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RYANS RESTAURANT GROUP INC

Form 10-Q

November 07, 2005

FORM 10-Q

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

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

For the Quarter ended September 28, 2005

Commission File No. 0-10943

RYAN'S RESTAURANT GROUP, INC.  
(Exact name of registrant as specified in its charter)

South Carolina No. 57-0657895  
(State or other jurisdiction (I.R.S. Employer  
of incorporation) Identification No.)

405 Lancaster Avenue (29650)  
P. O. Box 100  
Greer, South Carolina 29652  
(Address of principal executive  
offices, including zip code)

864-879-1000  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed  
all reports required to be filed by Sections 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 X No \_\_\_\_\_

Indicate by check mark whether the registrant is an  
accelerated filer (as defined in Rule 12b-2 of the Securities  
Exchange Act of 1934).

Yes X No \_\_\_\_\_

At September 28, 2005, there were 41,977,000 shares  
outstanding of the registrant's common stock, par value \$1.00  
per share.

RYAN'S RESTAURANT GROUP, INC.

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### RYAN'S RESTAURANT GROUP, INC. CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

(In thousands, except per share data)

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	Quarter Ended	
	September 28, 2005	September 29, 2004
Restaurant sales	\$ 202,967	205,331
Cost of sales:		
Food and beverage	70,169	72,880
Payroll and benefits	68,187	67,455
Depreciation	10,524	8,857
Other restaurant expenses	35,190	29,879
Total cost of sales	184,070	179,071
General and administrative expenses	11,270	10,185
Interest expense	2,378	2,598
Royalties from franchised restaurants	(35)	(265)
Other income, net	(1,127)	(238)
Earnings before income taxes	6,411	13,980
Income taxes	2,247	4,754
Net earnings	\$ 4,164	9,226
Net earnings per common share:		
Basic	\$ .10	.22
Diluted	.10	.22
Weighted-average shares:		
Basic	41,934	41,679
Diluted	42,592	42,849

See accompanying notes to consolidated financial statements.

RYAN'S RESTAURANT GROUP, INC.  
CONSOLIDATED STATEMENTS OF EARNINGS  
(Unaudited)

(In thousands, except per share data)

	Nine Months Ended	
	September 28, 2005	September 29, 2004
Restaurant sales	\$628,116	633,534
Cost of sales:		
Food and beverage	219,133	221,653
Payroll and benefits	205,915	203,500
Depreciation	27,661	25,602
Other restaurant expenses	100,654	88,046
Total cost of sales	553,363	538,801
General and administrative expenses	37,501	30,762
Interest expense	7,143	8,032
Royalties from franchised restaurants	(344)	(951)
Other income, net	(2,889)	(1,697)
Earnings before income taxes	33,342	58,587
Income taxes	11,105	19,831

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Net earnings	\$ 22,237	38,756
Net earnings per common share:		
Basic	\$ .53	.93
Diluted	.52	.89
Weighted-average shares:		
Basic	41,941	41,800
Diluted	42,742	43,339

See accompanying notes to consolidated financial statements.

RYAN'S RESTAURANT GROUP, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

	September 28, 2005 (Unaudited)	December 29, 2004
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,117	7,354
Receivables	4,700	4,639
Inventories	5,663	5,611
Prepaid expenses	1,569	1,016
Deferred income taxes	7,277	5,110
Total current assets	30,326	23,730
Property and equipment:		
Land and improvements	170,267	162,082
Buildings	508,584	480,781
Equipment	285,424	271,431
Construction in progress	30,923	31,531
	995,198	945,825
Less accumulated depreciation	319,574	295,852
Net property and equipment	675,624	649,973
Other assets	10,593	10,643
Total assets	\$716,543	684,346
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	6,681	5,963
Current portion of long-term debt	18,750	18,750
Income taxes payable	2,989	1,842
Accrued liabilities	51,655	42,569
Total current liabilities	80,075	69,124
Long-term debt	161,500	164,250
Other long-term liabilities	5,714	7,692
Deferred income taxes	50,826	47,674
Total liabilities	298,115	288,740
Shareholders' equity:		
Common stock of \$1.00 par value; authorized 100,000,000 shares; issued 41,977,000 in 2005 and 41,890,000 shares in 2004	41,977	41,890
Additional paid-in capital	4,376	3,878
Retained earnings	372,075	349,838
Total shareholders' equity	418,428	395,606
Commitments and contingencies		

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Total liabilities and shareholders' equity	\$716,543	684,346
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See accompanying notes to consolidated financial statements.

RYAN'S RESTAURANT GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(In thousands)

	Nine Months Ended	
	September 28, 2005	September 29, 2004
Cash flows from operating activities:		
Net earnings	\$ 22,237	38,756
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	29,012	26,936
Loss (gain) on sale of property and equipment	(622)	253
Tax benefit from exercise of stock options	789	2,820
Deferred income taxes	985	252
Decrease (increase) in:		
Receivables	(61)	285
Inventories	(52)	(338)
Prepaid expenses	(553)	111
Other assets	(94)	(2,066)
Increase (decrease) in:		
Accounts payable	718	2,251
Income taxes payable	1,147	2,026
Accrued liabilities	9,086	2,051
Other long-term liabilities	(1,978)	506
Net cash provided by operating activities	60,614	73,843
Cash flows from investing activities:		
Proceeds from sale of property and equipment	7,073	6,403
Capital expenditures	(60,970)	(51,108)
Net cash used in investing activities	(53,897)	(44,705)
Cash flows from financing activities:		
Repayment of senior notes	(18,750)	-
Net borrowings from (repayment of) revolving credit facility	16,000	(9,000)
Proceeds from stock options exercised	1,648	5,360
Purchase of common stock	(1,852)	(18,207)
Net cash used in financing activities	(2,954)	(21,847)
Net increase in cash and cash equivalents	3,763	7,291
Cash and cash equivalents - beginning of period	7,354	8,617
Cash and cash equivalents -		

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end of period \$ 11,117 15,908

Supplemental disclosures

Cash paid during the period for:

Interest, net of amount capitalized \$ 9,032 9,853  
Income taxes 8,751 15,413

See accompanying notes to consolidated financial statements.

RYAN'S RESTAURANT GROUP, INC.  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(Unaudited)

(In thousands)

Nine Months Ended September 28, 2005

	\$1 Par Value Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balances at December 29, 2004	\$41,890	3,878	349,838	395,606
Net earnings	-	-	22,237	22,237
Issuance of common stock under stock option plans	220	1,428	-	1,648
Tax benefit from exercise of non-qualified stock options	-	789	-	789
Purchases of common stock	(133)	(1,719)	-	(1,852)
Balances at September 28, 2005	\$41,977	4,376	372,075	418,428

See accompanying notes to consolidated financial statements.

RYAN'S RESTAURANT GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 28, 2005  
(Unaudited)

Note 1. Description of Business

Ryan's Restaurant Group, Inc. (the "Company") operates a restaurant chain consisting of 339 Company-owned restaurants located principally in the southern and midwestern United States. Three of these restaurants were closed at September 28, 2005 as a result of damages caused by Hurricane Katrina. The restaurants operate under the Ryan's or Fire Mountain brand names, but are viewed as a single business unit for management and reporting purposes. A Fire Mountain restaurant offers a selection of foods similar to a Ryan's restaurant with display cooking and also features updated interior furnishings, an upscale food presentation and a lodge-look exterior. Through June 2005, an unrelated third-party operated Ryan's brand restaurants under a franchise relationship that was terminated by mutual agreement on June 30, 2005. Final franchise royalties were received by the Company in July 2005. The Company was organized in 1977,

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opened its first restaurant in 1978 and completed its initial public offering in 1982. The Company does not operate any international units.

### Note 2. Basis of Presentation

The consolidated financial statements include the financial statements of Ryan's Restaurant Group, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Consolidated operating results for the nine months ended September 28, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending December 28, 2005. For further information, refer to the consolidated financial statements and footnotes included in the Company's annual report on Form 10-K for the fiscal year ended December 29, 2004.

### Note 3. Relevant New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Share-Based Payment," ("SFAS 123R"), which amends SFAS No. 123 and SFAS No. 95. SFAS 123R requires all companies to measure compensation cost for all share-based payments, including employee stock options, at fair value and will be effective for the first quarter of 2006. The Company is currently evaluating the effect that this accounting change will have on its financial position and results of operations.

### Note 4. Stock Options

As allowed by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company accounts for its stock option plans in accordance with the intrinsic value provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. No compensation cost has been recognized for stock-based compensation in consolidated net earnings for the periods presented as all options granted under the Company's stock option plans had exercise prices equal to the market value of the underlying common stock on the date of the grant. Had the Company determined compensation cost based on the fair value recognition provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated in the following table:

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	Quarter Ended		Nine Months Ended	
	Sep 28, 2005	Sep 29, 2004	Sep 28, 2005	Sep 29, 2004
(In thousands, except earnings per share)				
Net earnings, as reported	\$4,164	9,226	22,237	38,756
Less total stock-based compensation expense determined under fair value based method, net of related tax effects	(197)	(229)	(1,076)	(814)
Pro forma net earnings	\$3,967	8,997	21,161	37,942
Earnings per share				
Basic:				
As reported	\$ .10	.22	.53	.93
Pro forma	.09	.22	.50	.91
Diluted:				
As reported	.10	.22	.52	.89
Pro forma	.09	.21	.50	.88

### Note 5. Earnings per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS includes common stock equivalents that arise from the hypothetical exercise of outstanding stock options using the treasury stock method. Outstanding stock options to purchase 417,850 and 3,000 shares of common stock at September 28, 2005 and September 29, 2004, respectively, were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

### Note 6. Legal Contingencies

In November 2002, a lawsuit was filed in the United States District Court, Middle District of Tennessee, Nashville Division, on behalf of three plaintiffs alleging various wage and hour violations by the Company of the Fair Labor Standards Act of 1938. The plaintiffs' attorneys sought collective-action status for the case. In October 2003, the presiding judge denied the Company's request to enforce the arbitration agreements signed by the plaintiffs and also ordered the Company to turn over certain employee addresses to the plaintiffs' attorneys. The Company appealed that decision. As part of the appeal process, the presiding judge stayed the order regarding the employee addresses. In March 2005, the Sixth Circuit Court of Appeals affirmed the ruling that denied enforcement of the arbitration issue, and in June 2005, the presiding judge ordered that notices be sent to potential class members, thereby approving collective-action status for the lawsuit. In July 2005, the Company began negotiations with the plaintiffs' attorney in hopes of reaching a mutually acceptable settlement. In September 2005, the parties took the matter to a mediation hearing. Although no agreement was reached through mediation, settlement discussions between the parties have continued.



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The Company charged \$5,000,000 as the estimated minimum settlement for this litigation to general and administrative expenses in the second quarter of 2005. Based on the ongoing discussions, the Company believes that the \$5,000,000 estimated minimum settlement is still applicable and, accordingly, has not charged any additional amounts related to this case during the third quarter of 2005. However, as it is not possible to predict the case's outcome, the ultimate settlement cannot be estimated at this time.

In addition, from time to time, the Company is involved in various legal claims and litigation arising in the normal course of business. Based on currently-known legal actions arising in the normal course of business, management believes that, as a result of its legal defenses and insurance arrangements, none of these actions should have a material adverse effect on the Company's business or financial condition, taken as a whole.

### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

Quarter ended September 28, 2005 versus September 29, 2004

Restaurant sales during the third quarter of 2005 decreased by 1.2% compared to the third quarter of 2004. Average unit growth, based on the average number of restaurants in operation, increased by 1.8% in the third quarter of 2005 compared to the same quarter of 2004. The Company owned and operated 339 restaurants (275 Ryan's brand and 64 Fire Mountain brand), including three restaurants currently closed due to damages caused by Hurricane Katrina, at September 28, 2005 and 338 restaurants (299 Ryan's brand and 39 Fire Mountain brand) at September 29, 2004. In comparison to the third quarter of 2004, average unit sales ("AUS"), or average weekly sales volumes per unit, for all stores (including newly opened restaurants) decreased by 2.5% in 2005, and same-store sales decreased by 3.7% in 2005. In computing same-store sales, the Company averages weekly sales for those units operating for at least 18 months. All converted or relocated stores (see "Liquidity and Capital Resources") are included in the same-store sales calculation, provided that the underlying stores were operating for at least 18 months. Same-store sales and related factors for the third quarters of 2005 and 2004, as compared to their comparable prior years' quarters, were as follows:

Same-store	2005	2004
Sales	(3.7%)	(3.1%)
Customer count	(6.3%)	(7.1%)
Menu factor (principally pricing)	2.6%	4.0%

Management believes that the Company's sales results continued to be adversely impacted by high gasoline and utility costs during the third quarter of 2005, resulting in decreased

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discretionary spending and lower dining-out expenditures by its customers. Third quarter 2005 sales were also impacted by Hurricanes Katrina and Rita, not only in the areas of immediate landfall but also in many of the Company's other operating areas. During the quarter, the Company had 41 stores closed for at least one day due to the hurricanes, resulting in a total of 243 closed restaurant-days (less than 1.0% of total available restaurant-days). Except for three locations that are still closed, the affected restaurants re-opened quickly and have typically shown increased sales since that time due to high demand from repair and emergency crews and returning residents. In addition, restaurant sales in southern and mid-Atlantic states generally were adversely affected by the heavy storms that resulted after the immediate landfalls and by high gasoline pricing and shortages. Management believes that these factors as well as the related extensive television coverage decreased dining visits by customers. Management is working to increase sales by implementing a weekend buffet breakfast at the Company's restaurants. At September 28, 2005, 38 locations were offering a breakfast buffet on weekend mornings. The Company plans to have breakfast at approximately 160 locations by year-end.

Cost of sales includes food and beverage, payroll, payroll taxes and employee benefits, depreciation, repairs, maintenance, utilities, supplies, advertising, insurance, property taxes and licenses at Company-owned restaurants. Such costs, as a percentage of sales, were 90.7% during the third quarter of 2005 compared to 87.2% during the third quarter of 2004. Food and beverage costs amounted to 34.6% of sales in 2005 and 35.5% of sales in 2004. In 2005, these costs decreased due to lower sirloin, soybean-oil and pork costs, partially offset by higher fresh chicken and seafood costs. Payroll and benefits increased to 33.6% of sales in 2005 from 32.9% of sales in 2004 due principally to management's tactical decision to increase hourly staffing levels in order to provide a better dining experience for customers with the aim of building and retaining sales. All other restaurant costs, including depreciation, increased to 22.5% of sales in 2005 from 18.8% of sales in 2004. This increase resulted principally from \$2.6 million of property write-downs related to five underperforming stores and from higher electricity and natural gas costs, which increased by a combined 0.6% of sales. All other restaurant costs also increased, as a percentage of sales, due to the impact that 2005's lower AUS had on the many fixed-cost items included in this category, such as repairs and maintenance. Based on these factors, the Company's margins at the restaurant level decreased to 9.3% of sales in 2005 from 12.8% of sales in 2004.

General and administrative expenses increased to 5.6% of sales in 2005 from 5.0% of sales in 2004 due principally to higher salaries and wages and from a favorable adjustment in 2004 to performance-based bonuses. Also, lower AUS in 2005 increased the impact, as a percentage of sales, of this highly fixed-cost category.

Interest expense for the third quarters of 2005 and 2004 amounted to 1.2% and 1.3% of sales, respectively. The average effective interest rate decreased to 6.0% for the third

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quarter of 2005 from 6.2% for the comparable quarter in 2004, resulting principally from the scheduled \$18.8 million annual installment payment on the Company's 9.02% senior notes in late-January 2005. Borrowings under the floating-rate revolving credit facility, which accrued interest at a 4.5% average rate during the quarter, were used as the source of funds for this payment.

Revenues from franchised restaurants decreased by \$230,000 from the third quarter of 2004 to the third quarter of 2005 as the Company's sole franchisee, EACO Corporation ("EACO"; formerly Family Steak Houses of Florida, Inc.), converted its Ryan's brand restaurants to non-affiliated brands in accordance with the December 2003 amendment to the franchise agreement. Per the amendment, the franchise relationship between the Company and EACO terminated on June 30, 2005, and final collection of franchise revenues was completed during the third quarter of 2005.

Other income increased \$889,000 due principally to gains realized on the sale of two restaurant properties during the third quarter of 2005 compared with a loss on the sale of one property during the third quarter of 2004.

The effective income tax rate increased to 35.0% for the third quarter of 2005 compared to 34.0% for the third quarter of 2004, primarily from an increase in the projected rate to be utilized for all of 2005, compared to the tax rate for the first six months of 2005. This increase was partially offset by the greater deductive impact of anticipated Federal tax credits, such as Work Opportunity, Welfare to Work and FICA taxes paid on reported employee tip income, on 2005's lower earnings before income taxes (as compared to 2004).

Net earnings for the third quarter amounted to \$4.2 million in the 2005 period compared to \$9.2 million in the 2004 period. Weighted-average shares (diluted) decreased by 0.6% to 42.6 million in 2005 from 42.8 million in 2004 as the lower price of the Company's common stock reduced the impact of outstanding stock options on the diluted weighted-average share calculation. In general, as the stock price decreases, the number of shares related to stock options in the diluted weighted-average share calculation also decreases, which has the effect of increasing earnings per share (diluted). Accordingly, earnings per share (diluted) amounted to 10 cents for the third quarter of 2005 compared to 22 cents for the third quarter of 2004.

Nine months ended September 28, 2005 versus September 29, 2004

For the nine months ended September 28, 2005, restaurant sales were down 0.9% compared to the same period in 2004. Principal factors affecting the 2005 sales decline include a 2.9% decrease in all-store AUS, partially offset by the 2.4% unit growth of Company-owned restaurants. Same-store sales and related factors for the first nine months of 2005 and 2004, as compared to their comparable prior years' periods, were as follows:

Same-store	2005	2004
Sales	(3.6%)	0.5%

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Customer count	(6.3%)	(3.3%)
Menu factor (principally pricing)	2.7%	3.8%

Cost of sales, as detailed above, for the first nine months of 2005 and 2004 amounted to 88.1% of sales and 85.0% of sales, respectively. In 2005, food and beverage costs were relatively flat (34.9% of sales) when compared to 2004 (35.0% of sales). Payroll and benefits increased to 32.8% of sales for 2005 from 32.1% of sales for 2004 due to higher hourly labor costs, partially offset by lower medical and workers' compensation insurance costs. All other restaurant costs, including depreciation, increased to 20.4% of sales for 2005 from 17.9% for 2004 due principally to higher utility (electricity and natural gas), repairs and maintenance, depreciation, general liability insurance and store closing costs. These costs also increased, as a percentage of sales, due to the impact that 2005's lower AUS had on the many fixed-cost items included in this category.

General and administrative expenses increased to 6.0% for 2005 from 4.9% for 2004 due principally to the \$5,000,000 charge in the second quarter of 2005 for the Tennessee collective-action lawsuit described in Note 6 to the accompanying consolidated financial statements. These costs also increased, as a percentage of sales, due to the impact that 2005's lower AUS had on the many fixed-cost items included in this category.

Effective income tax rates of 33.3% and 33.8% were used for the first nine months of 2005 and 2004, respectively. The rate decrease is due principally to the greater deductive impact of anticipated Federal tax credits, such as Work Opportunity, Welfare to Work and FICA taxes paid on reported employee tip income, on 2005's lower earnings before income taxes (as compared to 2004).

Net earnings for the first nine months of 2005 amounted to \$22.2 million compared to \$38.8 million in 2004. Weighted-average shares (diluted) decreased by 1.4% due to the reduced impact of outstanding stock options on the diluted weighted-average share calculation (see third quarter's discussion) and from the Company's stock repurchase program. Accordingly, earnings per share (diluted) amounted to 52 cents in the 2005 period compared to 89 cents in the 2004 period.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity is from its restaurants sales, which are primarily derived from cash, checks or credit / debit cards. Principal uses of cash are operating expenses, which have been discussed in the preceding section, capital expenditures and stock repurchases.

A comparison of the Company's sources and uses of funds for the nine-month periods ended September 28, 2005 and September 29, 2004 follow (in thousands):

	2005	2004	Change
Net cash provided by operating			

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activities	\$60,614	73,843	(13,229)
Net cash used in investing activities	(53,897)	(44,705)	(9,192)
Net cash used in financing activities	(2,954)	(21,847)	18,893
Net increase in cash and cash equivalents	\$ 3,763	7,291	(3,528)

Net cash provided by operating activities decreased by \$13.2 million in the first nine months of 2005 mainly as a result of lower net earnings and less tax benefit from the exercise of stock options in 2005, partially offset by the \$5.0 million addition to accrued liabilities in 2005 for the charge related to Tennessee collective-action lawsuit, as described in the above section. As of September 28, 2005, no settlement payments had been made for this lawsuit. Net cash used in investing activities increased by \$9.2 million as capital expenditures for the first nine months of 2005 exceeded the prior year's comparable amount due to the construction of two additional restaurants in 2005 compared to 2004 and higher construction costs per unit in 2005. Finally, net cash provided by financing activities increased by \$18.9 million largely due to less stock repurchase activity in 2005.

At September 28, 2005, the Company's working capital deficit amounted to \$49.7 million compared to a \$45.4 million deficit at December 29, 2004. Management does not anticipate any adverse effects from the current working capital deficit due to the significant and steady level of cash flow provided by operations.

At September 28, 2005, the Company's outstanding debt consisted of \$56.3 million of 9.02% senior notes, \$100.0 million of 4.65% senior notes and a \$150.0 million revolving credit facility of which \$24.0 million was outstanding at that date. After allowances for letters of credit and other items, there were approximately \$114 million in funds available under the revolving credit facility. The Company's ability to draw on these funds is limited by the financial covenants in the agreements governing both the senior notes and the revolving credit facility. As disclosed in the Company's quarterly report on Form 10-Q for the second quarter of 2005, the Company was not in compliance with the fixed charge coverage ratio ("FCC ratio") covenant in its debt agreements at the end of the second quarter and received waivers from its creditors for that quarter. In November 2005, the Company and its lenders finalized amendments to the debt agreements. The amendments reduce the FCC ratio requirements from 2.25 times to 1.55 times through the third quarter of 2006. After that point, the required ratio gradually rises to 2.25 times for the third quarter of 2007 and afterwards (or, if the calculation period includes two scheduled debt principal payments, 2.0 times). Management believes that these levels are achievable under current business conditions. However, based on current projections, a significant improvement in profitability will need to occur in order to achieve the required FCC ratio of 2.0 for the third quarter of 2007. Based on current business plans, compliance will require increases in same-store sales at the Company's restaurants and would also be impacted, either favorably or unfavorably, by changes in operating costs, including interest rates. In

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addition to reducing the minimum FCC ratio, the amendments place additional restrictions on stock repurchases and capital expenditures during 2006 and 2007. Management believes that these restrictions will not impact its current plans for capital expenditures as described in the third succeeding paragraph.

Total capital expenditures for the first nine months of 2005 amounted to \$61.0 million. The Company opened 12 new and closed 14 existing restaurants during the first nine months of 2005, including three openings and three closings for relocations. Management defines a relocation as a restaurant opened within six months after closing another restaurant in the same marketing area. A relocation represents a redeployment of assets within a market. All new restaurants open with the display cooking/lodge-look format. This format involves a glass-enclosed grill and cooking area that extends into the dining room and the use of stone and wood inside and outside the building in order to present an atmosphere reminiscent of a mountain lodge. A variety of meats are grilled daily and available to customers as part of the buffet price. Customers go to the grill and can get hot, cooked-to-order steak, chicken or other grilled items placed directly from the grill onto their plates. All new restaurants will operate under the "Fire Mountain" brand name in order to differentiate them from the older Ryan's and other restaurants that operate with a more traditional family steakhouse format. The Company also has a program in which existing Ryan's restaurants undergo significant changes and are converted to Fire Mountain restaurants. The changes generally include the addition of display cooking and various interior and exterior modifications in order to create a lodge-look. During the first nine months of 2005, eight restaurants were converted to the Fire Mountain brand. For the remainder of 2005, the Company plans to build and open three new restaurants, including one relocation, and convert approximately three restaurants to the Fire Mountain brand. Total 2005 capital expenditures are estimated at \$73 million.

As part of the Company's routine business process, management reviews the Company's underperforming restaurants and evaluates the potential for improvement of each restaurant based on current and future retail traffic in each respective marketing area. In general, restaurants located in satisfactory areas are updated either through cosmetic remodeling or conversion to the Fire Mountain brand. Those restaurants located in declining areas are generally either relocated or closed. During the third quarter of 2005, the Company closed 10 restaurants of which two restaurants were closed for relocations, seven restaurants were closed and either sold or currently held for sale, and one restaurant was closed and remains under a land lease. Management is attempting to sublease the leased property.

The Company is currently concentrating its efforts on Company-owned restaurants and is not actively pursuing any franchised locations, either domestically or internationally. For 2006, the Company intends to decrease capital expenditures from 2005 levels by building three to four restaurants, including one relocation, compared to the 15 new restaurants planned for 2005 in order to conserve cash flow for debt repayment purposes and focus on building same-store sales at existing

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restaurants. Capital expenditures for 2006 are estimated at \$34 million.

The Company began a stock repurchase program in March 1996 and is currently authorized to repurchase up to 55 million shares of the Company's common stock through December 2008. Repurchases may be made from time to time on the open market or in privately negotiated transactions in accordance with applicable securities regulations, depending on market conditions, share price and other factors, and are subject to limitations under the Company's debt agreements. During the first nine months of 2005, the Company purchased 132,700 shares at an aggregate cost of \$1.9 million. Through September 28, 2005, approximately 44.4 million shares, or 55% of total shares available at the beginning of the repurchase program, had been purchased at an aggregate cost of \$334.7 million. In July 2005, the Company's Board of Directors suspended all future share repurchases in order to retain the Company's cash flow for debt repayment and other corporate purposes.

Management believes that its current capital structure is sufficient to meet its 2005 and 2006 cash requirements. The Company has entered into interest rate hedging transactions in the past, and although no such agreements are currently outstanding, management intends to continue monitoring the interest rate environment and may enter into such transactions in the future if deemed advantageous.

### CRITICAL ACCOUNTING POLICIES

Critical accounting policies have a significant impact on the Company's financial statements and involve difficult or subjective estimates of future events by management. Management's estimates could differ significantly from actual results, leading to possible significant adjustments to future financial results. The following policies are considered by management to involve estimates that most critically impact reported financial results.

**Asset Lives** Property and equipment are recorded at cost, less accumulated depreciation. Buildings and land improvements are depreciated over estimated useful lives ranging from 25 to 39 years, and equipment is depreciated over estimated useful lives ranging from 3 to 20 years. Depreciation expense for financial statement purposes is calculated using the straight-line method. Management is responsible for estimating the initial useful lives and any revisions thereafter and bases its estimates principally on historical usage patterns of the assets. Such revisions to the useful lives have not significantly impacted the Company's results of operations in recent years. Material differences in the amount of reported depreciation could result if different assumptions were used.

**Impairment of Long-Lived Assets** Long-lived assets, which consist principally of restaurant properties, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews restaurants for possible impairment if the restaurant has had aggregate cash flows of \$50,000 or less over the previous 12 months or if it has been selected for relocation and the new site is under

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construction. For restaurants that will continue to be operated, the restaurant's carrying amount is compared to the undiscounted future cash flows, including proceeds from future disposal, over the remaining useful life of the restaurant. The estimate of future cash flows is based on management's review of historical and current sales and cost trends of both the subject and similar restaurants. The estimate of proceeds from future disposal is based on management's knowledge of current and planned development near the restaurant site and on current market transactions. Each of these estimates is based on assumptions, particularly with respect to future sales and costs, that may differ materially from actual results. If the carrying amount exceeds the sum of the undiscounted future cash flows, the carrying amount is reduced to the restaurant's current fair value. If the decision has been made to close and sell a restaurant, the carrying value of that restaurant is reduced through accelerated depreciation to its current fair value less costs to sell and is no longer depreciated once it is closed. Total impairment costs, including related accelerated depreciation charges, amounted to \$3,284,000 and \$1,100,000 for the first nine months of 2005 and 2004, respectively.

**Self-Insurance Liabilities** The Company self-insures a significant portion of expected losses from its workers' compensation, general liability and team member medical programs. The aggregate amounts of these liabilities were \$14,421,000 at September 28, 2005 and \$13,466,000 at December 29, 2004. For workers' compensation and general liability claims, the portion of any individual claim that exceeds \$250,000 is covered by insurance purchased by the Company. Accrued liabilities are recorded for the estimated, undiscounted future net payments, or ultimate costs, to settle both reported claims and claims that have been incurred but not reported. On a quarterly basis, management reviews claim values as estimated by a third-party claims administrator ("TPA") and then adjusts these values for estimated future increases in order to record ultimate costs. Both current and prior years' claims are reviewed because estimated claim values are frequently adjusted by the TPA as new information, such as updated medical reports or settlements, is received. Management reviews the relationship between historical claim estimates and payment history, overall number of accidents and historical claims experience in order to make an ultimate cost estimate. For team member medical claims, the portion of any individual claim that exceeds \$300,000 is covered by insurance purchased by the Company. Accruals are based on management's review of historical claims experience. Unexpected changes in any of these factors could result in costs that are materially different than initially reported.

**Income Taxes** The Company estimates certain components of the provision for income taxes on a quarterly basis. These estimates include, among other items, depreciation expense allowable for tax purposes, allowable federal tax credits for items such as Work Opportunity, Welfare to Work, Renewal Community and FICA taxes paid on reported employee tip income, effective rates for state and local income taxes, and the tax deductibility of certain other items. These estimates are based on the best available information at the time the tax provision is prepared. There were no significant changes to these estimates during the third



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quarter of 2005.

Annual income tax returns are prepared and filed several months after each fiscal year-end. Income tax returns are subject to audit by federal, state, and local governments, generally up to three years after the returns are filed. These returns could be subject to differing interpretations of the applicable authority's tax laws. As part of the audit process, the Company must assess the likelihood that a requested adjustment in income taxes due will be payable either through legal proceedings or by settlement, either of which could result in a material adjustment to the Company's results of operations or financial position. When the Company concludes that it is not probable that a tax position is sustainable, a liability is recorded for any taxes, interest or penalties that are estimated to be due.

### IMPACT OF INFLATION

The Company's operating costs that may be affected by inflation consist principally of food, payroll and utility costs. A significant number of the Company's restaurant team members are paid at the Federal minimum wage or, if higher, the applicable state minimum wage and, accordingly, legislated changes to the minimum wage rates affect the Company's payroll costs. There has been legislation introduced to increase the minimum wage in the U.S. Congress and in the legislatures of approximately one-third of the states in which the Company operates. It is impossible to predict which increases will be implemented. If such increases were implemented, the Company expects that payroll costs, as a percent of sales, would increase. However, the Company is generally able to increase menu prices in order to cover most of the dollar impact of legislated payroll rate increases.

The Company considers its current price structure to be very competitive. This factor, among others, is considered by the Company when passing cost increases on to its customers. Annual menu price increases during the last five years have generally ranged from 2% to 4%.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk relates primarily to changes in interest rates. Foreign currencies are not used in the Company's operations, and approximately 90% of the products used in the preparation of food at the Company's restaurants are not under purchase contract for more than one year in advance.

The Company is exposed to interest rate risk on its variable-rate debt, which is composed entirely of outstanding debt under the Company's revolving credit facility (see "Liquidity and Capital Resources"). At September 28, 2005, there was \$24.0 million in outstanding debt under this facility. Interest rates for the facility generally change in response to LIBOR. Management estimates that a one-percent increase in interest rates throughout the quarter ended September 28, 2005 would have increased interest expense by approximately \$51,000

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and decreased net earnings by approximately \$35,000.

While the Company has entered into interest rate derivative agreements in the past, there were no such agreements outstanding during the three months ended September 28, 2005. The Company does not enter into financial instrument agreements for trading or speculative purposes.

### Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, the Company's principal executive officer and principal financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective in providing reasonable assurance that the information relating to the Company, including its consolidated subsidiaries, required to be disclosed in its Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During the third quarter of 2005, the Company did not make any changes in its internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, those controls.

### FORWARD-LOOKING INFORMATION

In accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this quarterly report and elsewhere that are forward-looking involve risks and uncertainties that may impact the Company's actual results of operations. All statements other than statements of historical fact that address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as Company plans or strategies, deadlines for completing projects, expected financial results, expected regulatory environment and other such matters, are forward-looking statements. The words "estimates", "plans", "anticipates", "expects", "intends", "believes" and similar expressions are intended to identify forward-looking statements. All forward-looking information reflects the Company's best judgment based on current information. However, there can be no assurance that other factors will not affect the accuracy of such information. While it is not possible to identify all relevant factors, the following could cause actual results to differ materially from expectations: general economic conditions, including consumer confidence levels; competition; developments affecting the public's perception of buffet-style restaurants; real estate

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availability; food, labor supply and utility costs; food and labor availability; an adverse food safety event; weather fluctuations; interest rate fluctuations; stock market conditions; political environment (including acts of terrorism and wars); and other risks and factors described from time to time in the Company's reports filed with the Securities and Exchange Commission, including the Company's annual report on Form 10-K for the fiscal year ended December 29, 2004. The ability of the Company to open new restaurants depends upon a number of factors, including its ability to find suitable locations and negotiate acceptable land acquisition and construction contracts, its ability to attract and retain sufficient numbers of restaurant managers and team members and the availability of reasonably priced capital. The extent of the Company's stock repurchase program during 2005 and future years depends upon the financial performance of the Company's restaurants, the investment required to open new restaurants, share price, the availability of reasonably priced capital, the financial and other covenants contained in the Company's loan agreements that govern both the senior notes and the revolving credit facility, and the maximum debt and stock repurchase levels authorized by the Company's Board of Directors. In July 2005, the Board of Directors suspended stock repurchases under the Company's stock repurchase program.

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings.

In November 2002, a lawsuit was filed in the United States District Court, Middle District of Tennessee, Nashville Division, on behalf of three plaintiffs alleging various wage and hour violations by the Company of the Fair Labor Standards Act of 1938. The plaintiffs' attorneys sought collective-action status for the case. In October 2003, the presiding judge denied the Company's request to enforce the arbitration agreements signed by the plaintiffs and also ordered the Company to turn over certain employee addresses to the plaintiffs' attorneys. The Company appealed that decision. As part of the appeal process, the presiding judge stayed the order regarding the employee addresses. In March 2005, the Sixth Circuit Court of Appeals affirmed the ruling that denied enforcement of the arbitration issue, and in June 2005, the presiding judge ordered that notices be sent to potential class members, thereby approving collective-action status for the lawsuit. In July 2005, the Company began negotiations with the plaintiffs' attorney in hopes of reaching a mutually acceptable settlement. In September 2005, the parties took the matter to a mediation hearing. Although no agreement was reached through mediation, settlement discussions between the parties have continued. The Company charged \$5,000,000 as the estimated minimum settlement for this litigation to general and administrative expenses in the second quarter of 2005. Based on the ongoing discussions, the Company believes that the \$5,000,000 estimated minimum settlement is still applicable and, accordingly, has not charged any additional amounts related to this case during the

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third quarter of 2005. However, as it is not possible to predict the case's outcome, the ultimate settlement cannot be estimated at this time.

In addition, from time to time, the Company is involved in various legal claims and litigation arising in the normal course of business. Based on currently-known legal actions arising in the normal course of business, management believes that, as a result of its legal defenses and insurance arrangements, none of these actions should have a material adverse effect on the Company's business or financial condition, taken as a whole.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table summarizes activity under the Company's stock repurchase program during the third quarter of 2005:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
July (06/30/05 - 08/03/05)	22,000	\$13.60	44,350,406	10,649,594
August (08/04/05 - 08/31/05)	-	-	44,350,406	10,649,594
September (09/01/05 - 09/28/05)	-	-	44,350,406	10,649,594
<b>Total</b>	<b>22,000</b>	<b>\$13.60</b>	<b>44,350,406</b>	<b>10,649,594</b>

The Company began its stock repurchase program in March 1996 and is currently authorized to repurchase up to 55 million shares of its common stock through December 2008. At September 28, 2005, there were 10,649,594 shares remaining under the current authorization. There were no purchases of the Company's common stock by or on behalf of the Company or any "affiliated purchaser" during the third quarter of 2005 other than through this stock repurchase program. In July 2005, the Board of Directors suspended stock repurchases under the Company's stock repurchase program.

### Item 6. Exhibits.

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Exhibits (numbered in accordance with Item 601 of Regulation S-K):

Exhibit # Description

10.22.1 First Amendment to Credit Agreement, dated as of November 7, 2005, to the Credit Agreement referred to at Exhibit 10.22 of the Annual Report on Form 10-K for the period ended December 29, 2004 (the "2005 10-K").

10.23.3 Third Amendment, dated as of November 7, 2005, to the Note Purchase Agreement referred to at Exhibit 10.23 of the 2005 10-K.

10.24.2 Second Amendment, dated as of November 7, 2005, to the Note Purchase Agreement referred to at Exhibit 10.24 of the 2005 10-K.

31.1 Section 302 Certification of Chief Executive Officer

31.2 Section 302 Certification of Chief Financial Officer

32.1 Section 906 Certification of Chief Executive Officer

32.2 Section 906 Certification of Chief Financial Officer

Items 3, 4 and 5 are not applicable and have been omitted.

### SIGNATURES

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

RYAN'S RESTAURANT GROUP, INC.  
(Registrant)

November 7, 2005 /s/Charles D. Way  
Charles D. Way  
Chairman and  
Chief Executive Officer

November 7, 2005 /s/Fred T. Grant, Jr.  
Fred T. Grant, Jr.  
Senior Vice President-Finance and  
Treasurer and Assistant Secretary  
(Principal Financial and Accounting  
Officer)

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November 7, 2005

/s/Richard D. Sieradzki  
Richard D. Sieradzki  
Vice President-Accounting and  
Corporate Controller