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RYANS RESTAURANT GROUP INC
Form 10-Q
August 06, 2004

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 June 30, 2004

Commission File No. 0-10943

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

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

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 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 No

At June 30, 2004, there were 41,654,000 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 | |
|---------------------------------------|------------------|-----------------|
| | June 30, 2004 | July 2, 2003 |
| Restaurant sales | \$216,546 | 208,504 |
| Cost of sales: | | |
| Food and beverage | 76,273 | 73,801 |
| Payroll and benefits | 69,175 | 65,069 |
| Depreciation | 8,188 | 8,049 |
| Other restaurant expenses | 29,355 | 28,092 |
| Total cost of sales | 182,991 | 175,011 |
| General and administrative expenses | 10,255 | 9,591 |
| Interest expense | 2,749 | 2,322 |
| Royalties from franchised restaurants | (323) | (404) |
| Other income, net | (531) | (475) |
| Earnings before income taxes | 21,405 | 22,459 |
| Income taxes | 7,235 | 8,130 |
| Net earnings | \$ 14,170 | 14,329 |
| Net earnings per common share: | | |
| Basic | \$.34 | .34 |
| Diluted | .33 | .33 |
| Weighted-average shares: | | |
| Basic | 41,639 | 42,143 |
| Diluted | 43,258 | 43,670 |

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share data)

| | Six Months Ended | |
|---------------------------------------|------------------|-----------------|
| | June 30, 2004 | July 2, 2003 |
| Restaurant sales | \$428,203 | 401,696 |
| Cost of sales: | | |
| Food and beverage | 148,773 | 141,806 |
| Payroll and benefits | 136,045 | 126,017 |
| Depreciation | 16,745 | 15,997 |
| Other restaurant expenses | 58,167 | 55,304 |
| Total cost of sales | 359,730 | 339,124 |
| General and administrative expenses | 20,577 | 18,653 |
| Interest expense | 5,434 | 4,728 |
| Royalties from franchised restaurants | (686) | (807) |
| Other income, net | (1,459) | (1,424) |
| Earnings before income taxes | 44,607 | 41,422 |
| Income taxes | 15,077 | 14,995 |

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| | | |
|--------------------------------|-----------|--------|
| Net earnings | \$ 29,530 | 26,427 |
| Net earnings per common share: | | |
| Basic | \$.71 | .62 |
| Diluted | .68 | .60 |
| Weighted-average shares: | | |
| Basic | 41,860 | 42,313 |
| Diluted | 43,584 | 43,689 |

See accompanying notes to consolidated financial statements.

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

| | June 30, 2004 (Unaudited) | December 31, 2003 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 17,037 | 8,617 |
| Receivables | 4,373 | 4,293 |
| Inventories | 6,561 | 5,648 |
| Prepaid expenses | 1,687 | 1,758 |
| Deferred income taxes | 5,150 | 5,150 |
| Total current assets | 34,808 | 25,466 |
| Property and equipment: | | |
| Land and improvements | 158,878 | 154,528 |
| Buildings | 464,407 | 449,561 |
| Equipment | 262,118 | 252,611 |
| Construction in progress | 25,977 | 25,789 |
| | 911,380 | 882,489 |
| Less accumulated depreciation | 279,502 | 264,339 |
| Net property and equipment | 631,878 | 618,150 |
| Other assets | 8,371 | 8,073 |
| Total assets | \$675,057 | 651,689 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | 9,628 | 6,580 |
| Current portion of long-term debt | 34,750 | - |
| Income taxes payable | 842 | 1,288 |
| Accrued liabilities | 48,805 | 42,590 |
| Total current liabilities | 94,025 | 50,458 |
| Long-term debt | 156,250 | 196,000 |
| Deferred income taxes | 42,931 | 42,824 |
| Other long-term liabilities | 5,901 | 5,467 |
| Total liabilities | 299,107 | 294,749 |
| Shareholders' equity: | | |
| Common stock of \$1.00 par value; authorized 100,000,000 shares; issued 41,654,000 in 2004 and 41,843,000 shares in 2003 | 41,654 | 41,843 |
| Additional paid-in capital | 1,854 | 1,412 |
| Retained earnings | 332,442 | 313,685 |
| Total shareholders' equity | 375,950 | 356,940 |
| Commitments and contingencies | | |
| Total liabilities and | | |

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shareholders' equity \$675,057 651,689

See accompanying notes to consolidated financial statements.

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

(In thousands)

| | Six Months Ended | |
|---|------------------|-----------------|
| | June 30, 2004 | July 2, 2003 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 29,530 | 26,427 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,635 | 16,858 |
| Loss (gain) on sale of property and equipment | 502 | (395) |
| Tax benefit from exercise of stock options | 2,679 | 284 |
| Deferred income taxes | 107 | 150 |
| Decrease (increase) in: | | |
| Receivables | (80) | (631) |
| Inventories | (913) | (692) |
| Prepaid expenses | 71 | 490 |
| Income taxes receivable | - | 2,739 |
| Other assets | (410) | (639) |
| Increase (decrease) in: | | |
| Accounts payable | 3,048 | (1,959) |
| Income taxes payable | (446) | 6,993 |
| Accrued liabilities | 6,215 | 7,003 |
| Other long-term liabilities | 434 | 464 |
| Net cash provided by operating activities | 58,372 | 57,092 |
| Cash flows from investing activities: | | |
| Proceeds from sale of property and equipment | 3,302 | 3,774 |
| Capital expenditures | (35,055) | (36,334) |
| Net cash used in investing activities | (31,753) | (32,560) |
| Cash flows from financing activities: | | |
| Net repayment of revolving credit facility | (5,000) | - |
| Proceeds from stock options exercised | 5,008 | 832 |
| Purchase of common stock | (18,207) | (7,841) |
| Net cash used in financing activities | (18,199) | (7,009) |
| Net increase in cash and cash equivalents | 8,420 | 17,523 |
| Cash and cash equivalents - beginning of period | 8,617 | 2,654 |
| Cash and cash equivalents - end of period | \$ 17,037 | 20,177 |

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Supplemental disclosures

Cash paid during the period for:

| | | |
|--|--------|-------|
| Interest, net of amount capitalized \$ | 5,488 | 5,129 |
| Income taxes | 12,737 | 4,829 |

See accompanying notes to consolidated financial statements.

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

(In thousands)

Six Months ended June 30, 2004

| | \$1 Par Value Common Stock | Additional Paid-In Capital | Retained Earnings | Total |
|---|----------------------------------|----------------------------------|----------------------|----------|
| Balances at December 31, 2003 | \$41,843 | 1,412 | 313,685 | 356,940 |
| Net earnings | - | - | 29,530 | 29,530 |
| Issuance of common stock under stock option plans | 843 | 4,165 | - | 5,008 |
| Tax benefit from exercise of non-qualified stock options | - | 2,679 | - | 2,679 |
| Purchases of common stock | (1,032) | (6,402) | (10,773) | (18,207) |
| Balances at June 30, 2004 | \$41,654 | 1,854 | 332,442 | 375,950 |

See accompanying notes to consolidated financial statements.

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

June 30, 2004
(Unaudited)

Note 1. Description of Business

Ryan's Restaurant Group, Inc. (formerly Ryan's Family Steak Houses, Inc.) operates a restaurant chain consisting of 337 Company-owned restaurants located principally in the southern and midwestern United States and receives franchise royalties from an unrelated third-party franchisee that operates 12 Ryan's brand restaurants (as of June 30, 2004) in Florida. Company-owned 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. The Company was organized in 1977, opened its first restaurant in 1978 and completed its initial public offering in 1982. The Company does not operate or franchise any international units.

Note 2. Basis of Presentation

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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 six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending December 29, 2004. 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 31, 2003.

Note 3. Relevant New Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) revised Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which was originally issued in January 2003, to provide guidance regarding issues arising from the implementation of FIN 46. This interpretation addresses the consolidation by business enterprises of variable interest entities, as defined in the interpretation, and sets forth additional disclosure regarding such interests. For entities acquired or created before February 1, 2003, this interpretation is effective no later than the end of the first interim or reporting period ending after March 15, 2004, except for those variable interest entities that are considered to be special purpose entities, for which the effective date is no later than the end of the first interim or annual reporting period ending after December 15, 2003. For all entities that were acquired subsequent to January 31, 2003, this interpretation is effective as of the first interim or annual period ending after December 31, 2003. The adoption of FIN 46 has not affected the Company's consolidated financial statements.

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

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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:

| (In thousands, except earnings per share) | Quarter Ended | | Six Months Ended | |
|--|------------------|-----------------|------------------|-----------------|
| | June 30, 2004 | July 2, 2003 | June 30, 2004 | July 2, 2003 |
| Net earnings, as reported | \$14,170 | 14,329 | 29,530 | 26,427 |
| Less total stock-based compensation expense determined under fair value based method, net of related tax effects | (229) | (229) | (585) | (554) |
| Pro forma net earnings | \$13,941 | 14,100 | 28,945 | 25,873 |
| Earnings per share | | | | |
| Basic: | | | | |
| As reported | .34 | .34 | .71 | .62 |
| Pro forma | .33 | .33 | .69 | .61 |
| Diluted: | | | | |
| As reported | .33 | .33 | .68 | .60 |
| Pro forma | .32 | .32 | .66 | .59 |

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. In order to prevent antidilution, outstanding stock options to purchase 3,000 and 40,500 shares of common stock at June 30, 2004 and July 2, 2003, respectively, were not included in the computation of diluted EPS.

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 are seeking collective-action status on this complaint. 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 has appealed this decision. As part of the appeal process, the presiding judge stayed the order regarding the employee addresses. Due to the evolving nature of this case, the potential financial impact to the Company's financial results cannot be estimated at this time. Accordingly, no accrual for a loss contingency has been made in the accompanying consolidated financial statements.

In addition, from time to time, the Company is involved in

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various legal claims and litigation arising in the normal course of business. Based on currently-known legal actions, 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.

Note 7. Reclassifications

Certain 2003 incentive bonus amounts for store management and hourly team members have been reclassified to store-level payroll and benefits from general and administrative expenses to conform to the 2004 presentation. These costs amounted to \$1,204,000 and \$708,000 for the quarters ended June 30, 2004 and July 2, 2003, respectively. The reclassified amounts for the six months ended June 30, 2004 and July 2, 2003 were \$2,807,000 and \$1,460,000, respectively. This reclassification does not change either net earnings or shareholders' equity for 2003.

Note 8. Company Name Change

At the Company's Annual Meeting of Shareholders held on May 5, 2004, shareholders approved a proposal to change the Company's legal name to Ryan's Restaurant Group, Inc. Management's implementation of this change was effective May 20, 2004.

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

RESULTS OF OPERATIONS

Quarter ended June 30, 2004 versus July 2, 2003

Restaurant sales during the second quarter of 2004 increased by 3.9% over the second quarter of 2003. Average unit growth, based on the average number of restaurants in operation, amounted to 3.7% during the quarter. The Company owned and operated 337 restaurants (303 Ryan's brand and 34 Fire Mountain brand) at June 30, 2004 and 330 restaurants (322 Ryan's brand and 8 Fire Mountain brand) at July 2, 2003. In comparison to the second quarter of 2003, average unit sales ("AUS"), or average weekly sales volumes per unit, for all stores (including newly opened restaurants) increased by 0.2% in 2004, and same-store sales decreased by 0.2% in 2004. In computing same-store sales, the Company averages weekly sales for those units operating for at least 18 months. All converted or relocated stores 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 second quarters of 2004 and 2003, as compared to their comparable prior years' quarters, were as follows:

| Same-store | 2004 | 2003 |
|-----------------------------------|--------|--------|
| Sales | (0.2%) | (0.7%) |
| Customer count | (3.8%) | (3.2%) |
| Menu factor (principally pricing) | 3.6% | 2.5% |

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Same-store sales were up 2.0% in April, but suddenly weakened in May. This weakness continued into June, resulting in same-store sales being down 1.5% during the combined May and June periods. Given the suddenness of the downturn, management believes that economic factors, and particularly the significant increase in gasoline prices and the surrounding publicity, were behind this sales shift. Customers at the Company's restaurants are generally very value-driven, and given the inevitable increase in their transportation expenses, it is reasonable to expect that they would cut back on other discretionary expenses, such as dining out. Management expects that as consumers become accustomed to higher gasoline costs, they will gradually go back to their prior spending (and eating-out) habits.

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 84.5% during the second quarter of 2004 compared to 83.9% during the second quarter of 2003. Food and beverage costs amounted to 35.2% of sales for 2004 compared to 35.4% of sales for 2003. In 2004, food and beverage costs were adversely impacted by higher beef costs, which were approximately 21% higher than the second quarter of 2003. However, the higher beef costs were more than offset by lower seafood and produce costs, the 3.6% menu factor and a heightened store-level focus on food cost controls. In late July, beef prices decreased by approximately 20% due to weak retail demand, and management was able to purchase sufficient quantities to cover a majority of the Company's estimated third quarter needs. Management believes that, during the remainder of 2004, wholesale beef costs will fluctuate due to changes in retail demand, but will generally remain at slightly higher levels than experienced during 2003. Payroll and benefits increased to 31.9% of sales in 2004 from 31.2% of sales in 2003 due principally to higher medical and workers' compensation insurance costs. All other restaurant costs, including depreciation, amounted to 17.4% of sales for 2004 and 17.3% of sales for 2003 and were impacted principally by higher utility costs and lower general liability insurance expense in 2004.

General and administrative expenses increased to 4.7% of sales in 2004 from 4.6% of sales in 2003 due principally to higher consulting fees.

Interest expense for the second quarter of 2004 and 2003 amounted to 1.3% and 1.1% of sales, respectively. The effective average interest rate increased to 6.2% during the second quarter of 2004 from 5.0% in 2003, resulting principally from the refinancing in July 2003 of \$100 million of lower-cost variable-rate debt with 4.65% fixed-rate senior notes due in 2013.

An effective income tax rate of 33.8% was used for the second quarter of 2004 and 36.2% for the second quarter of 2003. The rate decrease resulted primarily from certain federal income tax credit hiring programs, such as the Work Opportunity Tax

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Credit program ("WOTC"), and lower state income tax expense. Management believes that the tax rate for 2004 will gradually increase relative to 2003 during subsequent quarters if these tax credit hiring programs are not re-enacted by the U.S. Congress.

Net earnings for the second quarter amounted to \$14.2 million in 2004 compared to \$14.3 million in 2003. Weighted-average shares (diluted) decreased 0.9% resulting principally from the Company's stock repurchase program (see "Liquidity and Capital Resources"). Accordingly, earnings per share (diluted) amounted to 33 cents for the second quarters of each of 2004 and 2003.

Six months ended June 30, 2004 versus July 2, 2003

For the six months ended June 30, 2004, restaurant sales were up 6.6% compared to the same period in 2003. Principal factors affecting 2004 sales growth include the 4.0% unit growth of Company-owned restaurants and a 2.7% increase in all-store AUS. Same-store sales and related factors for the first six months of 2004 and 2003, as compared to their comparable prior years' periods, were as follows:

| | | |
|-----------------------------------|--------|--------|
| Same-store | 2004 | 2003 |
| Sales | 2.2% | (2.5%) |
| Customer count | (1.4%) | (5.2%) |
| Menu factor (principally pricing) | 3.6% | 2.7% |

Cost of sales, as detailed above, for the first six months of 2004 and 2003 amounted to 84.0% and 84.4% of sales, respectively. Food and beverage costs were 34.7% of sales for 2004 compared to 35.3% of sales for 2003. In 2004, food and beverage costs were adversely impacted by significantly higher beef costs which were more than offset by better product utilization (less waste) resulting from the higher AUS, the 3.6% menu factor and a heightened store-level focus on food cost controls. Payroll and benefits increased by 0.4% of sales to 31.8% of sales for 2004 from 31.4% of sales for 2003 due to higher medical and workers' compensation insurance and store-level incentive costs, partially offset by lower hourly labor expense. All other restaurant costs, including depreciation, decreased by 0.2% of sales due to the favorable impact of the higher AUS on the many fixed-cost items included in this category, partially offset by higher utility costs.

General and administrative expenses increased by 0.2% of sales for the first six months of 2004 due principally to higher projected performance-based bonuses for 2004.

An effective income tax rate of 33.8% and 36.2% was used for the first six months of 2004 and 2003, respectively. The explanation for this rate decrease is similar to the second quarter's discussion.

Net earnings for the first six months of 2004 amounted to \$29.5 million compared to \$26.4 million in 2003. Weighted-average shares (diluted) decreased by 0.2%, resulting principally from the Company's stock repurchase program. Accordingly, earnings per share (diluted) amounted to 68 cents in the 2004 period compared to 60 cents in the 2003 period.

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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 six-month periods ended June 30, 2004 and July 2, 2003 follow (in thousands):

| | 2004 | 2003 | Change |
|---|----------|----------|----------|
| Net cash provided by operating activities | \$58,372 | 57,092 | 1,280 |
| Net cash used in investing activities | (31,753) | (32,560) | 807 |
| Net cash used in financing activities | (18,199) | (7,009) | (11,190) |
| Net increase in cash and cash equivalents | \$ 8,420 | 17,523 | (9,103) |

Net cash provided by operating activities increased by \$1.3 million, resulting principally from the higher cash flow generated by the Company's operations, as indicated by the higher net earnings and depreciation amounts for 2004 in the accompanying consolidated statements of cash flows, and from the timing of income tax payments. Net cash used in investing activities was fairly level during the first six months of both 2004 and 2003. Finally, net cash used in financing activities increased by \$11.2 million as the Company increased its share repurchase activity in 2004.

At June 30, 2004, the Company's working capital deficit amounted to \$59.2 million compared to a \$25.0 million deficit at December 31, 2003. This increase stems primarily from an increase in the Company's current liabilities relating to outstanding debt that is due within one year (\$16.0 million under the revolving credit facility and \$18.7 million of the 9.02% senior notes). 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.

Total capital expenditures for the first six months of 2004 amounted to \$35.1 million. The Company opened seven and closed four restaurants, including three openings and closings for relocation purposes, during the first six months of 2004. 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. For the remainder of 2004, the Company plans to build and open nine new restaurants, including two potential relocations. 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. Management also intends to

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convert approximately 9 to 11 restaurants during the remainder of 2004 to the display cooking/lodge-look format. Management believes that the exterior package favorably impacts restaurant sales at converted restaurants by signaling to potential customers that changes have taken place inside the restaurant. For the remainder of 2004, all of the new and converted 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. Total 2004 capital expenditures are estimated at \$84 million. The Company is currently concentrating its efforts on Company-owned restaurants and is not actively pursuing any additional franchised locations, either domestically or internationally.

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 2004. 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. During the first six months of 2004, the Company purchased 1,032,106 shares at an aggregate cost of \$18.2 million. Through June 30, 2004, approximately 44.2 million shares, or 55% of total shares available at the beginning of the repurchase program, had been purchased at an aggregate cost of \$332.8 million. The Company has not purchased any additional shares since June 30, 2004. Management currently plans to additionally purchase up to approximately \$6.8 million of its common stock during the remainder of 2004 if, in management's opinion, the share price is at an attractive level, subject to the continued availability of capital, the limitations imposed by the Company's credit agreements, applicable securities regulations and the other factors described in "Forward-Looking Information."

At June 30, 2004, the Company's outstanding debt consisted of \$75 million of 9.02% senior notes, \$100 million of 4.65% senior notes and a \$100 million revolving credit facility of which \$16 million was outstanding at that date. After allowances for letters of credit and other items, there were approximately \$74 million in funds available under the revolving credit facility. The Company's ability to draw on these funds may be limited by the financial covenants in the agreements governing both the senior notes and the revolving credit facility. At June 30, 2004, the Company was in compliance with all covenants under the loan agreements. Management believes that, based on its current plans, these restrictions will not impair the Company's operations during 2004. The current revolving credit facility expires in January 2005, and management intends to refinance the facility during 2004. Based on preliminary discussions with banks, management believes that the facility will be refinanced in a manner that appropriately supports the Company's current operations and growth plans. However, since final negotiations have not commenced, there can be no assurance that the refinancing will occur on anticipated terms or at all.

Management believes that its current capital structure is sufficient to meet its 2004 cash requirements. The Company

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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 are defined as those that 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. 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 cash flows of \$50,000 or less in the aggregate over the previous 12 months or if it has been selected for relocation and the new site is under construction. For restaurants that will continue to be operated, the 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, such as 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 value 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 to its current fair value less costs to sell and is no longer depreciated.

Self-Insurance Liabilities The Company self-insures a significant portion of expected losses from its workers' compensation, general liability and team member medical programs. 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.

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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 claim experience. Unexpected changes in any of these factors could result in costs that are materially different than initially reported.

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 and accordingly, legislated changes to the minimum wage affect the Company's payroll costs. Although no minimum wage increases have been signed into law, legislation proposing to increase the minimum wage by \$1.85 to \$7.00 per hour over a two-year period is currently under consideration by the U.S. Congress. Subject to competitive market factors, the Company is typically able to increase menu prices to cover most of the 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 June 30, 2004, there was \$16 million in outstanding debt under this facility. Interest rates for the facility generally change in response to LIBOR. Management estimates that a one-percent change in interest rates throughout the quarter ended June 30, 2004 would have impacted interest expense by approximately \$35,000 and net earnings by \$23,000.

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While the Company has entered into interest rate derivative agreements in the past, there were no such agreements outstanding during the three months ended June 30, 2004. 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 such 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 second quarter of 2004, 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 and labor supply costs; food and labor availability; an adverse food safety event; weather fluctuations; the availability of reasonably priced capital; 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 31, 2003. 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 2004 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 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.

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 are seeking collective-action status on this complaint. 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 has appealed this decision. As part of the appeal process, the presiding judge stayed the order regarding the employee addresses. Due to the evolving nature of this case, the potential financial impact to the Company's financial results cannot be estimated at this time. Accordingly, no accrual for a loss contingency has been made in the accompanying consolidated financial statements.

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, 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. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

ISSUER PURCHASES OF EQUITY SECURITIES

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| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part Of Publicity Announced Plan | Maximum Number of Shares that May Yet Be Purchased Under the Plan |
|---------------------------|----------------------------------|------------------------------|--|---|
| April (04/01/04-05/05/04) | 759,440 | \$18.04 | 44,217,706 | 10,782,294 |
| May (05/06/04-06/02/04) | - | - | 44,217,706 | 10,782,294 |
| June (06/03/04-06/30/04) | - | - | 44,217,706 | 10,782,294 |
| Total | 759,440 | \$18.04 | 44,217,706 | 10,782,294 |

The Company commenced its stock repurchase program in March 1996 and is currently authorized to repurchase up to 55 million shares of its common stock through December 2004. There were no purchases of the Company's common stock by or on behalf of the Company or any "affiliated purchaser" during the second quarter of 2004 other than through this stock repurchase program.

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

The following table summarizes the results of the shareholder votes cast at the Annual Meeting of Shareholders held on May 5, 2004 (all votes are in thousands):

| | For | Against | Withheld | Abstain | Broker-Nonvotes |
|--|--------|---------|----------|---------|-----------------|
| (a) Election of Directors: | | | | | |
| C. D. Way | 36,447 | n/a | 1,133 | n/a | n/a |
| G. E. McCranie | 36,614 | n/a | 966 | n/a | n/a |
| B. L. Edwards | 36,759 | n/a | 821 | n/a | n/a |
| J. M. Shoemaker, Jr. | 24,392 | n/a | 13,188 | n/a | n/a |
| H. K. Roberts, Jr. | 36,741 | n/a | 838 | n/a | n/a |
| J. D. Cockman | 36,764 | n/a | 816 | n/a | n/a |
| B. S. MacKenzie | 36,741 | n/a | 838 | n/a | n/a |
| (b) Change the Company's name to Ryan's Restaurant Group, Inc. | | | | | |
| | 37,487 | 79 | n/a | 13 | n/a |
| (c) Ratify the appointment of KPMG LLP for fiscal 2003 | | | | | |
| | 36,871 | 693 | n/a | 16 | n/a |

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Item 6. Exhibits and Reports
on Form 8-K.

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

| Exhibit # | Description |
|-----------|--|
| 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 |

(b) Reports on Form 8-K:

On April 21, 2004, the Company furnished a report on Form 8-K regarding the press release on the Company's financial results as of and for the quarter ended March 31, 2004.

On July 21, 2004, the Company furnished a report on Form 8-K regarding the press release on the Company's financial results as of and for the quarter and six months ended June 30, 2004.

Items 3 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)

August 6, 2004 /s/Charles D. Way
Charles D. Way
Chairman, President and
Chief Executive Officer

August 6, 2004 /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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August 6, 2004

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