value of \$4.7 million and the awards had no intrinsic value at the original measurement date. A total of 637,931 of these stock options are held by key employees. If one or more of these employees were to leave the Company before vesting occurs under the terms of the original agreement the Company would have to recognize stock compensation cost in its consolidated financial statements. Compensation expense related to options that were subject to accelerated vesting was immaterial in 2004, 2003 and 2002.

17. Employee Benefit Programs

Employee Deferred Compensation Plan—In January 2003, the Company adopted a deferred compensation plan that permits certain employees not eligible to participate in the Employee Defined Contribution Plan to defer portions of their compensation. The Company pays all administrative expenses of the plan. Under this plan, eligible employees may elect to defer up to 75% of their base salary and up to 100% of bonuses and commissions each plan year. At December 26, 2004 and December 28, 2003, a liability for participant contributions and investment income thereon of \$1.1 million and \$533,900, respectively, is included in other non-current liabilities. To fund this plan the Company's plan administrator purchases corporate-owned whole-life insurance contracts on the related employees. The cash surrender value of these policies at December 26, 2004 and December 28, 2003, of \$966,900 and \$484,700 is included in other assets, net.

Employee Stock Purchase Plan—In June 2002, the Company adopted, and its stockholders approved, an Employee Stock Purchase Plan 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 fair market value of a share of the Company's common stock on the first day of each offering period or 85% of the fair market value of a share of the Company's common stock on the last day of each offering period, whichever amount is less. In general, 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 this plan which operates in successive six-month periods commencing on each January 1 and July 1 of each fiscal year. A total of 300,000 shares of common stock are available for issuance under this plan. The Company has issued a total of 33,526 shares under this plan, including 9,175 shares that were issued in 2005 for the offering period that ended on December 31, 2004. A total of 266,474 shares remain available for future issuance.

Employee Defined Contribution Plan—The Company maintains a 401(k) Savings Plan which covers substantially all of its eligible employees. The 401k Plan, which qualifies under Section 401(k) of the Internal Revenue Code, allows employees to defer specified percentages of their compensation, as defined, in a tax-exempt trust. The Company may make matching contributions in an amount determined by the board of directors. In addition, the Company may contribute each period, at its discretion, an additional amount from profits. There were no employer contributions during 2004, 2003 and 2002.

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

18. Quarterly Results of Operations (unaudited)

The summarized quarterly financial information for 2004 and 2003 has been restated for the Company's corrections to its lease accounting (see Note 3). Additionally, the 2004 quarterly financial information has been restated to reflect corrections to the Company's depreciation accounting that were discovered in the fourth quarter of 2004. Summarized quarterly financial information in 2004 is as follows (in thousands, except earnings per share):

<u>As restated (See Note 3)</u>	<u>Q1</u> <u>(16 weeks)</u>	<u>Q2</u> <u>(12 weeks)</u>	<u>Q3</u> <u>(12 weeks)</u>	<u>Q4</u> <u>(12 weeks)</u>	<u>2004</u> <u>(52 weeks)</u>
Total revenues	\$ 116,729	\$ 93,768	\$ 99,650	\$ 98,917	\$ 409,064
Income from operations	8,174	9,010	11,209	9,223	37,616
Net income	4,910	5,679	7,091	5,701	23,381
Basic earnings per share	\$ 0.31	\$ 0.35	\$ 0.44	\$ 0.35	\$ 1.46
Diluted earnings per share	\$ 0.30	\$ 0.35	\$ 0.43	\$ 0.34	\$ 1.43
 <u>As previously reported</u>					
Total revenues	\$ 116,729	\$ 93,768	\$ 99,650		
Income from operations	8,603	9,430	11,868		
Net income	5,169	5,933	7,490		
Basic earnings per share	\$ 0.32	\$ 0.37	\$ 0.47		
Diluted earnings per share	\$ 0.32	\$ 0.36	\$ 0.46		

Summarized quarterly financial information in 2003 is as follows (in thousands, except earnings per share):

<u>As restated (See Note 3)</u>	<u>Q1</u> <u>(16 weeks)</u>	<u>Q2</u> <u>(12 weeks)</u>	<u>Q3</u> <u>(12 weeks)</u>	<u>Q4</u> <u>(12 weeks)</u>	<u>2003</u> <u>(52 weeks)</u>
Total revenues	\$ 92,892	\$ 75,592	\$ 79,320	\$ 80,803	\$ 328,607
Income from operations	5,925	6,580	6,730	6,976	26,211
Net income	3,417	3,955	3,918	4,156	15,446
Basic earnings per share	\$ 0.23	\$ 0.26	\$ 0.26	\$ 0.27	\$ 1.02
Diluted earnings per share	\$ 0.22	\$ 0.26	\$ 0.25	\$ 0.26	\$ 1.00
 <u>As previously reported</u>					
Total revenues	\$ 92,892	\$ 75,592	\$ 79,320	\$ 80,803	\$ 328,607
Income from operations	6,110	6,711	6,822	7,037	26,680
Net income	3,531	4,035	3,975	4,193	15,734
Basic earnings per share	\$ 0.24	\$ 0.27	\$ 0.26	\$ 0.27	\$ 1.04
Diluted earnings per share	\$ 0.23	\$ 0.26	\$ 0.26	\$ 0.27	\$ 1.02

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Management's Report on Internal Controls Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. The Company's internal control over financial reporting is designed, under the supervision of the Company's chief executive and chief financial officers, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP) and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Company has conducted an evaluation of the effectiveness of its internal controls over financial reporting as of December 26, 2004. This evaluation was based on the framework in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Based on the Public Company Accounting Oversight Board's Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*, restatement of previously issued financial statements to reflect the correction of a misstatement should be regarded as at least a significant deficiency and as a strong indicator that a material weakness in internal control over financial reporting exists. Based on its evaluation as of December 26, 2004, management concluded that, because its consolidated financial statements required restatement as a result of the lease accounting misstatements described below, a material weakness existed in the Company's internal control over financial reporting as of the date of this report and, to this extent, its internal control over financial reporting was not effective.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 26, 2004 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears elsewhere in this report.

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

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(tenant improvement allowances) were not in accordance with GAAP. As a result, the Company has restated its audited consolidated financial statements for the fiscal years ended December 28, 2003 and December 29, 2002.

See Note 3 to the consolidated financial statements of this Annual Report on Form 10-K for a summary of the effects of restatements of the Company's 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 Securities and Exchange Commission (SEC) filings are 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 conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures. 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 audited consolidated financial statements for the fiscal years ended December 28, 2003 and December 29, 2002, 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 December 26, 2004, resulting from an error 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 December 26, 2004.

Changes in Internal Controls over Financial Reporting

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Red Robin Gourmet Burgers, Inc.
Greenwood Village, Colorado

We have audited management's assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that Red Robin Gourmet Burgers, Inc. (the "Company") did not maintain effective internal control over financial reporting as of December 26, 2004, because of the effect of the material weakness identified in management's assessment based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment: In its assessment as of December 26, 2004, management identified as a material weakness the Company's insufficient controls over the selection and monitoring of appropriate assumptions and factors affecting lease accounting. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 26, 2004, of the Company and this report does not affect our report on such financial statements.

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In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of December 26, 2004, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 26, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 26, 2004 of the Company and our report dated April 6, 2005 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding a restatement of the 2003 and 2002 financial statements.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado
April 6, 2005

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Our board of directors has adopted a code of ethics that applies to our chief executive officer and other senior executives, including our chief financial officer and controller, as required by the Securities and Exchange Commission. The full text of our code of ethics can be found on the investor relations page of our website at www.redrobin.com. We intend to satisfy the Securities and Exchange Commission disclosure requirements regarding an amendment to, or a waiver from, a provision of our code of ethics that applies to our chief executive officer and other senior executives, including our chief financial officer and controller, or persons performing similar functions by posting such information on the investor relations page of our website at www.redrobin.com.

Information regarding directors appearing under the caption “Directors and Nominees” in our 2005 Proxy Statement is hereby incorporated by reference. Information regarding audit committee financial experts appearing under the caption “Committees of the Board of Directors” in our 2005 Proxy Statement is hereby incorporated by reference. Information regarding disclosure of compliance with Section 16(a) of the Securities Exchange Act appearing under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2005 Proxy Statement is hereby incorporated by reference.

Information regarding our executive officers is included in Item 1 of this annual report on Form 10-K.

There have been no material changes to the procedures described in our 2004 Definitive Proxy Statement by which security holders may recommend nominees for election to our Board of Directors.

ITEM 11. Executive Compensation

Information regarding executive compensation appearing under the captions “Director Compensation” and “Executive Compensation” in our 2005 Proxy Statement, excluding the compensation committee report, is hereby incorporated by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Information setting forth the security ownership of certain beneficial owners and management appearing under the caption “Stock Ownership of Certain Persons” in our 2005 Proxy Statement is hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions appearing under the caption “Certain Relationships and Related Transactions” and/or “Compensation Committee Interlocks and Insider Participation” in our 2005 Proxy Statement is hereby incorporated by reference.

ITEM 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services appearing under the caption “Registered Independent Public Accounting Firm” in our 2005 Proxy Statement is hereby incorporated by reference.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) *Exhibits and Financial Statement Schedules*

- (1) Our Consolidated Financial Statements and Notes thereto are included in Item 8 of this annual report on Form 10-K. See “Index to Financial Statements and Supplemental Data” for more detail.
- (2) All financial schedules have been omitted either because they are not applicable or because the required information is provided in our Consolidated Financial Statements and Notes thereto, included in Item 8 of this annual report on Form 10-K.
- (3) Index to Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated February 18, 2000, by and among Red Robin International, Inc., Red Robin Holding Co., Inc., The Snyder Group Company and the stockholders of The Snyder Group Company. Incorporated by reference to Exhibit 2.1 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
2.2	Closing Agreement and Amendment to Merger Agreement, entered into as May 11, 2000, by and among Red Robin International Inc., Red Robin Holding Co., Inc., The Snyder Group Company and the stockholders of The Snyder Group Company. Incorporated by reference to Exhibit 2.2 filed as an exhibit to Amendment No. 1 of our Registration Statement on Form S-1 dated June 10, 2002 (Registration No. 333-87044).
2.3	Memorandum Agreement, dated May 10, 2001, by and among The Snyder Group Company, Red Robin International, Inc., Red Robin West, Inc., Rodney Bench, as trustee of that certain Trust Indenture Agreement, dated May 11, 2000, by and among Red Robin International, Inc., Rodney Bench and Bunch Grass Leasing, LLC. Incorporated by reference to Exhibit 10.16 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
2.4	Agreement and Plan of Merger, dated January 23, 2001, by and among Red Robin International, Inc., Red Robin Gourmet Burgers, Inc. and Red Robin Merger Sub, Inc. Incorporated by reference to Exhibit 2.4 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
2.5	Stock Purchase Agreement, dated as of September 19, 2001, by and among Western Franchise Development, Inc., Dennis E. Garcelon and E. Marlana Garcelon, trustees of the Garcelon Trust dated January 6, 1992, Samuel Winston Garcelon and Red Robin International, Inc. Incorporated by reference to Exhibit 2.5 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
3.1	Amended and Restated Certificate of Incorporation. Incorporated by reference to Exhibit 3.1 filed as an exhibit to Amendment No. 4 of our Registration Statement on Form S-1 dated July 17, 2002 (Registration No. 333-87044)
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation. Incorporated by reference to Exhibit 3.1 filed as an exhibit to our Form 10-Q for the quarterly period ended October 5, 2003, dated November 11, 2003.
3.3	Amended and Restated Bylaws. Incorporated by reference to Exhibit 3.2 filed as an exhibit to Amendment No. 4 of our Registration Statement on Form S-1 dated July 17, 2002 (Registration No. 333-87044).

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<u>Exhibit Number</u>	<u>Description</u>
4.1	Specimen stock certificate. Incorporated by reference to Exhibit 4.1 filed as an exhibit to Amendment No. 1 of our Registration Statement on Form S-1 dated June 10, 2002 (Registration No. 333-87044).
10.1	Red Robin Gourmet Burgers, Inc. 1996 Stock Option Plan. Incorporated by reference to Exhibit 10.2 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
10.2	Red Robin Gourmet Burgers, Inc. 2000 Management Performance Common Stock Option Plan. Incorporated by reference to Exhibit 10.3 filed as an exhibit to Amendment No. 1 of our Registration Statement on Form S-1 dated June 10, 2002 (Registration No. 333-87044).
10.3	Red Robin Gourmet Burgers, Inc. 2002 Stock Incentive Plan. Incorporated by reference to Exhibit 10.4 filed as an exhibit to Amendment No. 4 of our Registration Statement on Form S-1 dated July 17, 2002 (Registration No. 333-87044).
10.4	Red Robin Gourmet Burgers, Inc. Employee Stock Purchase Plan. Incorporated by reference to Exhibit 10.5 filed as an exhibit to Amendment No. 4 of our Registration Statement on Form S-1 dated July 17, 2002 (Registration No. 333-87044).
10.5	Employment Agreement, dated May 11, 2000, by and between Red Robin International, Inc. and Michael J. Snyder. Incorporated by reference to Exhibit 10.10 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
10.6	Summary of Compensatory Arrangements with Michael J. Snyder.
10.7	Employment Agreement, dated January 7, 1997, by and between Mike Woods and Red Robin International, Inc. Incorporated by reference to Exhibit 10.11 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
10.8	Summary of Compensatory Arrangements with Certain Named Executive Officers.
10.9	Non-Interference, Non-Disclosure and Non-Competition Agreement, dated May 11, 2000, by and among RR Investors, LLC, RR Investors II, LLC, Red Robin International, Inc. and Michael J. Snyder. Incorporated by reference to Exhibit 10.12 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
10.9	Form of Indemnification Agreement entered into by and between Red Robin Gourmet Burgers, Inc. and each of our directors and executive officers. Incorporated by reference to Exhibit 10.20 filed as an exhibit to Amendment No. 3 of our Registration Statement on Form S-1 dated July 12, 2002 (Registration No. 333-87044).
10.10	Master Loan Agreement, dated November 3, 2000, by and between Red Robin and General Electric Capital Business Asset Funding Corporation. Incorporated by reference to Exhibit 10.21 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
10.11	Fountain Beverage Agreement, dated April 1, 2000, by and between Pepsi-Cola Company, a division of PepsiCo, a North Carolina corporation, and Red Robin International, Inc. Incorporated by reference to Exhibit 10.27 filed as an exhibit to our Registration Statement on Form S-1 dated April 26, 2002 (Registration No. 333-87044).
10.12	Red Robin Gourmet Burgers, Inc. 2000 Management Performance Common Stock Option Plan Option Exercise Agreement—Early Exercise, dated April 25, 2002, by and between Michael J. Snyder and Red Robin Gourmet Burgers, Inc. Incorporated by reference to Exhibit 10.34 filed as an exhibit to Amendment No. 1 of our Registration Statement on Form S-1 dated June 10, 2002 (Registration No. 333-87044).

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<u>Exhibit Number</u>	<u>Description</u>
10.13	\$85,000,000 Amended and Restated Credit Agreement, dated as of May 20, 2003, among Red Robin International, Inc., Red Robin Gourmet Burgers, Inc., the domestic subsidiaries of the borrower from time to time parties thereto, the lenders parties thereto, Wachovia Bank, National Association, as Administrative Agent, and U.S. Bank National Association, as Documentation Agent. Incorporated by reference as an exhibit to our Current Report on Form 8-K, dated May 20, 2003.
10.14	First Amendment to Amended and Restated Credit Agreement, dated as of October 31, 2003, among Red Robin International, Inc., Red Robin Gourmet Burgers, Inc., the domestic subsidiaries of the borrower from time to time parties thereto, the lenders parties thereto, Wachovia Bank, National Association, as Administrative Agent, and U.S. Bank National Association, as Documentation Agent.
10.15	Second Amendment to Amended and Restated Credit Agreement, dated as of October 25, 2004, among Red Robin International, Inc., Red Robin Gourmet Burgers, Inc., the domestic subsidiaries of the borrower from time to time parties thereto, the lenders parties thereto, Wachovia Bank, National Association, as Administrative Agent, and U.S. Bank National Association, as Documentation Agent.
10.16	Red Robin Gourmet Burgers, Inc. Deferred Compensation Plan, dated January 1, 2003. Incorporated by reference to Exhibit 10.28 filed as an exhibit to our annual report on Form 10-K, dated March 12, 2004.
10.17	Red Robin Gourmet Burgers, Inc. 2004 Performance Incentive Plan.
10.18	Master Distribution Agreement, dated April 20, 2004, by and between Sysco Corporation and Red Robin International, Inc. Incorporated by reference to Exhibit 10.1 filed as an exhibit to our periodic report on Form 10-Q, dated August 13, 2004.
21.1	List of Subsidiaries.
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.

SUMMARY OF COMPENSATORY ARRANGEMENT WITH MICHAEL J. SNYDER

Michael J. Snyder serves as Chairman of the Board of Directors, Chief Executive Officer and President of the Company pursuant to an employment agreement dated May 11, 2000. Mr. Snyder's employment agreement provides that the Board of Directors shall review Mr. Snyder's base salary annually. For 2005, the Board of Directors has set Mr. Snyder's annual base salary at \$625,000. In addition, the Board has established an Annual Incentive Compensation (Bonus) Plan, pursuant to which Mr. Snyder is eligible to earn a cash bonus of between 45% and 135% of his base salary based on the level of the Company's earnings before interest, taxes, depreciation and amortization (or EBITDA) relative to certain targets that have been set by the Board. Any such bonus is payable to Mr. Snyder after the close of the 2005 fiscal year. Mr. Snyder is eligible to receive stock options and other stock-based awards under the Company's 2004 Performance Incentive Plan at the discretion of the Board of Directors. Mr. Snyder also receives a monthly car allowance from the Company.

The terms of Mr. Snyder's employment and compensation are otherwise unchanged from those set forth in his employment agreement.

SUMMARY OF COMPENSATORY ARRANGEMENTS WITH CERTAIN NAMED EXECUTIVE OFFICERS

The Company employs the following persons on an “at will” basis to serve in the positions indicated:

Employee	2005 Base Salary	2005 Bonus Potential (As a Percentage of Base Salary)
James P. McCloskey, Chief Financial Officer, Secretary	\$ 288,960	35% – 105%
Michael E. Woods, Senior Vice President – Franchise Development	\$ 283,800	35% – 105%
Robert Merullo, Senior Vice President – Operations	\$ 273,480	35% – 105%
Eric Houseman, Vice President – Operations	\$ 211,500	25% – 75%
Todd A. Brighton, Vice President - Corporate Development	\$ 211,500	25% – 75%

In 2005, each of these employees is entitled to receive the following:

- Annual Base Salary in the amount indicated above. The Board of Directors of the Company approves the annual base salary for each of these executive officers.
- Bonus: Paid after the close of the fiscal year, provided the Company achieves its minimum EBITDA target. The bonus is calculated as a percentage of base salary. That percentage varies in direct relation from low to high depending on (a) how the Company performs against EBITDA targets set by the Board of Directors, and (b) how the employee performs against individual performance goals approved by the Chief Executive Officer. The Chief Executive Officer, using his subjective judgment, measures the employee’s performance against those individual performance goals after the end of the Company’s fiscal year.
- Stock Options: May be awarded at the discretion of the Board of Directors pursuant to the Company’s 2004 Performance Incentive Plan at the fair market value as of the date of the award.
- Other Compensation: Car allowance and eligibility to participate in various other Company benefits plans offered to salaried employees generally, such as health, dental, life and disability insurance, employee stock purchase plan (or ESPP), retirement plan and deferred compensation plan.

Mr. Woods, in addition to the forgoing terms, is employed pursuant to an agreement that provides that, if he does not resign and is not terminated for cause, he will be paid an amount equal to his then current base salary in twelve equal monthly installments commencing the month following his separation from the Company.

FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT, dated as of October 31, 2003 (the "First Amendment"), is by and among **RED ROBIN INTERNATIONAL, INC.**, a Nevada corporation (the "Borrower"), **RED ROBIN GOURMET BURGERS, INC.** (the "Parent"), those Domestic Subsidiaries of the Borrower identified as a "Guarantor" on the signature pages hereto and such other Domestic Subsidiaries of the Borrower as may from time to time become a party hereto (together with the Parent, each individually a "Guarantor" and collectively the "Guarantors"), the Lenders party hereto (the "Lenders") and **WACHOVIA BANK, NATIONAL ASSOCIATION**, as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

WITNESSETH

WHEREAS, the Borrower, the Guarantors, the Lenders and the Administrative Agent are parties to that certain Amended and Restated Credit Agreement dated as of May 20, 2003 (as amended, modified, supplemented or restated from time to time, the "Credit Agreement"; capitalized terms used herein shall have the meanings ascribed thereto in the Credit Agreement unless otherwise defined herein);

WHEREAS, the Borrower has requested that the Required Lenders (on behalf of the Lenders) agree to amend certain terms of the Credit Agreement as set forth below; and

WHEREAS, the Required Lenders have agreed to such amendments of the Credit Agreement, subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1**AMENDMENTS**

1.1 Amendment to Section 6.8. Section 6.8 of the Credit Agreement is hereby amended and restated in its entirety as follows:

Section 6.8 Ownership of Subsidiaries; Restrictions.

Each of the Credit Parties will not, nor will it permit any Subsidiary to, create, form or acquire any Subsidiaries, except for wholly-owned Domestic Subsidiaries which are joined as Additional Credit Parties in accordance with the terms hereof. Each of the Borrower and its Subsidiaries will not, nor will it permit any Subsidiary to, sell, transfer, pledge or otherwise dispose of any Capital Stock or other equity interests in any of its Subsidiaries, nor will it, or

permit any Subsidiary to, issue, sell, transfer, pledge or otherwise dispose of any of its Capital Stock or other equity interests, except as required by the Credit Documents or pursuant to a transaction permitted by Section 6.5(a)(iv). The Parent will not, nor will it permit any Subsidiary to, pledge any Capital Stock or other equity interests in any of its Subsidiaries, except as required by the Credit Documents or pursuant to a transaction permitted by Section 6.5(a)(iv).

SECTION 2

CLOSING CONDITIONS

2.1 Conditions Precedent. This First Amendment shall become effective as of the date hereof upon the receipt by the Administrative Agent of counterparts of this First Amendment, which collectively shall have been duly executed on behalf of (a) the Borrower, (b) the Parent, (c) the Guarantors and (d) the Required Lenders.

SECTION 3

MISCELLANEOUS

3.1 Amended Terms. The term "Credit Agreement" as used in each of the Credit Documents shall hereafter mean the Credit Agreement as amended by this First Amendment. Except as specifically amended hereby or otherwise agreed, the Credit Agreement is hereby ratified and confirmed and shall remain in full force and effect according to its terms.

3.2 Representations and Warranties of Credit Parties. Each Credit Party hereby represents and warrants as follows:

(a) It has taken all necessary action to authorize the execution, delivery and performance of this First Amendment.

(b) This First Amendment has been duly executed and delivered by such Person and constitutes such Person's legal, valid and binding obligations, enforceable in accordance with its terms, except as such enforceability may be subject to (i) bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

(c) No consent, approval, authorization or order of, or filing, registration or qualification with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by such Person of this First Amendment.

(d) Both before and after giving effect to this Amendment, the representations and warranties set forth in Article III of the Credit Agreement are, subject to the limitations set forth therein, true and correct in all respects as of the date hereof (except for those which expressly relate to an earlier date).

(e) Both before and after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

3.3 Credit Document. This First Amendment shall constitute a Credit Document under the terms of the Credit Agreement and shall be subject to the terms and conditions thereof (including, without limitation, Sections 9.13, 9.14 and 9.17 of the Credit Agreement).

3.4 Entirety. This First Amendment and the other Credit Documents embody the entire agreement between the parties hereto and supersede all prior agreements and understandings, oral or written, if any, relating to the subject matter hereof.

3.5 Counterparts. This First Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument.

3.6 GOVERNING LAW. THIS FIRST AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA.

[Signature Pages to Follow]

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this First Amendment to be duly executed and delivered as of the date first above written.

BORROWER:

RED ROBIN INTERNATIONAL, INC.,
a Nevada corporation

By: /s/ James P. McCloskey

Name: James P. McCloskey
Title: Chief Financial Officer

GUARANTORS:

RED ROBIN GOURMET BURGERS, INC.,
a Delaware corporation
RED ROBIN WEST, INC.,
a Nevada corporation
RED ROBIN DISTRIBUTING COMPANY, INC.,
a Colorado corporation
WESTERN FRANCHISE DEVELOPMENT, INC.,
a California corporation

By: /s/ James P. McCloskey

Name: James P. McCloskey
Title: Chief Financial Officer of each
of the foregoing Guarantors

RED ROBIN OF ANNE ARUNDEL COUNTY, INC.,
a Maryland corporation
RED ROBIN OF BALTIMORE COUNTY, INC.,
a Maryland corporation
RED ROBIN OF MONTGOMERY COUNTY, INC.,
a Maryland corporation
RED ROBIN OF HOWARD COUNTY, INC.,
a Maryland corporation
RED ROBIN OF CHARLES COUNTY, INC.,
a Maryland corporation

By: /s/ James P. McCloskey

Name: James P. McCloskey
Title: Secretary & Treasurer of each
of the foregoing Guarantors

[signature pages continue]

FIRST AMENDMENT
RED ROBIN INTERNATIONAL, INC.

ADMINISTRATIVE AGENT
AND LENDERS:

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Administrative Agent and as a Lender

By: /s/ David Hauglid

Name: David Hauglid
Title: Vice President

[signature pages continue]

FIRST AMENDMENT
RED ROBIN INTERNATIONAL, INC.

WELLS FARGO BANK, N.A.,
as Syndication Agent and as a Lender

By: /s/ BRENDA PARK

Name: BRENDA PARK
Title: VICE PRESIDENT

[signature pages continue]

FIRST AMENDMENT
RED ROBIN INTERNATIONAL, INC.

U.S. BANK NATIONAL ASSOCIATION,
as Documentation Agent and as a Lender

By: /s/ Thomas McCarthy

Name: Thomas McCarthy
Title: Vice President

[signature pages continue]

FIRST AMENDMENT
RED ROBIN INTERNATIONAL, INC.

KEY BANK N.A.,
as a Lender

By: /s/ DOUGLAS L POGGE

Name: DOUGLAS L POGGE
Title: VICE PRESIDENT

[signature pages continue]

FIRST AMENDMENT
RED ROBIN INTERNATIONAL, INC.

SUNTRUST BANK,
as a Lender

By: /s/ SUSAN M. HALL

Name: SUSAN M. HALL
Title: MANAGING DIRECTOR

FIRST AMENDMENT
RED ROBIN INTERNATIONAL, INC.

SECOND AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS SECOND AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT, dated as of October 25, 2004 (the "Amendment"), is by and among **RED ROBIN INTERNATIONAL, INC.**, a Nevada corporation (the "Borrower"), **RED ROBIN GOURMET BURGERS, INC.** (the "Parent"), those Domestic Subsidiaries of the Borrower identified as a "Guarantor" on the signature pages hereto and such other Domestic Subsidiaries of the Borrower as may from time to time become a party hereto (together with the Parent, each individually a "Guarantor" and collectively the "Guarantors"), the Lenders party hereto and **WACHOVIA BANK, NATIONAL ASSOCIATION**, as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

W I T N E S S E T H

WHEREAS, the Borrower, the Guarantors, the lenders from time to time party thereto (the "Lenders") and the Administrative Agent are parties to that certain Amended and Restated Credit Agreement dated as of May 20, 2003 (as previously amended and modified and as further amended, modified, supplemented or restated from time to time, the "Credit Agreement"; capitalized terms used herein shall have the meanings ascribed thereto in the Credit Agreement unless otherwise defined herein);

WHEREAS, the Borrower has requested that the Required Lenders (on behalf of the Lenders) agree to amend certain terms of the Credit Agreement as set forth below; and

WHEREAS, the Required Lenders have agreed to such amendments of the Credit Agreement, subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1**AMENDMENTS**

1.1 Amendment to Section 2.2(a). The LOC Committed Amount in Section 2.2(a) of the Credit Agreement is hereby increased to FIVE MILLION DOLLARS (\$5,000,000).

1.2 Amendment to Section 5.9(e). The Consolidated Capital Expenditure limit for fiscal year 2004 set forth in Section 5.9(e) of the Credit Agreement is hereby increased to \$80,000,000.

SECTION 2

CLOSING CONDITIONS

2.1 Conditions Precedent. This Amendment shall become effective as of the date hereof upon the receipt by the Administrative Agent of counterparts of this Amendment, which collectively shall have been duly executed on behalf of (a) the Borrower, (b) the Guarantors and (c) the Required Lenders.

SECTION 3

MISCELLANEOUS

3.1 Amended Terms. The term "Credit Agreement" as used in each of the Credit Documents shall hereafter mean the Credit Agreement as amended by this Amendment. Except as specifically amended hereby or otherwise agreed, the Credit Agreement is hereby ratified and confirmed and shall remain in full force and effect according to its terms.

3.2 Representations and Warranties of Credit Parties. Each Credit Party hereby represents and warrants as follows:

(a) It has taken all necessary action to authorize the execution, delivery and performance of this Amendment.

(b) This Amendment has been duly executed and delivered by such Person and constitutes such Person's legal, valid and binding obligations, enforceable in accordance with its terms, except as such enforceability may be subject to (i) bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

(c) No consent, approval, authorization or order of, or filing, registration or qualification with, any court or Governmental Authority or third party is required in connection with the execution, delivery or performance by such Person of this Amendment.

(d) Both before and after giving effect to this Amendment, the representations and warranties set forth in Article III of the Credit Agreement are, subject to the limitations set forth therein, true and correct in all respects as of the date hereof (except for those which expressly relate to an earlier date).

(e) Both before and after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

3.3 Credit Document. This Amendment shall constitute a Credit Document under the terms of the Credit Agreement and shall be subject to the terms and conditions thereof (including, without limitation, Sections 9.14 and 9.17 of the Credit Agreement).

3.4 Entirety. This Amendment and the other Credit Documents embody the entire agreement between the parties hereto and supersede all prior agreements and understandings, oral or written, if any, relating to the subject matter hereof.

3.5 Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument.

3.6 GOVERNING LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA.

[Signature Pages to Follow]

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWER:

RED ROBIN INTERNATIONAL, INC.,
a Nevada corporation

By: /s/ James P. McCloskey

Name: James P. McCloskey
Title: Chief Financial Officer

GUARANTORS:

RED ROBIN GOURMET BURGERS, INC.,
a Delaware corporation
RED ROBIN WEST, INC.,
a Nevada corporation
RED ROBIN DISTRIBUTING COMPANY, INC.,
a Colorado corporation
WESTERN FRANCHISE DEVELOPMENT, INC.,
a California corporation

By: /s/ James P. McCloskey

Name: James P. McCloskey
Title: Chief Financial Officer of each
of the foregoing Guarantors

RED ROBIN OF ANNE ARUNDEL COUNTY, INC.,
a Maryland corporation
RED ROBIN OF BALTIMORE COUNTY, INC.,
a Maryland corporation
RED ROBIN OF MONTGOMERY COUNTY, INC.,
a Maryland corporation
RED ROBIN OF HOWARD COUNTY, INC.,
a Maryland corporation
RED ROBIN OF CHARLES COUNTY, INC.,
a Maryland corporation

By: /s/ James P. McCloskey

Name: James P. McCloskey
Title: Secretary & Treasurer of each
of the foregoing Guarantors

[signature pages continue]

RED ROBIN INTERNATIONAL, INC.
SECOND AMENDMENT TO CREDIT AGREEMENT

ADMINISTRATIVE AGENT
AND LENDERS:

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Administrative Agent and as a Lender

By: /s/ David Hauglid

Name: David Hauglid
Title: Vice President

[signature pages continue]

RED ROBIN INTERNATIONAL, INC.
SECOND AMENDMENT TO CREDIT AGREEMENT

WELLS FARGO BANK, N.A.,
as Syndication Agent and as a Lender

By: /s/ Dawn J. Storey for Brenda Park

Name: Dawn J. Storey
Title: Assistant Vice President

[signature pages continue]

RED ROBIN INTERNATIONAL, INC.
SECOND AMENDMENT TO CREDIT AGREEMENT

U.S. BANK NATIONAL ASSOCIATION,
as Documentation Agent and as a Lender

By: /s/ THOMAS MCCARTHY

Name: THOMAS MCCARTHY
Title: VICE PRESIDENT

[signature pages continue]

RED ROBIN INTERNATIONAL, INC.
SECOND AMENDMENT TO CREDIT AGREEMENT

BANK OF AMERICA, N.A.,
as a Lender

By: /s/ Alexandra Burke

Name: Alexandra Burke
Title: Director

[signature pages continue]

RED ROBIN INTERNATIONAL, INC.
SECOND AMENDMENT TO CREDIT AGREEMENT

KEY BANK N.A.,
as a Lender

By: /s/ JEANETTE GANOUSIS

Name: JEANETTE GANOUSIS
Title: SENIOR VICE PRESIDENT

[signature pages continue]

RED ROBIN INTERNATIONAL, INC.
SECOND AMENDMENT TO CREDIT AGREEMENT

SUNTRUST BANK,
as a Lender

By: /s/ SUSAN M. HALL

Name: SUSAN M. HALL
Title: Managing Director

RED ROBIN INTERNATIONAL, INC.
SECOND AMENDMENT TO CREDIT AGREEMENT

**RED ROBIN GOURMET BURGERS, INC.
2004 PERFORMANCE INCENTIVE PLAN**

1. PURPOSE OF PLAN

The purpose of this Red Robin Gourmet Burgers, Inc. 2004 Performance Incentive Plan (this **Plan**) of Red Robin Gourmet Burgers, Inc., a Delaware corporation (the **Corporation**), is to promote the success of the Corporation and to increase stockholder value by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees and other eligible persons.

2. ELIGIBILITY

The Administrator (as such term is defined in Section 3.1) may grant awards under this Plan only to those persons that the Administrator determines to be Eligible Persons. An **Eligible Person** is any person who is either: (a) an officer (whether or not a director) or employee of the Corporation or one of its Subsidiaries; (b) a director of the Corporation or one of its Subsidiaries; or (c) an individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of the Corporation or one of its Subsidiaries in a capital-raising transaction or as a market maker or promoter of securities of the Corporation or one of its Subsidiaries) to the Corporation or one of its Subsidiaries and who is selected to participate in this Plan by the Administrator; provided, however, that a person who is otherwise an Eligible Person under clause (c) above may participate in this Plan only if such participation would not adversely affect either the Corporation's eligibility to use Form S-8 to register under the Securities Act of 1933, as amended (the **Securities Act**), the offering and sale of shares issuable under this Plan by the Corporation or the Corporation's compliance with any other applicable laws. An Eligible Person who has been granted an award (a "participant") may, if otherwise eligible, be granted additional awards if the Administrator shall so determine. As used herein, **Subsidiary** means any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Corporation; and **Board** means the Board of Directors of the Corporation.

3. PLAN ADMINISTRATION

3.1 The Administrator. This Plan shall be administered by and all awards under this Plan shall be authorized by the Administrator. The **Administrator** means the Board or one or more committees appointed by the Board or another committee (within its delegated authority) to administer all or certain aspects of this Plan. Any such committee shall be comprised solely of one or more directors or such number of directors as may be required under applicable law. A committee may delegate some or all of its authority to another committee so constituted. The Board or a committee comprised solely of directors may also delegate, to the extent permitted by Section 157(c) of the Delaware General Corporation Law and any other applicable law, to one or more officers of the Corporation, its powers under this Plan (a) to designate the officers and employees of the Corporation and its Subsidiaries who will receive grants of awards under this Plan, and (b) to determine the number of shares subject to, and the other terms and conditions of,

such awards. The Board may delegate different levels of authority to different committees with administrative and grant authority under this Plan. Unless otherwise provided in the Bylaws of the Corporation or the applicable charter of any Administrator: (a) a majority of the members of the acting Administrator shall constitute a quorum, and (b) the vote of a majority of the members present assuming the presence of a quorum or the unanimous written consent of the members of the Administrator shall constitute action by the acting Administrator.

With respect to awards intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “**Code**”), this Plan shall be administered by a committee consisting solely of two or more outside directors (as this requirement is applied under Section 162(m) of the Code); provided, however, that the failure to satisfy such requirement shall not affect the validity of the action of any committee otherwise duly authorized and acting in the matter. Award grants, and transactions in or involving awards, intended to be exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), must be duly and timely authorized by the Board or a committee consisting solely of two or more non-employee directors (as this requirement is applied under Rule 16b-3 promulgated under the Exchange Act). To the extent required by any applicable listing agency, this Plan shall be administered by a committee composed entirely of independent directors (within the meaning of the applicable listing agency).

3.2 Powers of the Administrator. Subject to the express provisions of this Plan, the Administrator is authorized and empowered to do all things necessary or desirable in connection with the authorization of awards and the administration of this Plan (in the case of a committee or delegation to one or more officers, within the authority delegated to that committee or person(s)), including, without limitation, the authority to:

- (a) determine eligibility and, from among those persons determined to be eligible, the particular Eligible Persons who will receive an award under this Plan;
- (b) grant awards to Eligible Persons, determine the price at which securities will be offered or awarded and the number of securities to be offered or awarded to any of such persons, determine the other specific terms and conditions of such awards consistent with the express limits of this Plan, establish the installments (if any) in which such awards shall become exercisable or shall vest (which may include, without limitation, performance and/or time-based schedules), or determine that no delayed exercisability or vesting is required, establish any applicable performance targets, and establish the events of termination or reversion of such awards;
- (c) approve the forms of award agreements (which need not be identical either as to type of award or among participants);

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- (d) construe and interpret this Plan and any agreements defining the rights and obligations of the Corporation, its Subsidiaries, and participants under this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan or the awards granted under this Plan;
 - (e) cancel, modify, or waive the Corporation's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consent under Section 8.6.5;
 - (f) accelerate or extend the vesting or exercisability or extend the term of any or all such outstanding awards (in the case of options or stock appreciation rights, within the maximum ten-year term of such awards) in such circumstances as the Administrator may deem appropriate (including, without limitation, in connection with a termination of employment or services or other events of a personal nature) subject to any required consent under Section 8.6.5;
 - (g) adjust the number of shares of Common Stock subject to any award, adjust the price of any or all outstanding awards or otherwise change previously imposed terms and conditions, in such circumstances as the Administrator may deem appropriate, in each case subject to Sections 4 and 8.6, and provided that in no case (except due to an adjustment contemplated by Section 7 or any repricing that may be approved by stockholders) shall such an adjustment constitute a repricing (by amendment, cancellation and regrant, exchange or other means) of the per share exercise or base price of any option or stock appreciation right;
 - (h) determine the date of grant of an award, which may be a designated date after but not before the date of the Administrator's action (unless otherwise designated by the Administrator, the date of grant of an award shall be the date upon which the Administrator took the action granting an award);
 - (i) determine whether, and the extent to which, adjustments are required pursuant to Section 7 hereof and authorize the termination, conversion, substitution or succession of awards upon the occurrence of an event of the type described in Section 7;
 - (j) acquire or settle (subject to Sections 7 and 8.6) rights under awards in cash, stock of equivalent value, or other consideration; and
 - (k) determine the fair market value of the Common Stock or awards under this Plan from time to time and/or the manner in which such value will be determined.

3.3 Binding Determinations. Any action taken by, or inaction of, the Corporation, any Subsidiary, or the Administrator relating or pursuant to this Plan and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all

persons. Neither the Board nor any Board committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan (or any award made under this Plan), and all such persons shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

- 3.4 **Reliance on Experts.** In making any determination or in taking or not taking any action under this Plan, the Board or a committee, as the case may be, may obtain and may rely upon the advice of experts, including employees and professional advisors to the Corporation. No director, officer or agent of the Corporation or any of its Subsidiaries shall be liable for any such action or determination taken or made or omitted in good faith.
- 3.5 **Delegation.** The Administrator may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Corporation or any of its Subsidiaries or to third parties.

4. SHARES OF COMMON STOCK SUBJECT TO THE PLAN; SHARE LIMITS

- 4.1 **Shares Available.** Subject to the provisions of Section 7.1, the capital stock that may be delivered under this Plan shall be shares of the Corporation's authorized but unissued Common Stock and any shares of its Common Stock held as treasury shares. For purposes of this Plan, "**Common Stock**" shall mean the common stock of the Corporation and such other securities or property as may become the subject of awards under this Plan, or may become subject to such awards, pursuant to an adjustment made under Section 7.1.
- 4.2 **Share Limits.** The maximum number of shares of Common Stock that may be delivered pursuant to awards granted to Eligible Persons under this Plan (the "**Share Limit**") is equal to the sum of the following:
- (1) 1,500,000 shares of Common Stock, plus
 - (2) the number of shares of Common Stock available for additional award grant purposes under the Corporation's 2002 Stock Incentive Plan (the "**2002 Plan**") as of the date of stockholder approval of this Plan (the "**Stockholder Approval Date**") and determined immediately prior to the termination of the authority to grant new awards under the 2002 Plan as of the Stockholder Approval Date, plus
 - (3) the number of any shares subject to stock options granted under the 2002 Plan and outstanding on the Stockholder Approval Date which expire, or for any reason are cancelled or terminated, after the Stockholder Approval Date without being exercised; plus

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- (4) the number of any shares subject to stock options granted under the Corporation's 2000 Management Performance Common Stock Option Plan (the **2000 Plan**) and outstanding on the Effective Date (as such term is defined in Section 8.6.1) which expire, or for any reason are cancelled or terminated, after the Effective Date without being exercised; plus
 - (5) the number of any shares subject to stock options granted under the Corporation's 1996 Stock Option Plan (the **1996 Plan**) and outstanding on the Effective Date which expire, or for any reason are cancelled or terminated, after the Effective Date without being exercised;

provided that in no event shall the Share Limit exceed 2,697,613 shares (which is the sum of the 1,500,000 shares set forth above, plus the number of shares available under the 2002 Plan for additional award grant purposes as of the Effective Date (as such term is defined in Section 8.6.1), plus the aggregate number of shares subject to options previously granted and outstanding under the 2002 Plan, the 2000 Plan, the 1996 Plan as of the Effective Date). (The 2002 Plan, the 2000 Plan and the 1996 Plan are collectively referred to as the "**Prior Plans**.") The following limits also apply with respect to awards granted under this Plan:

- (a) The maximum number of shares of Common Stock that may be delivered pursuant to options qualified as incentive stock options granted under this Plan is 2,697,613 shares.
- (b) The maximum number of shares of Common Stock subject to those options and stock appreciation rights that are granted during any calendar year to any individual under this Plan is 170,000 shares.
- (c) The maximum number of shares of Common Stock that may be delivered pursuant to awards granted under this Plan, other than those described in the next sentence, is 600,000 shares. This limit on so-called "full-value awards" does not apply, however, to shares delivered in respect of compensation earned but deferred.
- (d) The maximum number of shares of Common Stock that may be delivered pursuant to awards granted to non-employee directors under this Plan is 300,000 shares. This limit does not apply, however, to shares delivered in respect of compensation earned but deferred. For this purpose, a "non-employee director" is a member of the Board who is not an officer or employee of the Corporation or one of its Subsidiaries.
- (e) Additional limits with respect to Performance-Based Awards are set forth in Section 5.2.3.

Each of the foregoing numerical limits is subject to adjustment as contemplated by Section 4.3, Section 7.1, and Section 8.10.

4.3 Awards Settled in Cash, Reissue of Awards and Shares To the extent that an award is settled in cash or a form other than shares of Common Stock, the shares that would have been delivered had there been no such cash or other settlement shall not be counted against the shares available for issuance under this Plan. In the event that shares are delivered in respect of a dividend equivalent, stock appreciation right, or other award, only the actual number of shares delivered with respect to the award shall be counted against the share limits of this Plan. Shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall again be available for subsequent awards under this Plan. Shares that are exchanged by a participant or withheld by the Corporation as full or partial payment in connection with any award under this Plan or under any of the Prior Plans (with respect to such a payment in connection with any award under any of the Prior Plans, only to the extent such transaction occurs after the Effective Date), as well as any shares exchanged by a participant or withheld by the Corporation or one of its Subsidiaries to satisfy the tax withholding obligations related to any award under this Plan or under any of the Prior Plans (with respect to such an exchange or withholding in connection with any award under any of the Prior Plans, only to the extent such transaction occurs after the Effective Date), shall be available for subsequent awards under this Plan. Refer to Section 8.10 for application of the foregoing share limits with respect to assumed awards. The foregoing adjustments to the share limits of this Plan are subject to any applicable limitations under Section 162(m) of the Code with respect to awards intended as performance-based compensation thereunder.

4.4 Reservation of Shares; No Fractional Shares; Minimum Issue The Corporation shall at all times reserve a number of shares of Common Stock sufficient to cover the Corporation's obligations and contingent obligations to deliver shares with respect to awards then outstanding under this Plan (exclusive of any dividend equivalent obligations to the extent the Corporation has the right to settle such rights in cash). No fractional shares shall be delivered under this Plan. The Administrator may pay cash in lieu of any fractional shares in settlements of awards under this Plan. No fewer than 100 shares may be purchased on exercise of any award (or, in the case of stock appreciation or purchase rights, no fewer than 100 rights may be exercised at any one time) unless the total number purchased or exercised is the total number at the time available for purchase or exercise under the award.

5. AWARDS

5.1 Type and Form of Awards. The Administrator shall determine the type or types of award(s) to be made to each selected Eligible Person. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Corporation or one of its Subsidiaries. The types of awards that may be granted under this Plan are:

5.1.1 Stock Options. A stock option is the grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Administrator. An option may be intended as an incentive stock option within the meaning of Section 422 of the Code (an “ISO”) or a nonqualified stock option (an option not intended to be an ISO). The award agreement for an option will indicate if the option is intended as an ISO; otherwise it will be deemed to be a nonqualified stock option. The maximum term of each option (ISO or nonqualified) shall be ten (10) years. The per share exercise price for each option shall be not less than 100% of the fair market value of a share of Common Stock on the date of grant of the option. When an option is exercised, the exercise price for the shares to be purchased shall be paid in full in cash or such other method permitted by the Administrator consistent with Section 5.5.

5.1.2 Additional Rules Applicable to ISOs. To the extent that the aggregate fair market value (determined at the time of grant of the applicable option) of stock with respect to which ISOs first become exercisable by a participant in any calendar year exceeds \$100,000, taking into account both Common Stock subject to ISOs under this Plan and stock subject to ISOs under all other plans of the Corporation or one of its Subsidiaries (or any parent or predecessor corporation to the extent required by and within the meaning of Section 422 of the Code and the regulations promulgated thereunder), such options shall be treated as nonqualified stock options. In reducing the number of options treated as ISOs to meet the \$100,000 limit, the most recently granted options shall be reduced first. To the extent a reduction of simultaneously granted options is necessary to meet the \$100,000 limit, the Administrator may, in the manner and to the extent permitted by law, designate which shares of Common Stock are to be treated as shares acquired pursuant to the exercise of an ISO. ISOs may only be granted to employees of the Corporation or one of its subsidiaries (for this purpose, the term “subsidiary” is used as defined in Section 424(f) of the Code, which generally requires an unbroken chain of ownership of at least 50% of the total combined voting power of all classes of stock of each subsidiary in the chain beginning with the Corporation and ending with the subsidiary in question). There shall be imposed in any award agreement relating to ISOs such other terms and conditions as from time to time are required in order that the option be an “incentive stock option” as that term is defined in Section 422 of the Code. No ISO may be granted to any person who, at the time the option is granted, owns (or is deemed to own under Section 424(d) of the Code) shares of outstanding Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation, unless the exercise price of such option is at least 110% of the fair market value of the stock subject to the option and such option by its terms is not exercisable after the expiration of five years from the date such option is granted.

5.1.3 Stock Appreciation Rights. A stock appreciation right or “SAR” is a right to receive a payment, in cash and/or Common Stock, equal to the excess of the fair market value of a specified number of shares of Common Stock on the date the SAR is exercised over the fair market value of a share of Common Stock on the date the SAR was granted (the “base price”) as set forth in the applicable award agreement. The maximum term of an SAR shall be ten (10) years.

5.1.4 Other Awards. The other types of awards that may be granted under this Plan include: (a) stock bonuses, restricted stock, performance stock, stock units, phantom stock, dividend equivalents, or similar rights to purchase or acquire shares, whether at a fixed or variable price or ratio related to the Common Stock, upon the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or any combination thereof; (b) any similar securities with a value derived from the value of or related to the Common Stock and/or returns thereon; or (c) cash awards granted consistent with Section 5.2 below.

5.2 Section 162(m) Performance-Based Awards. Without limiting the generality of the foregoing, any of the types of awards listed in Section 5.1.4 above may be, and options and SARs granted with an exercise or base price not less than the fair market value of a share of Common Stock at the date of grant (“**Qualifying Options**” and “**Qualifying SARs**,” respectively) typically will be, granted as awards intended to satisfy the requirements for “performance-based compensation” within the meaning of Section 162(m) of the Code (“**Performance-Based Awards**”). The grant, vesting, exercisability or payment of Performance-Based Awards may depend (or, in the case of Qualifying Options or Qualifying SARs, may also depend) on the degree of achievement of one or more performance goals relative to a pre-established targeted level or level using one or more of the Business Criteria set forth below (on an absolute or relative basis) for the Corporation on a consolidated basis or for one or more of the Corporation’s subsidiaries, segments, divisions or business units, or any combination of the foregoing. Any Qualifying Option or Qualifying SAR shall be subject only to the requirements of Section 5.2.1 and 5.2.3 in order for such award to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Award. Any other Performance-Based Award shall be subject to all of the following provisions of this Section 5.2.

5.2.1 Class; Administrator. The eligible class of persons for Performance-Based Awards under this Section 5.2 shall be officers and employees of the Corporation or one of its Subsidiaries. The Administrator approving Performance-Based Awards or making any certification required pursuant to Section 5.2.4 must be constituted as provided in Section 3.1 for awards that are intended as performance-based compensation under Section 162(m) of the Code.

5.2.2 Performance Goals. The specific performance goals for Performance-Based Awards (other than Qualifying Options and Qualifying SARs) shall be, on an absolute or relative basis, established based on one or more of the following business criteria (“**Business Criteria**”) as selected by the Administrator in its sole discretion: earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), total stockholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity

or on assets or on net investment, cost containment or reduction, operating margin, or any combination thereof. These terms are used as applied under generally accepted accounting principles or in the financial reporting of the Corporation or of its Subsidiaries. To qualify awards as performance-based under Section 162(m), the applicable Business Criterion (or Business Criteria, as the case may be) and specific performance goal or goals (“targets”) must be established and approved by the Administrator during the first 90 days of the performance period (and, in the case of performance periods of less than one year, in no event after 25% or more of the performance period has elapsed) and while performance relating to such target(s) remains substantially uncertain within the meaning of Section 162(m) of the Code. Performance targets shall be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the targets were set unless the Administrator provides otherwise at the time of establishing the targets. The applicable performance measurement period may not be less than three months nor more than 10 years.

5.2.3 Form of Payment; Maximum Performance-Based Award. Grants or awards under this Section 5.2 may be paid in cash or shares of Common Stock or any combination thereof. Grants of Qualifying Options and Qualifying SARs to any one participant in any one calendar year shall be subject to the limit set forth in Section 4.2(b). The maximum number of shares of Common Stock which may be delivered pursuant to Performance-Based Awards (other than Qualifying Options and Qualifying SARs, and other than cash awards covered by the following sentence) that are granted to any one participant in any one calendar year shall not exceed 100,000 shares, either individually or in the aggregate, subject to adjustment as provided in Section 7.1. In addition, the aggregate amount of compensation to be paid to any one participant in respect of all Performance-Based Awards payable only in cash and not related to shares of Common Stock and granted to that participant in any one calendar year shall not exceed \$1,500,000. Awards that are cancelled during the year shall be counted against these limits to the extent permitted by Section 162(m) of the Code.

5.2.4 Certification of Payment. Before any Performance-Based Award under this Section 5.2 (other than Qualifying Options and Qualifying SARs) is paid and to the extent required to qualify the award as performance-based compensation within the meaning of Section 162(m) of the Code, the Administrator must certify in writing that the performance target(s) and any other material terms of the Performance-Based Award were in fact timely satisfied.

5.2.5 Reservation of Discretion. The Administrator will have the discretion to determine the restrictions or other limitations of the individual awards granted under this Section 5.2 including the authority to reduce awards, payouts or vesting or to pay no awards, in its sole discretion, if the Administrator preserves such authority at the time of grant by language to this effect in its authorizing resolutions or otherwise.

5.2.6 Expiration of Grant Authority. As required pursuant to Section 162(m) of the Code and the regulations promulgated thereunder, the Administrator’s

authority to grant new awards that are intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code (other than Qualifying Options and Qualifying SARs) shall terminate upon the first meeting of the Corporation's stockholders that occurs in the fifth year following the year in which the Corporation's stockholders first approve this Plan.

- 5.3 *Award Agreements.*** Each award shall be evidenced by a written award agreement in the form approved by the Administrator and executed on behalf of the Corporation and, if required by the Administrator, executed by the recipient of the award. The Administrator may authorize any officer of the Corporation (other than the particular award recipient) to execute any or all award agreements on behalf of the Corporation. The award agreement shall set forth the material terms and conditions of the award as established by the Administrator consistent with the express limitations of this Plan.
- 5.4 *Deferrals and Settlements.*** Payment of awards may be in the form of cash, Common Stock, other awards or combinations thereof as the Administrator shall determine, and with such restrictions as it may impose. The Administrator may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under this Plan. The Administrator may also provide that deferred settlements include the payment or crediting of interest or other earnings on the deferral amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares.
- 5.5 *Consideration for Common Stock or Awards.*** The purchase price for any award granted under this Plan or the Common Stock to be delivered pursuant to an award, as applicable, may be paid by means of any lawful consideration as determined by the Administrator, including, without limitation, one or a combination of the following methods:
- services rendered by the recipient of such award;
 - cash, check payable to the order of the Corporation, or electronic funds transfer;
 - notice and third party payment in such manner as may be authorized by the Administrator;
 - the delivery of previously owned shares of Common Stock;
 - by a reduction in the number of shares otherwise deliverable pursuant to the award; or
 - subject to such procedures as the Administrator may adopt, pursuant to a "cashless exercise" with a third party who provides financing for the purposes of (or who otherwise facilitates) the purchase or exercise of awards.

In no event shall any shares newly-issued by the Corporation be issued for less than the minimum lawful consideration for such shares or for consideration other than consideration permitted by applicable state law. In the event that the Administrator allows a participant to exercise an award by delivering shares of Common Stock previously owned by such participant and unless otherwise expressly provided by the Administrator, any shares delivered which were initially acquired by the participant from the Corporation (upon exercise of a stock option or otherwise) must have been owned by the participant at least six months as of the date of delivery. Shares of Common Stock used to satisfy the exercise price of an option shall be valued at their fair market value on the date of exercise. The Corporation will not be obligated to deliver any shares unless and until it receives full payment of the exercise or purchase price therefor and any related withholding obligations under Section 8.5 and any other conditions to exercise or purchase have been satisfied. Unless otherwise expressly provided in the applicable award agreement, the Administrator may at any time eliminate or limit a participant's ability to pay the purchase or exercise price of any award or shares by any method other than cash payment to the Corporation.

5.6 *Definition of Fair Market Value.* For purposes of this Plan, "fair market value" shall mean, unless otherwise determined or provided by the Administrator in the circumstances, the last price for a share of Common Stock as furnished by the National Association of Securities Dealers, Inc. (the "NASD") through the NASDAQ National Market Reporting System (the "National Market") for the date in question or, if no sales of Common Stock were reported by the NASD on the National Market on that date, the last price for a share of Common Stock as furnished by the NASD through the National Market for the next preceding day on which sales of Common Stock were reported by the NASD. The Administrator may, however, provide with respect to one or more awards that the fair market value shall equal the last price for a share of Common Stock as furnished by the NASD through the National Market available on the date in question or the average of the high and low trading prices of a share of Common Stock as furnished by the NASD through the National Market for the date in question or the most recent trading day. If the Common Stock is no longer listed or is no longer actively traded on the National Market as of the applicable date, the fair market value of the Common Stock shall be the value as reasonably determined by the Administrator for purposes of the award in the circumstances. The Administrator also may adopt a different methodology for determining fair market value with respect to one or more awards if a different methodology is necessary or advisable to secure any intended favorable tax, legal or other treatment for the particular award(s) (for example, and without limitation, the Administrator may provide that fair market value for purposes of one or more awards will be based on an average of closing prices (or the average of high and low daily trading prices) for a specified period preceding the relevant date).

5.7 *Transfer Restrictions.*

5.7.1 *Limitations on Exercise and Transfer.* Unless otherwise expressly provided in (or pursuant to) this Section 5.7, by applicable law and by the award agreement, as the same may be amended, (a) all awards are non-transferable and

shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (b) awards shall be exercised only by the participant; and (c) amounts payable or shares issuable pursuant to any award shall be delivered only to (or for the account of) the participant.

5.7.2 Exceptions. The Administrator may permit awards to be exercised by and paid to, or otherwise transferred to, other persons or entities pursuant to such conditions and procedures, including limitations on subsequent transfers, as the Administrator may, in its sole discretion, establish in writing. Any permitted transfer shall be subject to compliance with applicable federal and state securities laws.

5.7.3 Further Exceptions to Limits on Transfer. The exercise and transfer restrictions in Section 5.7.1 shall not apply to:

- (a) transfers to the Corporation,
- (b) the designation of a beneficiary to receive benefits in the event of the participant's death or, if the participant has died, transfers to or exercise by the participant's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution,
- (c) subject to any applicable limitations on ISOs, transfers to a family member (or former family member) pursuant to a domestic relations order if approved or ratified by the Administrator,
- (d) if the participant has suffered a disability, permitted transfers or exercises on behalf of the participant by his or her legal representative, or
- (e) the authorization by the Administrator of "cashless exercise" procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of awards consistent with applicable laws and the express authorization of the Administrator.

5.8 International Awards. One or more awards may be granted to Eligible Persons who provide services to the Corporation or one of its Subsidiaries outside of the United States. Any awards granted to such persons may be granted pursuant to the terms and conditions of any applicable sub-plans, if any, appended to this Plan and approved by the Administrator.

6. EFFECT OF TERMINATION OF SERVICE ON AWARDS

6.1 General. The Administrator shall establish the effect of a termination of employment or service on the rights and benefits under each award under this Plan and in so doing may make distinctions based upon, inter alia, the cause of termination and type of award. If the participant is not an employee of the Corporation or one of its Subsidiaries and provides other services to the Corporation or one of its Subsidiaries, the Administrator shall be the sole judge for purposes of this Plan (unless a contract or the award otherwise provides) of whether the participant continues to render services to the Corporation or one of its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

6.2 *Events Not Deemed Terminations of Service* Unless the express policy of the Corporation or one of its Subsidiaries, or the Administrator, otherwise provides, the employment relationship shall not be considered terminated in the case of (a) sick leave, (b) military leave, or (c) any other leave of absence authorized by the Corporation or one of its Subsidiaries, or the Administrator; provided that unless reemployment upon the expiration of such leave is guaranteed by contract or law, such leave is for a period of not more than 90 days. In the case of any employee of the Corporation or one of its Subsidiaries on an approved leave of absence, continued vesting of the award while on leave from the employ of the Corporation or one of its Subsidiaries may be suspended until the employee returns to service, unless the Administrator otherwise provides or applicable law otherwise requires. In no event shall an award be exercised after the expiration of the term set forth in the award agreement.

6.3 *Effect of Change of Subsidiary Status.* For purposes of this Plan and any award, if an entity ceases to be a Subsidiary of the Corporation a termination of employment or service shall be deemed to have occurred with respect to each Eligible Person in respect of such Subsidiary who does not continue as an Eligible Person in respect of another entity within the Corporation or another Subsidiary that continues as such after giving effect to the transaction or other event giving rise to the change in status.

7. ADJUSTMENTS; ACCELERATION

7.1 *Adjustments.* Upon or in contemplation of: any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split ("stock split"); any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock (whether in the form of securities or property); any exchange of Common Stock or other securities of the Corporation, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; or a sale of all or substantially all the business or assets of the Corporation as an entirety; then the Administrator shall, in such manner, to such extent (if any) and at such time as it deems appropriate and equitable in the circumstances:

- (a) proportionately adjust any or all of (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any or all outstanding awards, (3) the grant, purchase, or exercise price (which term includes the base price of any SAR or similar right) of any or all outstanding awards, (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding awards, or (5) (subject to Sections 7.8 and 8.8.3(a)) the performance standards applicable to any outstanding awards, or

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- (b) make provision for a cash payment or for the assumption, substitution or exchange of any or all outstanding share-based awards or the cash, securities or property deliverable to the holder of any or all outstanding share-based awards, based upon the distribution or consideration payable to holders of the Common Stock upon or in respect of such event.

The Administrator may adopt such valuation methodologies for outstanding awards as it deems reasonable in the event of a cash or property settlement and, in the case of options, SARs or similar rights, but without limitation on other methodologies, may base such settlement solely upon the excess if any of the per share amount payable upon or in respect of such event over the exercise or base price of the award. With respect to any award of an ISO, the Administrator may make such an adjustment that causes the option to cease to qualify as an ISO without the consent of the affected participant.

In any of such events, the Administrator may take such action prior to such event to the extent that the Administrator deems the action necessary to permit the participant to realize the benefits intended to be conveyed with respect to the underlying shares in the same manner as is or will be available to stockholders generally. In the case of any stock split or reverse stock split, if no action is taken by the Administrator, the proportionate adjustments contemplated by clause (a) above shall nevertheless be made.

- 7.2 Automatic Acceleration of Awards.** Upon a dissolution of the Corporation or other event described in Section 7.1 that the Corporation does not survive (or does not survive as a public company in respect of its Common Stock), then each then-outstanding option and SAR shall become fully vested, all shares of restricted stock then outstanding shall fully vest free of restrictions, and each other award granted under this Plan that is then outstanding shall become payable to the holder of such award; provided that such acceleration provision shall not apply, unless otherwise expressly provided by the Administrator, with respect to any award to the extent that the Administrator has made a provision for the substitution, assumption, exchange or other continuation or settlement of the award, or the award would otherwise continue in accordance with its terms, in the circumstances.
- 7.3 Possible Acceleration of Awards.** Without limiting Section 7.2, in the event of a Change in Control Event (as defined below), the Administrator may, in its discretion, provide that any outstanding option or SAR shall become fully vested, that any share of restricted stock then outstanding shall fully vest free of restrictions, and that any other award granted under this Plan that is then outstanding shall be payable to the holder of such award. The Administrator may take such action with respect to all awards then outstanding or only with respect to certain specific awards identified by the Administrator in the circumstances. For purposes of this Plan, “**Change in Control Event**” means any of the following:

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- (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a **“Person”**)) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 30% or more of either (1) the then-outstanding shares of common stock of the Corporation (the **“Outstanding Company Common Stock”**) or (2) the combined voting power of the then-outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the **“Outstanding Company Voting Securities”**); provided, however, that, for purposes of this definition, the following acquisitions shall not constitute a Change in Control Event; (A) any acquisition directly from the Corporation, (B) any acquisition by the Corporation, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any affiliate of the Corporation or a successor, or (D) any acquisition by any entity pursuant to a transaction that complies with Sections (c) (1), (2) and (3) below;
- (b) Individuals who, as of the Effective Date, constitute the Board (the **“Incumbent Board”**) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Corporation’s stockholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board (including for these purposes, the new members whose election or nomination was so approved, without counting the member and his predecessor twice) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;
- (c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Corporation or any of its Subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its Subsidiaries (each, a **“Business Combination”**), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Corporation or all or substantially all of the Corporation’s assets directly or through one or more subsidiaries (a **“Parent”**)) in substantially the same proportions as

their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent or any employee benefit plan (or related trust) of the Corporation or such entity resulting from such Business Combination or Parent) beneficially owns, directly or indirectly, more than 30% of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of more than 30% existed prior to the Business Combination, and (3) at least a majority of the members of the board of directors or trustees of the entity resulting from such Business Combination or a Parent were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

- (d) Approval by the stockholders of the Corporation of a complete liquidation or dissolution of the Corporation other than in the context of a transaction that does not constitute a Change in Control Event under clause (c) above.

7.4 Early Termination of Awards. Any award that has been accelerated as required or contemplated by Section 7.2 or 7.3 (or would have been so accelerated but for Section 7.5, 7.6 or 7.7) shall terminate upon the related event referred to in Section 7.2 or 7.3, as applicable, subject to any provision that has been expressly made by the Administrator, through a plan of reorganization or otherwise, for the survival, substitution, assumption, exchange or other continuation or settlement of such award and provided that, in the case of options and SARs that will not survive, be substituted for, assumed, exchanged, or otherwise continued or settled in the transaction, the holder of such award shall be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise his or her outstanding options and SARs in accordance with their terms before the termination of such awards (except that in no case shall more than ten days' notice of accelerated vesting and the impending termination be required and any acceleration may be made contingent upon the actual occurrence of the event).

7.5 Other Acceleration Rules. Any acceleration of awards pursuant to this Section 7 shall comply with applicable legal requirements and, if necessary to accomplish the purposes of the acceleration or if the circumstances require, may be deemed by the Administrator to occur a limited period of time not greater than 30 days before the event. Without limiting the generality of the foregoing, the Administrator may deem an acceleration to occur immediately prior to the applicable event and/or reinstate the original terms of an award if an event giving rise to an acceleration does not occur. The Administrator may override the provisions of Section 7.2, 7.3, 7.4 and/or 7.6 by express provision in the award agreement and may accord any Eligible Person a right to refuse any acceleration, whether pursuant to the award agreement or otherwise, in such circumstances as the Administrator may approve. The portion of any ISO accelerated in connection with a Change in Control Event or any other action permitted hereunder shall remain exercisable as an ISO only to the extent the applicable

\$100,000 limitation on ISOs is not exceeded. To the extent exceeded, the accelerated portion of the option shall be exercisable as a nonqualified stock option under the Code.

- 7.6 Possible Rescission of Acceleration.** If the vesting of an award has been accelerated expressly in anticipation of an event or upon stockholder approval of an event and the Administrator later determines that the event will not occur, the Administrator may rescind the effect of the acceleration as to any then outstanding and unexercised or otherwise unvested awards.
- 7.7 Golden Parachute Limitation.** Notwithstanding anything else contained in this Section 7 to the contrary, in no event shall an award be accelerated under this Plan to an extent or in a manner which would not be fully deductible by the Corporation or one of its Subsidiaries for federal income tax purposes because of Section 280G of the Code, nor shall any payment hereunder be accelerated to the extent any portion of such accelerated payment would not be deductible by the Corporation or one of its Subsidiaries because of Section 280G of the Code. If a participant would be entitled to benefits or payments hereunder and under any other plan or program that would constitute “parachute payments” as defined in Section 280G of the Code, then the participant may by written notice to the Corporation designate the order in which such parachute payments will be reduced or modified so that the Corporation or one of its Subsidiaries is not denied federal income tax deductions for any “parachute payments” because of Section 280G of the Code. Notwithstanding the foregoing, if a participant is a party to an employment or other agreement with the Corporation or one of its Subsidiaries, or is a participant in a severance program sponsored by the Corporation or one of its Subsidiaries, that contains express provisions regarding Section 280G and/or Section 4999 of the Code (or any similar successor provision), the Section 280G and/or Section 4999 provisions of such employment or other agreement or plan, as applicable, shall control as to any awards held by that participant (for example, and without limitation, a participant may be a party to an employment agreement with the Corporation or one of its Subsidiaries that provides for a “gross-up” as opposed to a “cut-back” in the event that the Section 280G thresholds are reached or exceeded in connection with a change in control and, in such event, the Section 280G and/or Section 4999 provisions of such employment agreement shall control as to any awards held by that participant).

8. OTHER PROVISIONS

- 8.1 Compliance with Laws.** This Plan, the granting and vesting of awards under this Plan, the offer, issuance and delivery of shares of Common Stock, the acceptance of promissory notes and/or the payment of money under this Plan or under awards are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law, federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Corporation, be necessary or advisable in connection therewith. The person acquiring any securities under this Plan will, if requested by the Corporation or one of its Subsidiaries, provide such assurances and representations to the Corporation or one of its Subsidiaries as the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements.

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- 8.2 Employment Status.** No person shall have any claim or rights to be granted an award (or additional awards, as the case may be) under this Plan, subject to any express contractual rights (set forth in a document other than this Plan) to the contrary.
- 8.3 No Employment/Service Contract.** Nothing contained in this Plan (or in any other documents under this Plan or in any award) shall confer upon any Eligible Person or other participant any right to continue in the employ or other service of the Corporation or one of its Subsidiaries, constitute any contract or agreement of employment or other service or affect an employee's status as an employee at will, nor shall interfere in any way with the right of the Corporation or one of its Subsidiaries to change a person's compensation or other benefits, or to terminate his or her employment or other service, with or without cause. Nothing in this Section 8.3, however, is intended to adversely affect any express independent right of such person under a separate employment or service contract other than an award agreement.
- 8.4 Plan Not Funded.** Awards payable under this Plan shall be payable in shares or from the general assets of the Corporation, and no special or separate reserve, fund or deposit shall be made to assure payment of such awards. No participant, beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly otherwise provided) of the Corporation or one of its Subsidiaries by reason of any award hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Corporation or one of its Subsidiaries and any participant, beneficiary or other person. To the extent that a participant, beneficiary or other person acquires a right to receive payment pursuant to any award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Corporation.
- 8.5 Tax Withholding.** Upon any exercise, vesting, or payment of any award or upon the disposition of shares of Common Stock acquired pursuant to the exercise of an ISO prior to satisfaction of the holding period requirements of Section 422 of the Code, the Corporation or one of its Subsidiaries shall have the right at its option to:
- (a) require the participant (or the participant's personal representative or beneficiary, as the case may be) to pay or provide for payment of at least the minimum amount of any taxes which the Corporation or one of its Subsidiaries may be required to withhold with respect to such award event or payment; or
 - (b) deduct from any amount otherwise payable in cash to the participant (or the participant's personal representative or beneficiary, as the case may

be) the minimum amount of any taxes which the Corporation or one of its Subsidiaries may be required to withhold with respect to such cash payment.

In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Plan, the Administrator may in its sole discretion (subject to Section 8.1) grant (either at the time of the award or thereafter) to the participant the right to elect, pursuant to such rules and subject to such conditions as the Administrator may establish, to have the Corporation reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of shares, valued in a consistent manner at their fair market value or at the sales price in accordance with authorized procedures for cashless exercises, necessary to satisfy the minimum applicable withholding obligation on exercise, vesting or payment. In no event shall the shares withheld exceed the minimum whole number of shares required for tax withholding under applicable law. The Corporation may, with the Administrator's approval, accept one or more promissory notes from any Eligible Person in connection with taxes required to be withheld upon the exercise, vesting or payment of any award under this Plan; provided that any such note shall be subject to terms and conditions established by the Administrator and the requirements of applicable law.

8.6 *Effective Date, Termination and Suspension, Amendments.*

8.6.1 *Effective Date.* This Plan is effective as of April 13, 2004, the date of its approval by the Board (the **Effective Date**). This Plan shall be submitted for and subject to stockholder approval no later than twelve months after the Effective Date. Unless earlier terminated by the Board, this Plan shall terminate at the close of business on the day before the tenth anniversary of the Effective Date. After the termination of this Plan either upon such stated expiration date or its earlier termination by the Board, no additional awards may be granted under this Plan, but previously granted awards (and the authority of the Administrator with respect thereto, including the authority to amend such awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of this Plan.

8.6.2 *Board Authorization.* The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. No awards may be granted during any period that the Board suspends this Plan.

8.6.3 *Stockholder Approval.* To the extent then required by applicable law or any applicable listing agency or required under Sections 162, 422 or 424 of the Code to preserve the intended tax consequences of this Plan, or deemed necessary or advisable by the Board, any amendment to this Plan shall be subject to stockholder approval.

8.6.4 *Amendments to Awards.* Without limiting any other express authority of the Administrator under (but subject to) the express limits of this Plan, the Administrator by agreement or resolution may waive conditions of or limitations on awards to participants that the Administrator in the prior exercise of its

discretion has imposed, without the consent of a participant, and (subject to the requirements of Sections 3.2 and 8.6.5) may make other changes to the terms and conditions of awards. Any amendment or other action that would constitute a repricing of an award is subject to the limitations set forth in Section 3.2(g).

8.6.5 Limitations on Amendments to Plan and Awards. No amendment, suspension or termination of this Plan or change of or affecting any outstanding award shall, without written consent of the participant, affect in any manner materially adverse to the participant any rights or benefits of the participant or obligations of the Corporation under any award granted under this Plan prior to the effective date of such change. Changes, settlements and other actions contemplated by Section 7 shall not be deemed to constitute changes or amendments for purposes of this Section 8.6.

8.7 Privileges of Stock Ownership. Except as otherwise expressly authorized by the Administrator or this Plan, a participant shall not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the participant. No adjustment will be made for dividends or other rights as a stockholder for which a record date is prior to such date of delivery.

8.8 Governing Law; Construction; Severability.

8.8.1 Choice of Law. This Plan, the awards, all documents evidencing awards and all other related documents shall be governed by, and construed in accordance with the laws of the State of Delaware.

8.8.2 Severability. If a court of competent jurisdiction holds any provision invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

8.8.3 Plan Construction.

- (a) Rule 16b-3. It is the intent of the Corporation that the awards and transactions permitted by awards be interpreted in a manner that, in the case of participants who are or may be subject to Section 16 of the Exchange Act, qualify, to the maximum extent compatible with the express terms of the award, for exemption from matching liability under Rule 16b-3 promulgated under the Exchange Act. Notwithstanding the foregoing, the Corporation shall have no liability to any participant for Section 16 consequences of awards or events under awards if an award or event does not so qualify.
- (b) Section 162(m). Awards under Section 5.1.4 to persons described in Section 5.2 that are either granted or become vested, exercisable or payable based on attainment of one or more performance goals related to the Business Criteria, as well as Qualifying Options and Qualifying SARs granted to persons described in Section 5.2, that are approved by a committee composed solely of two or more outside directors (as this requirement is applied under Section

162(m) of the Code) shall be deemed to be intended as performance-based compensation within the meaning of Section 162(m) of the Code unless such committee provides otherwise at the time of grant of the award. It is the further intent of the Corporation that (to the extent the Corporation or one of its Subsidiaries or awards under this Plan may be or become subject to limitations on deductibility under Section 162(m) of the Code) any such awards and any other Performance-Based Awards under Section 5.2 that are granted to or held by a person subject to Section 162(m) will qualify as performance-based compensation or otherwise be exempt from deductibility limitations under Section 162(m).

- 8.9 Captions.** Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.
- 8.10 Stock-Based Awards in Substitution for Stock Options or Awards Granted by Other Corporation.** Awards may be granted to Eligible Persons in substitution for or in connection with an assumption of employee stock options, SARs, restricted stock or other stock-based awards granted by other entities to persons who are or who will become Eligible Persons in respect of the Corporation or one of its Subsidiaries, in connection with a distribution, merger or other reorganization by or with the granting entity or an affiliated entity, or the acquisition by the Corporation or one of its Subsidiaries, directly or indirectly, of all or a substantial part of the stock or assets of the employing entity. The awards so granted need not comply with other specific terms of this Plan, provided the awards reflect only adjustments giving effect to the assumption or substitution consistent with the conversion applicable to the Common Stock in the transaction and any change in the issuer of the security. Any shares that are delivered and any awards that are granted by, or become obligations of, the Corporation, as a result of the assumption by the Corporation of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Corporation or one of its Subsidiaries in connection with a business or asset acquisition or similar transaction) shall not be counted against the Share Limit or other limits on the number of shares available for issuance under this Plan.
- 8.11 Non-Exclusivity of Plan.** Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Administrator to grant awards or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority.
- 8.12 No Corporate Action Restriction.** The existence of this Plan, the award agreements and the awards granted hereunder shall not limit, affect or restrict in any way the right or power of the Board or the stockholders of the Corporation to make or authorize: (a) any adjustment, recapitalization, reorganization or other

change in the capital structure or business of the Corporation or any Subsidiary, (b) any merger, amalgamation, consolidation or change in the ownership of the Corporation or any Subsidiary, (c) any issue of bonds, debentures, capital, preferred or prior preference stock ahead of or affecting the capital stock (or the rights thereof) of the Corporation or any Subsidiary, (d) any dissolution or liquidation of the Corporation or any Subsidiary, (e) any sale or transfer of all or any part of the assets or business of the Corporation or any Subsidiary, or (f) any other corporate act or proceeding by the Corporation or any Subsidiary. No participant, beneficiary or any other person shall have any claim under any award or award agreement against any member of the Board or the Administrator, or the Corporation or any employees, officers or agents of the Corporation or any Subsidiary, as a result of any such action.

8.13 Other Company Benefit and Compensation Programs. Payments and other benefits received by a participant under an award made pursuant to this Plan shall not be deemed a part of a participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Corporation or any Subsidiary, except where the Administrator expressly otherwise provides or authorizes in writing. Awards under this Plan may be made in addition to, in combination with, as alternatives to or in payment of grants, awards or commitments under any other plans or arrangements of the Corporation or its Subsidiaries.

RED ROBIN GOURMET BURGERS, INC. (PARENT COMPANY)

1. Red Robin International, Inc.
2. Red Robin West, Inc.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-100458 of Red Robin Gourmet Burgers, Inc. (the "Company") on Form S-8 of our reports dated April 6, 2005, relating to the consolidated financial statements of the Company (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement discussed in Note 3), and management's report on the effectiveness of internal control over financial reporting (which report expresses an unqualified opinion on management's assessment of the effectiveness of the Company's control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of a material weakness), appearing in this Annual Report on Form 10-K of Red Robin Gourmet Burgers, Inc. for the year ended December 26, 2004.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado
April 6, 2005

CEO CERTIFICATION

I, Michael J. Snyder, certify that:

1. I have reviewed this annual report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls 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
 - (d) 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.

April 6, 2005

/s/ Michael J. Snyder

(Date)

Michael J. Snyder
Chief Executive Officer

CFO CERTIFICATION

I, James P. McCloskey, certify that:

1. I have reviewed this annual report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls 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
 - (d) 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.

April 6, 2005

(Date)

/s/ James P. McCloskey

James P. McCloskey
Chief Financial Officer

**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, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the annual report on Form 10-K for the period ended December 26, 2004 of the Company (the "Periodic Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 6, 2005

/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.