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RYANS RESTAURANT GROUP INC
Form 10-Q
November 08, 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 September 29, 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 September 29, 2004, there were 41,706,000 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)

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(In thousands, except per share data)

	Quarter Ended	
	September 29, 2004	October 1, 2003
Restaurant sales	\$205,331	205,686
Cost of sales:		
Food and beverage	72,880	73,185
Payroll and benefits	67,455	65,767
Depreciation	8,857	8,049
Other restaurant expenses	29,879	29,820
Total cost of sales	179,071	176,821
General and administrative expenses	10,185	9,561
Interest expense	2,598	2,764
Royalties from franchised restaurants	(265)	(358)
Other income, net	(238)	(339)
Earnings before income taxes	13,980	17,237
Income taxes	4,754	6,240
Net earnings	\$ 9,226	10,997
Net earnings per common share:		
Basic	\$.22	.26
Diluted	.22	.25
Weighted-average shares:		
Basic	41,679	42,210
Diluted	42,849	43,881

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share data)

	Nine Months Ended	
	September 29, 2004	October 1, 2003
Restaurant sales	\$633,534	607,382
Cost of sales:		
Food and beverage	221,653	214,991
Payroll and benefits	203,500	191,784
Depreciation	25,602	24,046
Other restaurant expenses	88,046	85,124
Total cost of sales	538,801	515,945
General and administrative expenses	30,762	28,214
Interest expense	8,032	7,492
Royalties from franchised restaurants	(951)	(1,165)
Other income, net	(1,697)	(1,763)
Earnings before income taxes	58,587	58,659
Income taxes	19,831	21,235
Net earnings	\$ 38,756	37,424

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Net earnings per common share:		
Basic	\$.93	.89
Diluted	.89	.86
Weighted-average shares:		
Basic	41,800	42,279
Diluted	43,339	43,752

See accompanying notes to consolidated financial statements.

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

	September 29, 2004 (Unaudited)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,908	8,617
Receivables	4,008	4,293
Inventories	5,986	5,648
Prepaid expenses	1,647	1,758
Deferred income taxes	5,150	5,150
Total current assets	32,699	25,466
Property and equipment:		
Land and improvements	159,231	154,528
Buildings	470,212	449,561
Equipment	265,999	252,611
Construction in progress	27,726	25,789
	923,168	882,489
Less accumulated depreciation	287,325	264,339
Net property and equipment	635,843	618,150
Other assets	9,962	8,073
Total assets	\$678,504	651,689
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	8,831	6,580
Current portion of long-term debt	30,750	-
Income taxes payable	3,314	1,288
Accrued liabilities	44,641	42,590
Total current liabilities	87,536	50,458
Long-term debt	156,250	196,000
Deferred income taxes	43,076	42,824
Other long-term liabilities	5,973	5,467
Total liabilities	292,835	294,749
Shareholders' equity:		
Common stock of \$1.00 par value; authorized 100,000,000 shares; issued 41,706,000 in 2004 and 41,843,000 shares in 2003	41,706	41,843
Additional paid-in capital	2,295	1,412
Retained earnings	341,668	313,685
Total shareholders' equity	385,669	356,940
Commitments and contingencies		
Total liabilities and		

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shareholders' equity \$678,504 651,689

See accompanying notes to consolidated financial statements.

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

(In thousands)

	Nine Months Ended	
	September 29, 2004	October 1, 2003
Cash flows from operating activities:		
Net earnings	\$ 38,756	37,424
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	26,936	25,538
Loss (gain) on sale of property and equipment	253	(110)
Tax benefit from exercise of stock options	2,820	631
Deferred income taxes	252	213
Decrease (increase) in:		
Receivables	285	94
Inventories	(338)	(579)
Prepaid expenses	111	(338)
Income taxes receivable	-	2,739
Other assets	(2,066)	(893)
Increase (decrease) in:		
Accounts payable	2,251	(413)
Income taxes payable	2,026	6,167
Accrued liabilities	2,051	3,587
Other long-term liabilities	506	714
Net cash provided by operating activities	73,843	74,774
Cash flows from investing activities:		
Proceeds from sale of property and equipment	6,403	5,845
Capital expenditures	(51,108)	(56,814)
Net cash used in investing activities	(44,705)	(50,969)
Cash flows from financing activities:		
Proceeds from issuance of senior notes	-	100,000
Debt issuance costs	-	(158)
Net repayment of revolving credit facility	(9,000)	(100,000)
Proceeds from stock options exercised	5,360	1,684
Purchase of common stock	(18,207)	(7,841)
Net cash used in financing activities	(21,847)	(6,315)
Net increase in cash and cash equivalents	7,291	17,490
Cash and cash equivalents - beginning of period	8,617	2,654

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Cash and cash equivalents - end of period	\$ 15,908	20,144
Supplemental disclosures		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 9,853	8,870
Income taxes	15,413	12,084

See accompanying notes to consolidated financial statements.

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

(In thousands)

Nine Months Ended September 29, 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	-	-	38,756	38,756
Issuance of common stock under stock option plans	895	4,465	-	5,360
Tax benefit from exercise of non-qualified stock options	-	2,820	-	2,820
Purchases of common stock	(1,032)	(6,402)	(10,773)	(18,207)
Balances at September 29, 2004	\$41,706	2,295	341,668	385,669

See accompanying notes to consolidated financial statements.

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

September 29, 2004
(Unaudited)

Note 1. Description of Business

Ryan's Restaurant Group, Inc. operates a restaurant chain consisting of 338 Company-owned restaurants located principally in the southern and midwestern United States and receives franchise royalties from an unrelated third-party franchisee that operates 10 Ryan's brand restaurants (as of September 29, 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.

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Note 2. Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Consolidated operating results for the nine months ended September 29, 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

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the date of the grant. Had the Company determined compensation cost based on the fair value recognition provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated in the following table:

	Quarter Ended		Nine Months Ended	
(In thousands, except earnings per share)	September 29, 2004	October 1, 2003	September 29, 2004	October 1, 2003
Net earnings, as reported	\$9,226	10,997	38,756	37,424
Less total stock-based compensation expense determined under fair value based method, net of related tax effects	(229)	(229)	(814)	(783)
Pro forma net earnings	\$8,997	10,768	37,942	36,641
Earnings per share				
Basic:				
As reported	\$.22	.26	.93	.89
Pro forma	.22	.26	.91	.87
Diluted:				
As reported	.22	.25	.89	.86
Pro forma	.21	.25	.88	.84

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 September 29, 2004 and October 1, 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

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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.

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 \$1,093,000 and \$868,000 for the quarters ended September 29, 2004 and October 1, 2003, respectively. The reclassified amounts for the nine months ended September 29, 2004 and October 1, 2003 were \$3,900,000 and \$2,328,000, respectively. This reclassification does not change either net earnings or shareholders' equity for 2003.

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

RESULTS OF OPERATIONS

Quarter ended September 29, 2004 versus October 1, 2003

Restaurant sales during the third quarter of 2004 decreased by 0.2% over the third quarter of 2003. Average unit growth, based on the average number of restaurants in operation, amounted to 2.9% during the quarter. The Company owned and operated 338 restaurants (299 Ryan's brand and 39 Fire Mountain brand) at September 29, 2004 and 332 restaurants (316 Ryan's brand and 16 Fire Mountain brand) at October 1, 2003. In comparison to the third quarter of 2003, average unit sales ("AUS"), or average weekly sales volumes per unit, for all stores (including newly opened restaurants) decreased by 3.0% in 2004, and same-store sales decreased by 3.1% 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 third quarters of 2004 and 2003, as compared to their comparable prior years' quarters, were as follows:

Same-store	2004	2003
Sales	(3.1%)	1.2%
Customer count	(7.1%)	(1.1%)

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Menu factor (principally pricing) 4.0% 2.3%

Management believes that the weak sales trends during the third quarter of 2004 were impacted principally by declining consumer confidence levels. Gasoline prices were high and employment reports were very inconsistent throughout the quarter. In addition, sales were adversely impacted by storms and power outages related to five different hurricanes or tropical storms during the quarter. Management estimates that these weather issues impacted same-store sales by approximately 0.6%.

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 87.2% during the third quarter of 2004 compared to 86.0% during the third quarter of 2003. Food and beverage costs amounted to 35.5% of sales for 2004 compared to 35.6% of sales for 2003. In 2004, food and beverage costs were adversely impacted by higher beef costs, which averaged 13% higher per pound than the per-pound cost during the third quarter of 2003. However, as compared to the prior year, beef costs moderated during the quarter, decreasing from +19% in July to +7% in September. These higher costs were more than offset by lower seafood and produce costs, the 4.0% menu factor and a heightened store-level focus on food cost controls. Management believes that per-pound beef costs during the fourth quarter of 2004 will be generally comparable to the fourth quarter of 2003. Payroll and benefits increased to 32.9% of sales in 2004 from 32.0% of sales in 2003 due principally to higher vacation and workers' compensation insurance costs as well as from a greater impact from the fixed components of store-level wages resulting from lower unit sales volumes. All other restaurant costs, including depreciation, amounted to 18.8% of sales for 2004 and 18.4% of sales for 2003 and were impacted in 2004 principally by higher utility and depreciation costs, partially offset by lower store opening costs. Depreciation expense was impacted by higher accelerated depreciation associated with store closings and by the fixed-cost nature of recurring depreciation charges.

General and administrative expenses increased to 5.0% of sales in 2004 from 4.6% of sales in 2003 due principally to higher legal and maintenance costs and from higher estimated franchise taxes.

Interest expense for the third quarters of both 2004 and 2003 amounted to 1.3% of sales. The effective average interest rate increased to 6.2% during the third quarter of 2004 from 5.8% in 2003.

An effective income tax rate of 34.0% was used for the third quarter of 2004 compared to 36.2% for the third quarter of 2003. The rate decrease resulted primarily from certain federal income tax credit hiring programs, such as the Work Opportunity Tax Credit program, and lower state income tax expense. Although the tax credit programs expired at the end of 2003, the Company continued to benefit during 2004 from

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credits associated with the 2003 new hires. These tax credit programs were re-enacted in early-October and will be retroactively applied to all eligible 2004 new hires. The estimated amount of these credits for all of 2004 will be recognized during the fourth quarter, and, accordingly, management estimates that the effective tax rate for the fourth quarter of 2004 will approximate 32.6%, resulting in an overall 2004 rate of around 33.6%.

Net earnings for the third quarter amounted to \$9.2 million in 2004 compared to \$11.0 million in 2003. Weighted-average shares (diluted) decreased 2.4% resulting principally from the Company's stock repurchase program (see "Liquidity and Capital Resources"). Accordingly, earnings per share (diluted) amounted to 22 cents for the third quarter of 2004 and 25 cents for the third quarter of 2003.

Nine months ended September 29, 2004 versus October 1, 2003

For the nine months ended September 29, 2004, restaurant sales were up 4.3% compared to the same period in 2003. Principal factors affecting 2004 sales growth include the 3.6% unit growth of Company-owned restaurants and a 0.9% increase in all-store AUS. Same-store sales and related factors for the first nine months of 2004 and 2003, as compared to their comparable prior years' periods, were as follows:

Same-store	2004	2003
Sales	0.5%	(1.2%)
Customer count	(3.3%)	(3.8%)
Menu factor (principally pricing)	3.8%	2.6%

Cost of sales, as detailed above, for the first nine months of 2004 and 2003 amounted to 85.0% and 84.9% of sales, respectively. Food and beverage costs were 35.0% of sales for 2004 compared to 35.4% of sales for 2003. In 2004, food and beverage costs were impacted by the 3.8% menu factor and a heightened store-level focus on food cost controls, partially offset by higher beef prices. Payroll and benefits increased by 0.5% of sales to 32.1% of sales for 2004 from 31.6% of sales for 2003 due principally to higher medical and workers' compensation insurance and other store-level incentive costs. All other restaurant costs, including depreciation, for 2004 were consistent with 2003 amounts as a percentage of sales. In 2004, higher utility costs were offset by lower store opening costs.

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

Effective income tax rates of 33.8% and 36.2% were used for the first nine months of 2004 and 2003, respectively. The explanation for this rate decrease is similar to the third quarter's discussion.

Net earnings for the first nine months of 2004 amounted to \$38.8 million compared to \$37.4 million in 2003. Weighted-average shares (diluted) decreased by 0.9%, resulting

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principally from the Company's stock repurchase program. Accordingly, earnings per share (diluted) amounted to 89 cents in 2004 compared to 86 cents in 2003.

LIQUIDITY AND CAPITAL RESOURCES

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

A comparison of the Company's sources and uses of funds for the nine-month periods ended September 29, 2004 and October 1, 2003 follow (in thousands):

	2004	2003	Change
Net cash provided by operating activities	\$73,843	74,774	(931)
Net cash used in investing activities	(44,705)	(50,969)	6,264
Net cash used in financing activities	(21,847)	(6,315)	(15,532)
Net increase in cash and cash equivalents	\$ 7,291	17,490	(10,199)

Net cash provided by operating activities decreased by \$0.9 million, resulting principally from the timing of income tax payments, significantly offset by 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. Net cash used in investing activities decreased by \$6.3 million during the first nine months of 2004 due to lower capital expenditures in the third quarter of 2004 resulting from real estate delays and permitting issues. These issues have been largely resolved, and, based on current plans, capital expenditures for the fourth quarter are estimated at approximately \$25 million due to increased real estate acquisitions and remodeling costs. Finally, net cash used in financing activities increased by \$15.5 million as the Company increased its share repurchase activity and repaid a portion of the outstanding loans under its revolving credit facility during the first nine months of 2004.

At September 29, 2004, the Company's working capital deficit amounted to \$54.8 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 (\$12.0 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 consistent level of cash flow provided by operations.

Total capital expenditures for the first nine months of 2004 amounted to \$51.1 million. The Company opened 10 and closed six restaurants, including three openings and four closings

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for relocation purposes, during the first nine 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 four new restaurants, including one relocation. 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 convert approximately four to six 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. 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 \$76.5 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 2008. Repurchases may be made from time to time on the open market or in privately negotiated transactions in accordance with applicable securities regulations, depending on market conditions, share price and other factors. During the first nine months of 2004, the Company purchased 1,032,106 shares at an aggregate cost of \$18.2 million. Through September 29, 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. Management intends to proceed with the share repurchase program during the remainder of 2004 and in future years 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 September 29, 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 \$12 million was outstanding at that date. After allowances for letters of credit and other items, there were approximately \$76 million in funds available under the revolving credit facility at September 29, 2004. 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 September 29, 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 has

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engaged a leading U.S. bank to refinance the existing facility. Based on discussions with this bank and other potential participating lenders, management believes that the new facility will close in late 2004 and will be structured in a manner that appropriately supports the Company's current operations and growth plans. However, since final negotiations have not concluded, 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 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

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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. 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

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year in advance.

The Company is exposed to interest rate risk on its variable-rate debt, which is composed entirely of outstanding debt under the Company's revolving credit facility (see "Liquidity and Capital Resources"). At September 29, 2004, there was \$12 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 September 29, 2004 would have impacted interest expense by approximately \$29,000 and net earnings by \$19,000.

While the Company has entered into interest rate derivative agreements in the past, there were no such agreements outstanding during the three months ended September 29, 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 third 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

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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 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

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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. Unregistered Sales of Equity Securities and Use of Proceeds.

ISSUER PURCHASES OF EQUITY SECURITIES				
Period	Total	Average	Total	Maximum
	Number	Price	Number	Number of
	of	Paid	of	Shares that
	Shares	Per	Shares	May Yet Be
	Purchased	Share	Purchased	Purchased
			as	Under the
			Part of	Plan
			Publicly	
			Announced	
			Plan	
July (07/01/04)	-	-	44,217,706	10,782,294
- 08/04/04)				
August (08/05/04)	-	-	44,217,706	10,782,294
- 09/01/04)				
September (09/02/04)	-	-	44,217,706	10,782,294
- 09/29/04)				
Total	-	-	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 2008. There were no purchases of the Company's common stock by or on behalf of the Company or any "affiliated purchaser" during the third quarter of 2004 other than through this stock repurchase program.

Item 6. Exhibits.

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

31.2 Section 906 Certification of Chief Financial

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Officer

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

SIGNATURES

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

RYAN'S RESTAURANT GROUP, INC.
(Registrant)

November 8, 2004 /s/Charles D. Way
Charles D. Way
Chairman and
Chief Executive Officer

November 8, 2004 /s/Fred T. Grant, Jr.
Fred T. Grant, Jr.
Senior Vice President-Finance and
Treasurer and Assistant Secretary
(Principal Financial and Accounting
Officer)

November 8, 2004 /s/Richard D. Sieradzki
Richard D. Sieradzki
Vice President-Accounting and
Corporate Controller