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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For The Quarterly Period Ended April 18, 2004

OR

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

For The Transition Period From ______ To ______

Commission file number 0-49916

RED ROBIN GOURMET BURGERS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1573084**

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

(303) 846-6000

(Registrant s telephone number, including area code)

____

(Former name, former address and former fiscal year, if changed since last report)

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

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

As of May 18, 2004, there were 16,020,942 outstanding shares of the registrant s common stock.

Explanatory Note

The purpose of this amendment on Form 10-Q/A to the Quarterly Report on Form 10-Q of Red Robin Gourmet Burgers, Inc. for the period ended April 18, 2004 is to restate our condensed consolidated financial statements as of April 18, 2004 and for the sixteen weeks ended April 18, 2004 and April 20, 2003, and related disclosures, as described in Note 2 to the condensed consolidated financial statements. Additional information about the decision to restate these financial statements can be found in our Current Report on Form 8-K, filed with the Securities and Exchange Commission (SEC) on March 1, 2005.

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

Part I - Item 1 - Financial Statements

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

Part I - Item 4 - Controls and Procedures

RED ROBIN GOURMET BURGERS, INC.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

RED ROBIN GOURMET BURGERS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share amounts)

(unaudited)

	April 18, 2004 (As Restated, See Note 2)	December 28, 2003
Assets:		
Current Assets:		
Cash and cash equivalents	$ 4,670	$ 4,871
Accounts receivable, net	1,373	1,146
Inventories	4,592	4,357
Prepaid expenses and other current assets	2,259	3,977
Income tax refund receivable		1,172
Deferred tax asset	757	757
Restricted current assets marketing funds	1,340	959
Total current assets	14,991	17,239
Property and equipment, at cost, net	170,178	154,410
Deferred tax asset	6,013	5,848
Goodwill, net	25,720	25,720
Other intangible assets, net	7,956	8,118
Other assets, net	2,823	3,047
Total assets	$ 227,681	$ 214,382
Liabilities and Stockholders Equity:		
Current Liabilities:		
Trade accounts payable	$ 10,756	$ 9,139
Accrued payroll and payroll related liabilities	12,817	12,161
Unredeemed gift certificates	2,590	3,997
Accrued liabilities	8,286	5,913
Accrued liabilities marketing funds	1,340	959
Current portion of long-term debt and capital lease obligations	1,473	1,422
Total current liabilities	37,262	33,591
Deferred rent payable	12,424	10,655
Long-term debt and capital lease obligations	38,681	36,206

Other non-current liabilities	1,247	1,544
Commitments and contingencies		
Stockholders Equity:		
Common stock; $.001 par value: 30,000,000 shares authorized; 16,020,942 and 15,969,723 shares issued and outstanding as of April 18, 2004 and December 28, 2003, respectively	16	16
Preferred stock; $.001 par value: 3,000,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	122,961	122,184
Deferred stock compensation	(110)	(130)
Receivables from stockholders/officers	(6,463)	(6,432)
Accumulated other comprehensive loss, net of tax benefit	(103)	(108)
Retained earnings	21,766	16,856
Total stockholders equity	138,067	132,386
Total liabilities and stockholders equity	$ 227,681	$ 214,382

See Notes to Condensed Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC.

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Sixteen Weeks Ended	
	April 18, 2004	April 20, 2003
	(As Restated, See Note 2)	(As Restated, See Note 2)
Revenues:		
Restaurant	$ 113,283	$ 90,217
Franchise royalties and fees	3,310	2,586
Rent revenue	136	89
Total revenues	116,729	92,892
Costs and expenses:		
Restaurant operating costs:		
Cost of sales	26,793	21,019
Labor	40,111	31,849
Operating	16,532	13,967
Occupancy	7,281	6,207
Depreciation and amortization	5,898	4,633
General and administrative	8,167	6,898
Franchise development	2,325	1,397
Pre-opening costs	1,448	997
Total costs and expenses	108,555	86,967
Income from operations	8,174	5,925
Other (income) expense:		
Interest expense	832	939
Interest income	(99)	(96)
Other	38	(19)
Total other expenses	771	824
Income before income taxes	7,403	5,101
Provision for income taxes	2,493	1,684
Net income	$ 4,910	$ 3,417
Earnings per share:		
Basic	$ 0.31	$ 0.23
Diluted	$ 0.30	$ 0.22

Weighted average shares outstanding:		
Basic	15,968	15,024
Diluted	16,299	15,226

See Notes to Condensed Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Sixteen Weeks Ended	
	April 18, 2004 (As Restated, See Note 2)	April 20, 2003 (As Restated, See Note 2)
Cash Flows From Operating Activities:		
Net income	$ 4,910	$ 3,417
Non-cash adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,898	4,633
Other, net	249	56
Changes in operating assets and liabilities	5,748	3,846
Net cash flows provided by operating activities	16,805	11,952
Cash Flows From Investing Activities:		
Proceeds from sales of real estate, property and equipment	2	9
Purchases of property and equipment	(20,063)	(13,538)
Net cash flows used in investing activities	(20,061)	(13,529)
Cash Flows From Financing Activities:		
Borrowings of long-term debt	5,983	8,454
Payments of long-term debt and capital leases	(3,457)	(6,671)
Proceeds from repayment of promissory notes	51	
Proceeds from sales of common stock	478	246
Net cash flows provided by financing activities	3,055	2,029
Net (decrease) increase in cash and cash equivalents	(201)	452
Cash and cash equivalents, beginning of period	4,871	4,797
Cash and cash equivalents, end of period	$ 4,670	$ 5,249
Supplemental Disclosure of Cash Flow Information:		
Income taxes paid	$ 484	$ 421
Interest paid, net of amounts capitalized	744	884
Capital lease obligations incurred for real estate and equipment purchases		105
Tenant improvement allowance paid directly by landlord to general contractor	1,383	

See Notes to Condensed Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC.

Condensed Consolidated Statements of Stockholders Equity

(In thousands)

(Unaudited)

	Common Stock							
	Shares	**Amount**	**Additional Paid-in Capital**	**Deferred Compensation**	**Receivables From Stockholders/ Officers**	**Accumulated Other Comprehensive Loss, net of tax**	**Retained Earnings**	**Total**
Balance, December 28, 2003	15,970	$ 16	$ 122,184	$ (130)	$ (6,432)	$ (108)	$ 16,856	$ 132,386
Amortization of deferred compensation				20				20
Interest on notes from stockholders/officers					(95)			(95)
Repayment of stockholders/ officers notes and related interest					64			64
Options exercised for common stock	43		344					344
Tax benefit on exercise of stock options			298					298
Common stock issued through employee stock purchase plan	8		135					135
Net income (As Restated, See Note 2)							4,910	4,910
Unrealized gain on cash flow hedge						5		5
Comprehensive income (As Restated, See Note 2)								4,915
Balance, April 18, 2004 (As Restated, See Note 2)	16,021	$ 16	$ 122,961	$ (110)	$ (6,463)	$ (103)	$ 21,766	$ 138,067

See Notes to Condensed Consolidated Financial Statements.

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description Of Business And Basis Of Presentation

Red Robin Gourmet Burgers, Inc. and its subsidiaries (Red Robin or the Company), is a casual dining restaurant chain, which as of April 18, 2004 operated 122 company-owned restaurants located in 15 states from facilities that are owned or leased. The Company also sells franchises and receives royalties from the operation of franchised Red Robin® restaurants. As of April 18, 2004, there were 110 additional restaurants operating under franchise or license agreements in 22 states and two Canadian provinces. Red Robin also owns and leases to third parties certain land, buildings and equipment.

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

The Company s quarter which ended April 18, 2004 is referred to as first quarter 2004 or the sixteen weeks ended April 18, 2004, and its quarter which ended April 20, 2003 is referred to as first quarter 2003 or the sixteen weeks ended April 20, 2003. For fiscal year 2004 and 2003, the first quarters included 16 weeks and the second, third and fourth quarters will each include 12 weeks.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates included in the preparation of the financial statements pertain to franchise receivables, allowances for doubtful accounts, fixed asset lives, valuation of long-lived assets, impairment of goodwill and other intangible assets, income taxes and self-insurance and workers compensation reserves. Actual results could differ from those estimates.

2. Restatement of Previously Issued Financial Statements

On February 7, 2005, the Office of the Chief Accountant of the Securities and Exchange Commission (SEC) issued a letter to the American Institute of Certified Public Accountants expressing its views regarding certain operating lease-related accounting issues and their application under GAAP. In light of this letter, the Company s management initiated a review of its lease accounting and determined that its previous methods of accounting for rent holidays and for leasehold improvements funded by landlord incentives or allowances under operating leases (tenant improvement allowances) were not in accordance with GAAP. As a result, the accompanying condensed consolidated financial statements as of April 18, 2004 and for the sixteen weeks ended April 18, 2004 and April 20, 2003 (financial statements) have been restated from the amounts previously reported.

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

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amortization of those tenant improvement allowances as a reduction of depreciation and amortization expense in its consolidated statements of income over the period that began when the allowances were received and ended at the end of the related lease term.

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

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

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

Finally, the Company s restated financial statements for the sixteen weeks ended April 18, 2004, include immaterial adjustments to increase depreciation and amortization expense and decrease property and equipment, net to correct errors for previously unrecorded depreciation that were identified by management during the fourth quarter of 2004.

The cumulative effect of this restatement resulted in a decrease in retained earnings of $1.5 million as of April 18, 2004, and decreases in net income of $259,000 and $114,000 for the sixteen weeks ended April 18, 2004 and April 20, 2003, respectively.

Following is a summary of the significant effects of the restatement on the Company s condensed consolidated balance sheet as of April 18, 2004 as well as the effects of these changes on the Company s condensed consolidated statements of income for the sixteen weeks ended April 18, 2004 and April 20, 2003 (in thousands, except per share data):

	Condensed Consolidated Balance Sheets		
	As	Adjustments	As

	Previously Reported		Restated
April 18, 2004			
Current deferred tax asset	$ 1,075	$ (318)	$ 757
Property and equipment, net	165,700	4,478	170,178
Non-current deferred tax asset	4,706	1,307	6,013
Total assets	222,214	5,467	227,681
Accrued payroll and payroll related liabilities	14,064	(1,247)	12,817
Accrued liabilities	8,250	36	8,286
Deferred rent payable	5,479	6,945	12,424
Other non-current liabilities		1,247	1,247
Retained earnings	23,280	(1,514)	21,766
Total stockholders equity	139,581	(1,514)	138,067
Total liabilities and stockholders equity	$ 222,214	$ 5,467	$ 227,681

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Condensed Consolidated Statements of Income		
	As Previously Reported	Adjustments	As Restated
Sixteen Weeks Ended April 18, 2004			
Cost of sales	$ 26,831	$ (38)	$ 26,793
Occupancy	7,346	(65)	7,281
Depreciation and amortization	5,693	205	5,898
General and administrative	8,063	104	8,167
Pre-opening costs	1,225	223	1,448
Income from operations	8,603	(429)	8,174
Income before income taxes	7,832	(429)	7,403
Provision for income taxes	2,663	(170)	2,493
Net income	$ 5,169	$ (259)	$ 4,910
Earnings per share Basic	$ 0.32	$ (0.01)	$ 0.31
Earnings per share Diluted	$ 0.32	$ (0.02)	$ 0.30
Sixteen Weeks Ended April 20, 2003			
Cost of sales	$ 21,051	$ (32)	$ 21,019
Occupancy	6,268	(61)	6,207
Depreciation and amortization	4,560	73	4,633
General and administrative	6,905	(7)	6,898
Pre-opening costs	785	212	997
Income from operations	6,110	(185)	5,925
Income before income taxes	5,286	(185)	5,101
Provision for income taxes	1,755	(71)	1,684
Net income	$ 3,531	$ (114)	$ 3,417
Earnings per share Basic	$ 0.24	$ (0.01)	$ 0.23
Earnings per share Diluted	$ 0.23	$ (0.01)	$ 0.22

3. Stock Based Compensation

Employee Stock Purchase Plan The Company maintains an Employee Stock Purchase Plan (2002 ESPP) under which eligible employees may voluntarily contribute up to 15% of their salary, subject to limitations, to purchase common stock at a price equal to 85% of the 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. Generally, all of the Company s officers and employees who have been employed by the Company for at least one year and who are regularly scheduled to work more than twenty hours per week are eligible to participate in the 2002 ESPP. The 2002 ESPP operates in successive six-month periods, or offering periods, commencing on each January 1 and July 1, which began on January 1, 2003. A total of 300,000 shares of common stock are currently reserved for issuance under the plan. During first quarter 2004, a total of 8,124 shares of common stock were issued in connection with the July 1 through December 31, 2003 offering period. As of April 18, 2004, a total of 282,614 remained available for future issuance under the plan.

Employee Stock Incentive Plans During first quarter 2004, a total of 342,513 employee stock options were granted under the Company s 2002 Stock Incentive Plan (2002 Stock Plan) at a weighted-average exercise price of $26.81 per share, which was equal to the closing market price on the date of grant. The weighted average fair value of options at their grant date during the first quarter ended April 18, 2004, was $11.37. The fair value of stock options granted was estimated using the Black-Scholes multiple option-pricing model with the following weighted average assumptions:

	Sixteen Weeks Ended	
	April 18, 2004	April 20, 2003
Risk-free interest rate	3.1%	3.1%
Expected years until exercise	5.5	5.5
Expected stock volatility	41.4%	48.9%
Dividend yield	0.0%	0.0%

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation -Transition and Disclosure,* an amendment of Financial Accounting Standards Board Statement No. 123. The Statement requires prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company accounts for stock-based compensation awards under the intrinsic method of Accounting Principles Board Opinion No. 25, which requires compensation cost to be recognized based on the excess, if any, between the quoted market price of the stock at the date of grant and the amount an employee must pay to acquire the stock. As a result, pre-tax compensation expense of $19,900 was recognized during the first quarter of each period presented for certain options granted during 2002 with intrinsic value on the date of grant. The following table illustrates the effect on net income and earnings per share if the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, had been applied (in thousands, except per share data):

	Sixteen Weeks Ended	
	April 18, 2004	April 20, 2003
Net income, as reported	$ 4,910	$ 3,417
Add: Stock-based employee compensation costs included in reported net income, net of related tax benefit	12	13
Deduct: Stock-based employee compensation costs based on fair value method, net of related tax benefit	(571)	(262)
Pro forma net income	$ 4,351	$ 3,168
Basic earnings per share:		
As reported	$ 0.31	$ 0.23
Pro forma	$ 0.27	$ 0.21
Diluted earnings per share:		
As reported	$ 0.30	$ 0.22
Pro forma	$ 0.27	$ 0.21

4. Borrowings

Borrowings consist of the following (in thousands):

	April 18, 2004	December 28, 2003

Revolving credit agreement	$ 22,983	$ 20,000
Capital leases	7,301	7,388
Collateralized notes payable	9,870	10,240
	40,154	37,628
Current portion	(1,473)	(1,422)
Long-term debt	$ 38,681	$ 36,206

As of April 18, 2004, borrowings outstanding under the revolving credit agreement bore interest at approximately 3.2%.

RED ROBIN GOURMET BURGERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Franchise Operations

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

	Sixteen Weeks Ended	
	April 18, 2004	April 20, 2003
Franchise royalties and fees		
Royalty income	$ 3,068	$ 2,519
Franchise fees	242	67
Total franchise royalties and fees	3,310	2,586
Franchise development costs		
Payroll and employee benefit costs	730	362
General and administrative	375	254
Annual conference	1,220	781
Total franchise development costs	2,325	1,397
Operating income from franchise operations	$ 985	$ 1,189

6. Earnings Per Share

The Company presents both basic and diluted earnings per share amounts. Basic earnings per share amounts are calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated based upon the weighted-average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive shares are excluded from the computation in periods in which they have an anti-dilutive effect. Diluted earnings per share reflect the potential dilution that could occur if holders of options exercised their holdings into common stock. During the sixteen weeks ended April 18, 2004 and April 20, 2003, respectively, a total of 74,700 and 336,200 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 share data):

	Sixteen Weeks Ended