

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

RYANS RESTAURANT GROUP INC

Form 10-Q

May 12, 2006

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

FORM 10-Q

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

For the Quarter ended March 29, 2006

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)

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 a large
accelerated filer, an accelerated filer, or a non-
accelerated filer. See definition of "accelerated filer and
large accelerated filer" in Rule 12b-2 of the Exchange act.
Large accelerated filer _____ Accelerated filer X
Non-accelerated filer _____

Indicate by check mark whether the registrant is a shell
company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

At March 29, 2006, there were 42,182,000 shares outstanding
of the registrant's common stock, par value \$1.00 per share.

RYAN'S RESTAURANT GROUP, INC.

TABLE OF CONTENTS PAGE NO.

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

PART I --- FINANCIAL INFORMATION

Item 1. Financial Statements:

Consolidated Statements of Earnings (Unaudited) - Quarters Ended March 29, 2006 and March 30, 2005	3
Consolidated Balance Sheets - March 29, 2006 (Unaudited) and December 28, 2005	4
Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended March 29, 2006 and March 30, 2005	5
Consolidated Statement of Shareholders' Equity (Unaudited) - Three Months Ended March 29, 2006	6
Notes to Consolidated Financial Statements (Unaudited)	7 - 10

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11 - 15
-----------------------------------------------------------------------------------------------------	---------

Item 3. Quantitative and Qualitative Disclosures About Market Risk	15
-----------------------------------------------------------------------	----

Item 4. Controls and Procedures	15
---------------------------------	----

Forward-Looking Information	16
-----------------------------	----

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings	17
---------------------------	----

Item 4. Submission of Matters to a Vote of Security Holders	17
----------------------------------------------------------------	----

Item 6. Exhibits	18
------------------	----

SIGNATURES	19
------------	----

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except per share data)

	Quarter Ended	
	March 29, 2006	March 30, 2005
Restaurant sales	\$213,717	209,639

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

Cost of sales:		
Food and beverage	73,512	72,613
Payroll and benefits	68,166	67,991
Depreciation	8,458	8,285
Impairment charges	244	167
Other restaurant expenses	33,474	31,521
Total cost of sales	183,854	180,577
General and administrative expenses	11,465	10,470
Interest expense	2,399	2,360
Revenues from franchised restaurants	-	(174)
Other income, net	(829)	(1,200)
Earnings before income taxes	16,828	17,606
Income taxes	6,032	5,793
Net earnings	\$ 10,796	11,813
Net earnings per common share:		
Basic	\$.26	.28
Diluted	.25	.28
Weighted-average shares:		
Basic	42,153	41,938
Diluted	42,576	42,634

See accompanying notes to consolidated financial statements.

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

	March 29, 2006 (Unaudited)	December 28, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,770	5,120
Receivables	5,198	5,007
Inventories	5,856	5,176
Prepaid expenses	1,042	985
Deferred income taxes	7,951	7,417
Total current assets	53,817	23,705
Property and equipment:		
Land and improvements	169,247	170,424
Buildings	510,610	513,932
Equipment	284,733	287,581
Construction in progress	15,130	23,405
	979,720	995,342
Less accumulated depreciation	318,747	323,012
Net property and equipment	660,973	672,330
Other assets	11,102	10,793
Total assets	\$725,892	706,828
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	7,834	6,468
Current portion of long-term debt	18,750	18,750
Income taxes payable	8,493	4,118

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

Accrued liabilities	49,469	46,691
Total current liabilities	84,546	76,027
Long-term debt	153,050	154,500
Deferred income taxes	46,936	46,768
Other long-term liabilities	5,878	5,899
Total liabilities	290,410	283,194
Shareholders' equity:		
Common stock of \$1.00 par value; authorized 100,000,000 shares; issued 42,182,000 in 2006 and 42,122,000 shares in 2005	42,182	42,122
Additional paid-in capital	6,286	5,294
Retained earnings	387,014	376,218
Total shareholders' equity	435,482	423,634
Commitments and contingencies		
Total liabilities and shareholders' equity	\$725,892	706,828

See accompanying notes to consolidated financial statements.

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

(In thousands)

	Three Months Ended	
	March 29, 2006	March 30, 2005
Cash flows from operating activities:		
Net earnings	\$ 10,796	11,813
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,929	8,763
Impairment charges	244	167
Gain on sale of property and equipment	(1,253)	(629)
Tax benefit from exercise of stock options	-	216
Stock option compensation	516	-
Deferred income taxes	(366)	196
Decrease (increase) in:		
Receivables	(191)	595
Inventories	(680)	(1,165)
Prepaid expenses	(57)	79
Other assets	(363)	(237)
Increase (decrease) in:		
Accounts payable	1,366	3,474
Income taxes payable	4,375	5,079
Accrued liabilities	2,778	738
Other long-term liabilities	(21)	268
Net cash provided by operating activities	26,073	29,357
Cash flows from investing activities:		

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

Proceeds from sale of property and equipment	8,884	1,955
Capital expenditures	(5,393)	(22,177)
Net cash provided by (used in) investing activities	3,491	(20,222)
Cash flows from financing activities:		
Net borrowings from revolving credit facility	17,300	24,500
Repayment of senior notes	(18,750)	(18,750)
Proceeds from stock options exercised	439	783
Tax benefit from exercise of stock options	97	-
Purchase of common stock	-	(23)
Net cash provided by (used in) financing activities	(914)	6,510
Net increase in cash and cash equivalents	28,650	15,645
Cash and cash equivalents - beginning of period	5,120	7,354
Cash and cash equivalents - end of period	\$ 33,770	22,999
Supplemental disclosures		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 3,793	4,226
Income taxes	1,926	302

See accompanying notes to consolidated financial statements.

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

(In thousands)

Three Months ended March 29, 2006

	\$1 Par Value Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balances at December 28, 2005	\$42,122	5,294	376,218	423,634
Net earnings	-	-	10,796	10,796
Issuance of common stock under stock option plans	60	379	-	439
Tax benefit from exercise of non-qualified stock options	-	97	-	97
Stock option compensation	-	516	-	516
Balances at March 29, 2006	\$42,182	6,286	387,014	435,482

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

See accompanying notes to consolidated financial statements.

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

March 29, 2006
(Unaudited)

Note 1. Description of Business

Ryan's Restaurant Group, Inc. (the "Company") operates a restaurant chain consisting of 337 Company-owned restaurants located principally in the southern and midwestern United States. 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, 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 three months ended March 29, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending January 3, 2007. 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 28, 2005.

Note 3. Stock Options

In 2002, the Company's shareholders approved a stock option plan ("Plan") pursuant to which the Company's Board of Directors may grant options to officers and other team members. The Plan authorized grants of options to purchase

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

up to 3,600,000 shares of authorized but unissued common stock. Under the terms of the Plan, which expires in 2012, a committee of non-employee directors has the authority to determine the eligibility, tax treatment, term, vesting period and exercise price. The Plan provides for a maximum ten-year life for 900,000 of the option shares and a maximum seven-year life for the remaining 2,700,000 option shares. Officer grants have vesting periods that generally do not exceed six months. Options granted to other team members typically vest pro-rata over four years. In addition, the Plan states that the exercise price of an option cannot be less than the fair market value, based on the closing market price, of the Company's common stock on the grant date. The Plan also provides for option grants to non-employee Board members at a fixed amount of 5,000 shares per director granted annually on October 31 with an exercise price equal to that day's closing market price. Options granted to Board members have vesting periods that generally do not exceed six months. At March 29, 2006, there were 2,621,000 shares available for grant under the Plan and another 196,000 shares available for grant under a predecessor plan. Options granted under the predecessor plan have terms generally similar to the current Plan, except that all options under the predecessor plan have a maximum ten-year life.

Effective December 29, 2005, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method, and consequently did not retroactively adjust results from prior periods. Under this transition method, stock option compensation is recognized as an expense over the remaining unvested portion of all stock option awards granted prior to December 29, 2005, based on the fair values estimated at grant date in accordance with the original provisions of SFAS No. 123. The Company has applied the Black-Scholes valuation model in determining the fair value of the stock option awards. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on historical experience and future expectations. Prior to 2006, stock option compensation was included as a pro forma disclosure, as permitted by SFAS No. 123.

As a result of adopting SFAS 123R, the impact to the Consolidated Statement of Earnings for the quarter ended March 29, 2006 was to decrease earnings before income taxes and net earnings by \$516,000 and \$331,000, respectively, and diluted earnings per share by \$0.01. Basic earnings per share for the quarter were not impacted. In addition, prior to the adoption of SFAS 123R, the Company presented the tax benefit from the exercise of stock options as a cash flow provided by operating activities in the Consolidated Statements of Cash Flows. Upon the adoption of SFAS 123R in 2006, this tax benefit is classified as a cash flow provided by financing activities.

The pro forma table below reflects net earnings and basic and diluted earnings per share for the first quarter of 2005, had the Company applied the fair value recognition provisions of SFAS No. 123:

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

Three Months Ended

(In thousands, except earnings per share) March 30, 2005

Net earnings, as reported	\$11,813
Less total stock-based compensation expense determined under fair value based method, net of related tax effects	(471)
Pro forma net earnings	\$11,342
Earnings per share	
Basic:	
As reported	\$.28
Pro forma	.27
Diluted:	
As reported	.28
Pro forma	.27

Pro forma disclosure for the three months ended March 29, 2006 is not presented because the amounts are recognized in the accompanying consolidated financial statements.

The weighted-average fair value at the grant date for options issued during the first quarter of 2005 was \$3.61 per share. This fair value was estimated at grant date using the following weighted-average assumptions: (a) no dividend yield; (b) expected stock price volatility of .24; (c) a risk-free interest rate of 3.5%; and (d) an expected option term of 4.2 years. Option grants during the first quarter of 2006 were insignificant.

The expected stock price volatility is based on the historical volatility of the Company's stock over the 36 months prior to the grant date. The expected option term represents the period of time that options are expected to be outstanding after their grant date. The risk-free interest rate reflects the interest rate at grant date on zero-coupon U.S. government bonds having a remaining life equal to the expected option term.

Stock option activity during the three months ended March 29, 2006 was as follows:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contract- ual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at 12/28/05	3,215	\$10.51		
Granted	3	13.23		
Exercised	(60)	7.46		
Forfeited	(54)	8.47		
Outstanding at 3/29/06	3,104	10.55	5.5	\$10,752
Exercisable at 3/29/06	2,392	10.25	5.0	9,016

The aggregate intrinsic value in the table above represents

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

the total pretax intrinsic value (the difference between the closing stock price on March 29, 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by option holders had all option holders exercised their options on March 29, 2006. This amount will change as the stock's market price changes. The total intrinsic value of options exercised during the three months ended March 29, 2006 and March 30, 2005 were \$326,000 and \$593,000, respectively. As of March 29, 2006, total unrecognized stock-based compensation expense related to nonvested stock options amounted to approximately \$1.2 million, which is expected to be recognized over a weighted-average period of approximately 2.0 years.

Note 4. 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 potential common stock that arises from the hypothetical exercise of outstanding stock options using the treasury stock method. In order to prevent antidilution, outstanding stock options to purchase 863,000 and 41,000 shares of common stock at March 29, 2006 and March 30, 2005, respectively, were not included in the computation of diluted EPS.

Note 5. 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 towards a settlement, and, in April 2006, the presiding judge issued an order approving the terms of a settlement. The settlement agreement provides for an aggregate payment ranging from \$2 million to \$9 million to those current and former restaurant employees who worked with the Company during the period between November 12, 1999 and August 2, 2005 and file a timely claim form. Depending on the number of claim forms received, the Company believes that the total settlement cost, including attorneys' fees and administrative costs, will range from \$6 million to \$14 million. The Company charged \$6 million to general and administrative expenses in 2005 as the estimated minimum settlement for this litigation. It is not possible to predict the number of

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

claim forms that will be received, and, accordingly, the ultimate settlement amount 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.

Note 6. Reclassifications

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to the 2006 presentation. These reclassifications did not affect either the prior year's net earnings or shareholders' equity.

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

RESULTS OF OPERATIONS

Quarter ended March 29, 2006 versus March 30, 2005

Restaurant sales during the first quarter of 2006 increased by 2.0% compared to the first quarter of 2005. The average number of restaurants in operation decreased by 0.9% in the first quarter of 2006 compared to the same quarter of 2005. The Company owned and operated 337 restaurants (265 Ryan's brand and 72 Fire Mountain brand) at March 29, 2006 and 344 restaurants (290 Ryan's brand and 54 Fire Mountain brand) at March 30, 2005. In comparison to the first quarter of 2005, average weekly sales for all stores, including newly opened restaurants, increased by 3.4% in 2006, and same-store sales increased by 1.7% in 2006. 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 first quarters of 2006 and 2005, as compared to their comparable prior years' quarters, were as follows:

Same-store	2006	2005
Sales	1.7%	(3.1%)
Customer count	(1.7%)	(5.8%)
Menu factor (principally pricing)	3.4%	2.7%

Management believes that the Company's sales results increased principally as a result of its weekend breakfast buffet program. Breakfast sales added 2.8% to the first quarter's same-store sales increase of 1.7%. This program offers customers a buffet-style breakfast on Saturdays and

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

Sundays and features cooked-to-order eggs and omelets, pancakes, waffles, hash browns, sausage, bacon, ham, pastries, cold cereal, juices and fresh fruit. Breakfast was added at 40 restaurants during the first quarter of 2006 resulting in 197 breakfast locations at the end of the quarter. The Company plans to serve breakfast at all of its restaurants by the end of 2006.

Cost of sales includes food and beverage, payroll, payroll taxes and employee benefits, depreciation, impairment, repairs, maintenance, utilities, supplies, advertising, insurance, property taxes and licenses at Company-owned restaurants. Such costs, as a percentage of sales, were 86.0% during the first quarter of 2006 compared to 86.1% during the first quarter of 2005. Food and beverage costs amounted to 34.4% of sales in 2006 and 34.6% of sales in 2005. In 2006, these costs decreased as a percentage of sales due to lower soybean-oil, pork and fresh chicken costs, partially offset by higher sirloin costs. Payroll and benefits decreased to 31.9% of sales in 2006 from 32.4% of sales in 2005 due principally to better store-level controls over hourly labor. All other restaurant costs, including depreciation, increased to 19.7% of sales in 2006 from 19.1% of sales in 2005. This increase in other restaurant costs resulted principally from higher electricity and natural gas costs, which increased by a combined 0.9% of sales, partially offset by gains realized from the sale of impaired restaurant properties. Based on these factors, the Company's margins at the restaurant level increased to 14.0% of sales in 2006 from 13.9% of sales in 2005.

General and administrative expenses increased to 5.4% of sales in 2006 from 5.0% of sales in 2005 resulting principally from \$429,000 of stock option compensation related to the implementation of SFAS 123R and from higher restaurant training costs.

Interest expense for the first quarters of 2006 and 2005 was unchanged at 1.1% of sales. The average effective interest rate for both quarters was 6.0%. The Company made a scheduled \$18.8 million annual installment payment on the Company's 9.02% senior notes in January 2006. Borrowings under the floating-rate revolving credit facility, which accrued interest at a 5.9% average rate during the quarter, were used as the source of funds for this payment.

Revenues from franchised restaurants decreased by \$174,000 from the first quarter of 2005 to the first quarter of 2006 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.

The effective income tax rate increased to 35.8% for the first quarter of 2006 compared to 32.9% for the first quarter of 2005 due primarily from higher state income taxes and the expiration of the federal Work Opportunity

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

Tax Credit. Although Congress is discussing the retroactive reinstatement of this tax credit, the Company cannot recognize any benefit in 2006 until the program is re-enacted.

Net earnings for the first quarter amounted to \$10.8 million in the 2006 period compared to \$11.8 million in the 2005 period. Weighted-average shares (diluted) were 42.6 million for both 2006 and 2005. Accordingly, earnings per share (diluted) amounted to 25 cents for the first quarter of 2006 compared to 28 cents for the first quarter of 2005.

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, in prior years, stock repurchases.

A comparison of the Company's sources and uses of funds for the three-month periods ended March 29, 2006 and March 30, 2005 follow (in thousands):

	2006	2005	Change
Net cash provided by operating activities	\$26,073	29,357	(3,284)
Net cash provided by (used in) investing activities	3,491	(20,222)	23,713
Net cash provided by (used in) financing activities	(914)	6,510	(7,424)
Net increase in cash and cash equivalents	\$28,650	15,645	13,005

Net cash provided by operating activities decreased by \$3.3 million during the first three months of 2006 mainly as a result of lower net earnings combined with a smaller increase in accounts payable for 2006. During 2005, the Company initiated a plan to significantly reduce new store growth in 2006 and 2007 in order to concentrate efforts on existing stores and increase same-store sales. The plan also suspended share repurchases during 2006 and 2007 and envisioned using the resulting excess cash to reduce the amount of outstanding debt. Following the plan, capital expenditures decreased, certain underperforming stores were closed and eight locations that closed during 2005 and 2006 were sold during the first quarter of 2006. Sales proceeds exceeded capital expenditures for the quarter, and, accordingly, net cash provided by investing activities increased by \$23.7 million. Since the Company generated excess cash during the first quarter of 2006, borrowings from the Company's revolving credit facility were reduced, resulting in net cash provided by financing activities decreasing by \$7.4 million. Overall cash increased by \$28.7 million during the first quarter of 2006, and, in accordance with the terms of the revolving credit facility, the Company repaid \$25.3 million of outstanding debt on the facility during the Company's April 2006 fiscal accounting period.

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

At March 29, 2006, the Company's working capital deficit amounted to \$30.7 million compared to a \$52.3 million deficit at December 28, 2005. This decrease in deficit results principally from the aforementioned increase in the Company's cash balances. 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 March 29, 2006, the Company's outstanding debt consisted of \$37.5 million of 9.02% senior notes, \$100.0 million of 4.65% senior notes and a \$125.0 million revolving credit facility of which \$34.3 million was outstanding at that date. After allowances for letters of credit and other items, there were approximately \$78 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. At March 29, 2006, 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 2006.

Total capital expenditures for the three months of 2006 amounted to \$5.4 million. The Company opened two new restaurants and re-opened two other restaurants, which were both in the New Orleans metro area and closed as a result of Hurricane Katrina in August 2005. All new restaurants opened 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. The new restaurants will generally 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. For the remainder of 2006, the Company plans to build and open two new restaurants. The Company is also testing a remodeling program which adds display cooking and other interior and exterior modifications to existing Ryan's restaurants with an estimated cost ranging from \$100,000 to \$350,000 depending on the layout and age of the restaurant. A remodeled restaurant may operate as either a Fire Mountain or a Ryan's based on management's assessment of the particular market. During the first three months of 2006, two restaurants were remodeled and subsequently continued to operate as a Ryan's. Management plans to remodel another five locations during the second quarter of 2006 as it continues to evaluate the program. Total 2006 capital expenditures are estimated at approximately \$30 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 traffic in each respective retail area. In general, restaurants located in satisfactory areas are remodeled, and restaurants located in declining areas are generally either relocated or closed. During the first quarter of 2006, the Company closed four restaurants, all of which are either sold or currently held

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

for sale.

The Company began a stock repurchase program in March 1996, and, through March 29, 2006, approximately 44.4 million shares, or 55% of total shares available at the beginning of the program, had been purchased at an aggregate cost of \$334.7 million. In July 2005, the Company's Board of Directors suspended the share repurchase program and currently plans to continue the suspension through 2007 in order to conserve cash principally for debt repayment purposes. The Board has the authority to reinstate the program at any time. When reinstated, 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.

Management believes that its current capital structure is sufficient to meet its projected 2006 and 2007 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, if a decision has been made to close and sell the restaurant or if it has been selected for relocation and the new site is under

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

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.

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 \$14,773,000 at March 28, 2006 and \$14,441,000 at December 28, 2005. 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. Other than the expiration of the Work Opportunity Tax Credit, there were no significant changes to these estimates during the first

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

quarter of 2006.

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

Interest Rate Risk

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 March 29, 2006, there was \$34.3 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 March 29, 2006 would have increased interest expense by approximately \$67,000 and decreased net earnings by approximately \$43,000.

While the Company has entered into interest rate derivative

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

agreements in the past, there were no such agreements outstanding during the three months ended March 29, 2006. 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 first quarter of 2006, 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, but there can be no assurance that such forward-looking information will actually occur. While it is not possible to identify all relevant factors, the 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 28, 2005 could cause actual results to differ materially from expectations.

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

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 towards a settlement, and, in April 2006, the presiding judge issued an order approving the terms of a settlement. The settlement agreement provides for an aggregate payment ranging from \$2 million to \$9 million to those current and former restaurant employees who worked with the Company during the period between November 12, 1999 and August 2, 2005 and file a timely claim form. Depending on the number of claim forms received, the Company believes that the total settlement cost, including attorneys' fees and administrative costs, will range from \$6 million to \$14 million. The Company charged \$6 million to general and administrative expenses in 2005 as the estimated minimum settlement for this litigation. It is not possible to predict the number of claim forms that will be received, and, accordingly, the ultimate settlement amount 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 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 April 10, 2006 (all votes are in thousands):

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

				Broker-	
For	Against	Withheld	Abstain	Non-	votes
(a) Election of Directors:					
C. D. Way	39,413	n/a	642	n/a	n/a
G. E. McCranie	39,416	n/a	638	n/a	n/a
B. L. Edwards	39,591	n/a	464	n/a	n/a
B. S. MacKenzie	36,469	n/a	3,585	n/a	n/a
H. K. Roberts, Jr.	39,153	n/a	902	n/a	n/a
J. M. Shoemaker, Jr.	25,424	n/a	14,630	n/a	n/a
V. A. Wong	39,845	n/a	210	n/a	n/a
(b) Ratify the appointment of KPMG LLP for fiscal 2006					
	39,342	647	n/a	66	n/a

Item 6. Exhibits.

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

Exhibit #	Description
10.1	Joint Stipulation of Settlement, approved by court order on April 19, 2006, between Erric Walker, Steve Ricketts, and Vickie Atchley, on behalf of themselves and all others similarly situated, and Ryan's Restaurant Group, Inc.
*10.2	Form of Employment, Noncompetition and Severance Agreement by and between the Company and Messrs. Kirk, Sieradzki and Tallon
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

* This is a management contract or compensatory plan or arrangement.

Items 2, 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

Edgar Filing: RYANS RESTAURANT GROUP INC - Form 10-Q

be signed on its behalf by the undersigned thereunto duly authorized.

RYAN'S RESTAURANT GROUP, INC.
(Registrant)

May 12, 2006 /s/Charles D. Way
Charles D. Way
Chairman and
Chief Executive Officer

May 12, 2006 /s/Fred T. Grant, Jr.
Fred T. Grant, Jr.
Senior Vice President-Finance and
Treasurer and Assistant Secretary
(Principal Financial and Accounting
Officer)

May 12, 2006 /s/Richard D. Sieradzki
Richard D. Sieradzki
Vice President-Accounting and
Corporate Controller