RYANS RESTAURANT GROUP INC
Form 10-Q
August 07, 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 June 28, 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 of incorporation)	(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 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 June 28, 2006, there were 42,323,000 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)

	Quarter Ended	
	June 28, 2006	June 29, 2005
Restaurant sales	$208,871	215,510
Cost of sales:		
Food and beverage	71,288	76,351
Payroll and benefits	66,965	69,930
Depreciation	8,349	8,401
Impairment charges	203	1,121
Other restaurant expenses	31,474	32,913
Total cost of sales	178,279	188,716
General and administrative expenses	20,304	15,761
Interest expense	2,062	2,405
Revenues from franchised restaurants	-	(135)
Other income, net	(1,565)	(562)
Earnings before income taxes	9,791	9,325
Income taxes	2,928	3,065
Net earnings	$ 6,863	6,260
Net earnings per common share:		
Basic	$ .16	.15
Diluted	.16	.15
Weighted-average shares:		
Basic	42,252	41,952
Diluted	42,639	42,569

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 28, 2006	June 29, 2005
Restaurant sales	$422,588	425,149
Cost of sales:		
Food and beverage	144,800	148,964
Payroll and benefits	135,131	138,113
Depreciation	16,807	16,686
Impairment charges	447	1,288
Other restaurant expenses	64,948	64,242
Total cost of sales	362,133	369,293
General and administrative expenses	31,769	26,231
Interest expense	4,461	4,765
Revenues from franchised restaurants	-	(309)
Other income, net	(2,394)	(1,762)
Earnings before income taxes	26,619	26,931

Income taxes	8,960	8,858
Net earnings	$ 17,659	18,073
Net earnings per common share:		
Basic	$ .42	.43
Diluted	.41	.42
Weighted-average shares:		
Basic	42,203	41,945
Diluted	42,608	42,602

See accompanying notes to consolidated financial statements.

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

	June 28, 2006 (Unaudited)	December 28, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,580	5,120
Receivables	7,761	5,007
Inventories	5,438	5,176
Prepaid expenses	1,520	985
Deferred income taxes	10,395	7,417
Total current assets	38,694	23,705
Property and equipment:		
Land and improvements	168,945	170,424
Buildings	511,162	513,932
Equipment	283,032	287,581
Construction in progress	17,319	23,405
	980,458	995,342
Less accumulated depreciation	324,953	323,012
Net property and equipment	655,505	672,330
Other assets	10,927	10,793
Total assets	$705,126	706,828
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	6,346	6,468
Current portion of long-term debt	18,750	18,750
Income taxes payable	9,577	4,118
Accrued liabilities	59,164	46,691
Total current liabilities	93,837	76,027
Long-term debt	120,750	154,500
Deferred income taxes	39,221	46,768
Other long-term liabilities	7,206	5,899
Total liabilities	261,014	283,194
Shareholders' equity:		
Common stock of $1.00 par value; authorized 100,000,000 shares; issued 42,323,000 in 2006 and 42,122,000 shares in 2005	42,323	42,122
Additional paid-in capital	7,912	5,294
Retained earnings	393,877	376,218
Total shareholders' equity	444,112	423,634
Commitments and contingencies		

Total liabilities and shareholders' equity	$705,126	706,828

See accompanying notes to consolidated financial statements.

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

(In thousands)

	Six Months Ended	
	June 28, 2006	June 29, 2005
Cash flows from operating activities:		
Net earnings	$ 17,659	18,073
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	17,752	17,962
Impairment charges	447	1,288
Gain on sale of property and equipment	(2,342)	(588)
Tax benefit from exercise of stock options	-	292
Stock option compensation	800	-
Deferred income taxes	(10,525)	(483)
Decrease (increase) in:		
Receivables	(2,754)	6
Inventories	(262)	(947)
Prepaid expenses	(535)	(387)
Other assets	(241)	12
Increase (decrease) in:		
Accounts payable	(122)	2,969
Income taxes payable	5,459	561
Accrued liabilities	12,473	9,891
Other long-term liabilities	1,307	413
Net cash provided by operating activities	39,116	49,062
Cash flows from investing activities:		
Proceeds from sale of property and equipment	12,643	4,099
Capital expenditures	(11,568)	(40,779)
Net cash provided by (used in) investing activities	1,075	(36,680)
Cash flows from financing activities:		
Net borrowing from (repayment of) revolving credit facility	(15,000)	16,000
Repayment of senior notes	(18,750)	(18,750)
Proceeds from stock options exercised	1,668	1,074
Tax benefit from exercise of stock options	351	-
Purchase of common stock	-	(1,552)
Net cash used in financing activities	(31,731)	(3,228)

Net increase in cash and cash equivalents	8,460	9,154
Cash and cash equivalents - beginning of period	5,120	7,354
Cash and cash equivalents - end of period	$ 13,580	16,508
Supplemental disclosures		
Cash paid during the period for:		
Interest, net of amount capitalized	$ 5,315	5,481
Income taxes	6,176	8,488

See accompanying notes to consolidated financial statements.

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

(In thousands)

Six Months ended June 28, 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	-	-	17,659	17,659
Issuance of common stock under stock option plans	201	1,467	-	1,668
Tax benefit from exercise of stock options	-	351	-	351
Stock option compensation	-	800	-	800
Balances at June 28, 2006	$42,323	7,912	393,877	444,112

See accompanying notes to consolidated financial statements.

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

June 28, 2006
(Unaudited)

Note 1. Description of Business

Ryan's Restaurant Group, Inc. (the "Company") operates a restaurant chain consisting of 334 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. During the second quarter of 2006, the Company recorded an accrual of $1.4 million primarily related to the prior period impact of a post-retirement obligation for retiree medical benefits. The impact of this adjustment on the consolidated financial statements for prior periods presented is considered inconsequential. Consolidated operating results for the six months ended June 28, 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 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 grant date. 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 June 28, 2006, there were 2,666,000 shares available for grant under the Plan and another 223,000 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 only, as permitted by SFAS No. 123.

The following table details the additional compensation expense resulting from the adoption of SFAS 123R in 2006:

(In thousands)	Quarter Ended June 28, 2006	Six Months Ended June 28, 2006
Compensation expense charged to:		
Payroll and benefits	$ 87	174
General and administrative expenses	197	626
Compensation expense before income taxes	284	800
Income tax benefit	88	221
Compensation expense, net of income taxes	$ 196	579

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 from 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 from financing activities.

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

Quarter Ended	Six Months Ended

(In thousands, except earnings per share)	June 29, 2005	June 29, 2005
Net earnings, as reported	$6,260	18,073
Less total stock-based compensation expense determined under fair value based method, net of related tax effects	(408)	(879)
Pro forma net earnings	$5,852	17,194
Earnings per share		
Basic:		
As reported	$ .15	.43
Pro forma	.14	.41
Diluted:		
As reported	.15	.42
Pro forma	.14	.40

Pro forma disclosure for the quarter and six months ended June 28, 2006 is not included above 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 six months 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 six months 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 six months ended June 28, 2006 was as follows:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at 12/28/05	3,215	$10.51		
Granted	3	13.23		
Exercised	(201)	8.32		
Forfeited	(127)	8.34		

Outstanding at 6/28/06	2,890	10.62	5.6	$3,576
Exercisable at 6/28/06	2,415	10.35	5.4	3,479

The aggregate intrinsic value in the above table represents the total pretax intrinsic value (the difference between the closing stock price on June 28, 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 June 28, 2006. This amount will change as the stock's market price changes. The total intrinsic value of options exercised during the six months ended June 28, 2006 and June 29, 2005 were $1.0 million and $0.8 million, respectively. As of June 28, 2006, total unrecognized stock-based compensation expense related to nonvested stock options amounted to approximately $904,000, 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 829,600 and 420,900 shares of common stock at June 28, 2006 and June 29, 2005, respectively, were not included in the computation of diluted EPS as their exercise prices were higher than the market price of the common stock at the measurement date.

Note 5. Relevant New Accounting Pronouncements

In June 2006, the Emerging Issues Task Force ("EITF") ratified EITF Issue 06-3, "How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." A consensus was reached that entities may adopt a policy of presenting taxes in the income statement on either a gross or net basis. An entity should disclose its policy of presenting taxes and the amount of any taxes presented on a gross basis should be disclosed, if significant. The guidance is effective for periods beginning after December 15, 2006. The Company presents its restaurant sales net of sales taxes. Accordingly, EITF 06-3 will not impact the method for recording these sales taxes in the Company's consolidated financial statements.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") an interpretation of FASB No. 109, "Accounting for Income Taxes." FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position

is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company has not yet determined the impact of the recognition and measurement requirements of FIN 48 on existing tax positions. Upon adoption, the cumulative effect of applying the recognition and measurement provision of FIN 48, if any, shall be reflected as an adjustment to the opening balance of retained earnings in the year of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006.

Note 6. Legal Contingencies

In November 2002, a lawsuit was filed in the United States District Court, Middle District of Tennessee, Nashville Division, on behalf of three plaintiffs alleging various wage and hour violations by the Company of the Fair Labor Standards Act of 1938. The plaintiffs' attorneys sought collective-action status for the case. In October 2003, the presiding judge denied the Company's request to enforce the arbitration agreements signed by the plaintiffs and also ordered the Company to turn over certain employee addresses to the plaintiffs' attorneys. The Company appealed that decision. As part of the appeal process, the presiding judge stayed the order regarding the employee addresses. In March 2005, the Sixth Circuit Court of Appeals affirmed the ruling that denied enforcement of the arbitration issue, and in June 2005, the presiding judge ordered that notices be sent to potential class members, thereby approving collective-action status for the lawsuit. In July 2005, the Company began negotiations with the plaintiffs' attorney towards a settlement, and, in April 2006, the presiding judge issued an order approving the terms of a settlement. Claim notices were sent to class members in May 2006, and, based upon the number of claims received by the claims administrator, the Company believes that the total settlement will reach the maximum level of $14.4 million, per the settlement agreements. In order to fully accrue this amount, the Company charged $8.4 million to general and administrative expenses in the second quarter of 2006. Other charges related to this lawsuit were accrued during the second and fourth quarters of 2005, amounting to $5 million and $1 million, respectively.

In June 2006, a lawsuit was filed in the Berkeley County (West Virginia) circuit court on behalf of three plaintiffs alleging wage and hour violations similar to the Tennessee collective-action case described in the preceding paragraph. This case seeks class-action status, but pertains only to West Virginia employees who worked for the Company during the five years ending July 2006. This case has been removed to federal court, and a motion to dismiss and petition to compel arbitration is pending. The Company is defending this matter vigorously. The Company is unable to determine the impact, if any, of this case on its 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 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 7. Proposed Merger Transaction

On July 24, 2006, the Company entered into a merger agreement under which a subsidiary of Buffets, Inc. will merge with Ryan's, and Ryan's shareholders will receive a cash payment of $16.25 per share upon the close of the transaction. Ryan's option holders will receive the same cash payment for each vested option, less the exercise price of the option and any applicable income tax withholding. Completion of the transaction, which is expected to occur in the fourth quarter of 2006, is subject to approval by Ryan's shareholders, regulatory approvals, receipt of financing and other customary closing conditions.

Note 8. Subsequent Events

On July 31, 2006, the Company and its property insurance carrier agreed upon a final settlement of $1.4 million for property damage and business interruption costs related to Hurricanes Katrina and Rita. The Company expects to receive this payment during the third quarter of 2006 and will also recognize this amount as a credit to other restaurant expenses during the same period.

In connection with the merger transaction described above in Note 7, on July 28, 2006, a putative shareholder class action lawsuit was filed in the Court of Common Pleas, Greenville, South Carolina, naming the Company and its Directors as defendants. The complaint asserts claims of breach of fiduciary duty, alleging that the per share purchase price did not result from a fair and open process, and seeks to enjoin the merger. The Company believes that the complaint is without merit.

Note 9. 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 June 28, 2006 versus June 29, 2005

Restaurant sales during the second quarter of 2006 decreased by 3.1% compared to the second quarter of 2005. The average number of restaurants in operation decreased by 2.1% in the second quarter of 2006 compared to the same quarter of 2005. The Company owned and operated 334 restaurants (262 Ryan's brand and 72 Fire Mountain brand) at June 28, 2006 and 346

restaurants (286 Ryan's brand and 60 Fire Mountain brand) at June 29, 2005. In comparison to the second quarter of 2005, average weekly sales per store for all stores, including newly opened restaurants, decreased by 0.5% in 2006, and same-store sales decreased 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 second quarters of 2006 and 2005, as compared to their comparable prior year's quarters, were as follows:

Same-store	2006	2005
Sales	(1.7%)	(4.1%)
Customer count	(5.0%)	(6.8%)
Menu factor (principally pricing)	3.3%	2.7%

Management believes that the Company's sales results were adversely impacted by high gasoline and utility costs during the second quarter of 2006, resulting in decreased discretionary spending and lower dining-out expenditures by its customers. Management is focusing on food quality at all of its restaurants and continues to roll out a weekend buffet breakfast program in order to increase sales. The breakfast program offers customers a buffet-style breakfast on Saturdays and 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 37 restaurants during the second quarter of 2006 resulting in 234 breakfast locations at June 28, 2006. The Company plans to serve breakfast at all of its restaurants by the end of March 2007.

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 85.4% during the second quarter of 2006 compared to 87.6% during the second quarter of 2005. Food and beverage costs amounted to 34.1% of sales in 2006 and 35.4% of sales in 2005. In 2006, these costs decreased as a percentage of sales due to lower sirloin, soybean-oil, dairy, pork and fresh chicken costs. Payroll and benefits decreased to 32.1% of sales in 2006 from 32.4% of sales in 2005 due principally to better store-level controls over hourly labor and lower workers' compensation costs. All other restaurant costs, including depreciation and impairment charges, decreased to 19.2% of sales in 2006 from 19.8% of sales in 2005. This decrease resulted principally from the recognition of $1.5 million of insurance proceeds related to Hurricanes Katrina and Rita; $476,000 of settlement proceeds from a class-action credit card lawsuit; and lower impairment costs. These amounts were partially offset by higher electricity and natural gas costs, amounting to 0.7% of sales. Based on these factors, the Company's margins at

the restaurant level increased to 14.6% of sales in 2006 from 12.4% of sales in 2005.

General and administrative expenses increased to 9.7% of sales in 2006 from 7.3% of sales in 2005 due principally from an $8.4 million charge in 2006 compared to a $5.0 million charge in 2005 related to the collective-action lawsuit described in Note 6 in the accompanying Notes to Consolidated Financial Statements. Also, the Company recorded a $1.4 million charge during the second quarter of 2006 for retiree medical benefits.

Interest expense for the second quarters of 2006 and 2005 amounted to 1.0% of sales and 1.1% of sales, respectively. The average effective interest rate for both quarters was 5.9%. The Company's outstanding debt has decreased by $33.8 million since the end of 2005 due to a combination of scheduled and voluntary repayments.

Revenues from franchised restaurants decreased by $135,000 from the second quarter of 2005 to the second 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 decreased to 29.9% for the second quarter of 2006 compared to 32.9% for the second quarter of 2005 due to higher employment tax credits from core disaster areas affected by Hurricanes Katrina and Rita.

Net earnings for the second quarter amounted to $6.9 million in the 2006 period compared to $6.3 million in the 2005 period. Weighted-average shares (diluted) were 42.6 million for the second quarters of both 2006 and 2005. Accordingly, earnings per share (diluted) amounted to 16 cents for the second quarter of 2006 compared to 15 cents for the second quarter of 2005.

Six months ended June 28, 2006 versus June 29, 2005

For the six months ended June 28, 2006, restaurant sales were down 0.6% compared to the same period in 2005. Principal factors affecting the 2006 sales decline include a 1.5% decrease in the average number of restaurants in operation, partially offset by a 1.5% increase in average weekly sales per store. Same-store sales and related factors for the first six months of 2006 and 2005, as compared to their comparable prior years' periods, were as follows:

Same-store	2006	2005
Sales	0%	(3.6%)
Customer count	(3.4%)	(6.3%)
Menu factor (principally pricing)	3.4%	2.7%

Cost of sales, as detailed above, for the first six months of 2006 and 2005 amounted to 85.7% of sales and 86.9% of sales, respectively. In 2006, lower pork, soybean-oil product, dairy and chicken costs and a 3.4% menu factor decreased food and beverage costs to 34.3% of sales compared to 35.0% of sales for 2005. Payroll and benefits decreased to 32.0% of sales for 2006 from 32.5% of sales for 2005 due to lower hourly labor and benefit costs. All other restaurant costs, including depreciation and impairment charges, amounted to 19.4% of sales for both 2006 and 2005. Higher utility (electricity and natural gas), smallwares and local advertising costs were offset by lower impairment charges as well as by proceeds from the insurance and class-action settlements noted above in the second quarter's discussion.

General and administrative expenses increased to 7.5% of sales for 2006 from 6.2% of sales for 2005 due principally to the $8.4 million charge in 2006 for the collective-action lawsuit compared to a $5 million charge in 2005, the $1.4 million expense for retiree medical benefits and $625,000 of stock option compensation.

Effective income tax rates of 33.7% and 32.9% were used for the first six months of 2006 and 2005, respectively, due primarily to higher state income taxes and the expiration of the federal Work Opportunity Tax Credit (except in core disaster areas affected by Hurricanes Katrina and Rita). 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 six months of 2006 amounted to $17.7 million compared to $18.1 million in 2005. Weighted-average shares (diluted) were 42.6 million for the first six months of both 2006 and 2005. Accordingly, earnings per share (diluted) amounted to 41 cents in the 2006 period compared to 42 cents in the 2005 period.

LIQUIDITY AND CAPITAL RESOURCES

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

A comparison of the Company's sources and uses of funds for the six-month periods ended June 28, 2006 and June 29, 2005 follow (in thousands):

	2006	2005	Change
Net cash provided by operating activities	$39,116	49,062	(9,946)
Net cash provided by (used in) investing activities	1,075	(36,680)	37,755

Net cash used in financing activities	(31,731)	(3,228)	(28,503)
Net increase in cash and cash equivalents	$8,460	$9,154	(694)

Net cash provided by operating activities decreased by $9.9 million during the first six months of 2006 compared to the same period of 2005 mainly as a result of lower deferred income taxes and higher receivables, partially offset by higher income taxes payable. Deferred income taxes decreased due to the sale of eight closed locations and the reversal of accelerated tax depreciation. Receivables increased due to the accrual of the insurance and class-action credit card settlements described in the preceding sections. These funds were received in July 2006. Income taxes payable increased due to higher-than-normal estimated payments during the first six months of 2005.

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 anticipated using the resulting excess cash to reduce the amount of outstanding debt. In accordance with the plan, capital expenditures significantly decreased in 2006, and eight locations that closed during 2005 and 2006 as well as the Company's airplane were sold during the first six months of 2006. Sales proceeds exceeded capital expenditures for this six-month period, and, accordingly, net cash provided by investing activities increased by $37.8 million as compared to the prior period. Overall, the Company generated significant excess cash during the first six months of 2006. Outstanding debt was reduced through an $18.8 million scheduled repayment of senior notes and another $15 million of voluntary repayments (net) of the revolving credit facility, resulting in an increase of $28.5 million in net cash used in financing activities.

At June 28, 2006, the Company's working capital deficit amounted to $55.1 million compared to a $52.3 million deficit at December 28, 2005. 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 June 28, 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 $2.0 million was outstanding and accruing interest at 6.34% at that date. After allowances for letters of credit and other items, there were approximately $111 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 June 28, 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 first six months of 2006 amounted to $11.6 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. New restaurants 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 one new restaurant. The Company is also continuing a remodeling program which adds display cooking and other interior and exterior modifications to existing Ryan's restaurants with an estimated cost per restaurant 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 six months of 2006, four restaurants were remodeled and subsequently continued to operate as a Ryan's. Management currently plans to remodel another eight to ten locations during the remainder of 2006. Total 2006 capital expenditures are estimated at approximately $28 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 six months of 2006, the Company closed seven restaurants, all of which were either sold or are currently held for sale.

The Company began a stock repurchase program in March 1996, and, through June 28, 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 has the authority to reinstate the program at any time. Furthermore, in accordance with the Company's current growth and debt reduction plan, share repurchases have been suspended during 2006 and 2007. In addition, the merger agreement described in the following section prohibits any further share repurchases through the transaction's closing date.

PROPOSED MERGER TRANSACTION

On July 24, 2006, the Company entered into a merger agreement under which a subsidiary of Buffets, Inc. will merge with Ryan's, and Ryan's shareholders will receive a cash payment of $16.25 per share upon the close of the transaction. Ryan's option holders will receive the same cash payment for each vested option, less the exercise price of the option and any applicable income tax withholding. Completion of the transaction, which is expected to occur in the fourth quarter of 2006, is subject

to approval by Ryan's shareholders, regulatory approvals, receipt of financing and other customary closing conditions.

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 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 $13,596,000 at June 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. Work Opportunity Tax Credits related to the core disaster areas affected by Hurricanes Katrina and Rita increased by approximately $1.1 million during the second 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 June 28, 2006, there was $2.0 million in outstanding debt under this facility. Interest rates for the facility generally change in response to LIBOR. Management estimates that a one-percent increase in interest rates throughout the quarter ended June 28, 2006 would have increased interest expense by approximately $23,000 and decreased net earnings by approximately $15,000.

While the Company has entered into interest rate derivative agreements in the past, there were no such agreements outstanding during the quarter ended June 28, 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 second 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 SEC, including the Company's annual report on Form 10-K for the fiscal year ended December 28, 2005 and Part II, Item 1A of this Quarterly Report on Form 10-Q, could cause actual results to differ materially from expectations or the Merger contemplated by the Agreement and Plan of Merger to which the Company and Buffets, Inc. are parties not to be consummated.

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. Claim notices were sent to class members in May 2006, and, based upon the number of claims received by the claims administrator, the Company believes that the total settlement will reach the maximum level of $14.4 million, per the settlement agreements. In order to fully accrue this amount, the Company charged $8.4 million to general and administrative expenses in the second quarter of 2006. Other charges related to this lawsuit were accrued during the second and fourth quarters of 2005, amounting to $5 million and $1 million, respectively.

In June 2006, a lawsuit was filed in the Berkeley County (West Virginia) circuit court on behalf of three plaintiffs alleging wage and hour violations similar to the Tennessee collective-action case described in the preceding paragraph. This case seeks class-action status, but pertains only to West Virginia employees who worked for the Company during the five years ending July 2006. This case has been removed to federal court, and a motion to dismiss and petition to compel arbitration is pending. The Company is defending this matter vigorously. The Company is unable to determine the impact, if any, of this case on its 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 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.

In connection with the merger transaction described above (see "Proposed Merger Transaction"), on July 28, 2006, a putative shareholder class action lawsuit was filed in the Court of Common Pleas, Greenville, South Carolina, naming the Company and its Directors as defendants. The complaint asserts claims of breach of fiduciary duty, alleging that the per share purchase price did not result from a fair and open process, and seeks to enjoin the merger. The Company believes that the complaint is without merit.

Item 1A. Risk Factors.

In addition to the Risk Factors set forth in the

Company's Annual Report on Form 10-K for the year ended December 28, 2005, shareholders and potential shareholders should consider the following:

Risk that Merger with Subsidiary of Buffets, Inc. Does Not Close. As outlined in the Company's Report on Form 8-K with date of July 24, 2006, the Agreement and Plan of Merger to which the Company and Buffets, Inc. are parties (the "Merger Agreement") contains certain termination rights for both the Company and Buffets, and consummation of the Merger contemplated by the Merger Agreement is subject to the satisfaction or waiver of certain conditions. These conditions include the receipt of the necessary financing by Buffets and regulatory approvals as well as other customary closing conditions, including, among others, (i) approval by the Company's stockholders and (ii) the absence of any order or injunction prohibiting the consummation of the Merger. The Merger Agreement provides that, upon termination under specified circumstances, Ryan's would be required to pay Buffets a termination fee of $25 million, including up to $10 million for expenses incurred by Buffets. Any termination of the Merger Agreement would likely have a material effect on the trading price of the Company's shares.

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
32.2	Section 906 Certification of Chief Financial Officer

Items 2, 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)

August 7, 2006 /s/Charles D. Way

Charles D. Way
Chairman and
Chief Executive Officer

August 7, 2006 /s/Fred T. Grant, Jr.
Fred T. Grant, Jr.
Senior Vice President-Finance and
Treasurer and Assistant Secretary
(Principal Financial and Accounting
Officer)

August 7, 2006 /s/Richard D. Sieradzki
Richard D. Sieradzki
Vice President-Accounting and
Corporate Controller