

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

RYANS FAMILY STEAKHOUSES INC

Form 10-Q

May 10, 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 March 31, 2004

Commission File No. 0-10943

RYAN'S FAMILY STEAK HOUSES, 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 March 31, 2004, there were 42,057,000 shares outstanding of the registrant's common stock, par value \$1.00 per share.

RYAN'S FAMILY STEAK HOUSES, INC.

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

TABLE OF CONTENTS PAGE NO.

PART I --- FINANCIAL INFORMATION

Item 1.	Financial Statements:	
	Consolidated Statements of Earnings (Unaudited) - Quarters Ended March 31, 2004 and April 2, 2003	
	Consolidated Balance Sheets - March 31, 2004 (Unaudited) and December 31, 2003	4
	Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended March 31, 2004 and April 2, 2003	5
	Consolidated Statement of Shareholders' Equity (Unaudited) - Three Months Ended March 31, 2004	6
	Notes to Consolidated Financial Statements (Unaudited)	7 - 9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9 - 12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	13
Item 4.	Controls and Procedures	13
	Forward-Looking Information	13 - 14
PART II -- OTHER INFORMATION		
Item 1.	Legal Proceedings	
15		
Item 2.	Change in Securities, Use of Proceeds and Issuer Purchases of Equity Securities	15
Item 5.	Other Information	
15		
Item 6.	Exhibits and Reports on Form 8-K	
16		
SIGNATURES		17

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RYAN'S FAMILY STEAK HOUSES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands, except per share data)

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

	Quarter Ended	
	March 31, 2004	April 2, 2003
Restaurant sales	\$211,657	193,192
Cost of sales:		
Food and beverage	72,500	68,005
Payroll and benefits	66,870	60,948
Depreciation	8,557	7,948
Other restaurant expenses	28,812	27,212
Total cost of sales	176,739	164,113
General and administrative expenses	10,322	9,062
Interest expense	2,685	2,406
Revenues from franchised restaurants	(363)	(403)
Other income, net	(928)	(949)
Earnings before income taxes	23,202	18,963
Income taxes	7,842	6,865
Net earnings	\$ 15,360	12,098
Net earnings per common share:		
Basic	\$.37	.28
Diluted	.35	.28
Weighted-average shares:		
Basic	42,081	42,483
Diluted	43,910	43,707

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2004 (Unaudited)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,395	8,617
Receivables	4,568	4,293
Inventories	6,406	5,648
Prepaid expenses	1,305	1,758
Deferred income taxes	5,150	5,150
Total current assets	39,824	25,466
Property and equipment:		
Land and improvements	157,504	154,528
Buildings	458,434	449,561
Equipment	257,926	252,611
Construction in progress	21,178	25,789
	895,042	882,489
Less accumulated depreciation	271,289	264,339
Net property and equipment	623,753	618,150
Other assets	8,307	8,073
Total assets	\$671,884	651,689
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	8,548	6,580

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

Current portion of long-term debt	34,750	-
Income taxes payable	7,283	1,288
Accrued liabilities	44,074	42,590
Total current liabilities	94,655	50,458
Long-term debt	156,250	196,000
Deferred income taxes	43,019	42,824
Other long-term liabilities	5,694	5,467
Total liabilities	299,618	294,749
Shareholders' equity:		
Common stock of \$1.00 par value; authorized 100,000,000 shares; issued 42,057,000 in 2004 and 41,843,000 shares in 2003	42,057	41,843
Additional paid-in capital	1,462	1,412
Retained earnings	328,747	313,685
Total shareholders' equity	372,266	356,940
Commitments and contingencies		
Total liabilities and shareholders' equity	\$671,884	651,689

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)

	Three Months Ended	
	March 31, 2004	April 2, 2003
Cash flows from operating activities:		
Net earnings	\$ 15,360	12,098
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	9,020	8,364
Loss (gain) on sale of property and equipment	657	(556)
Tax benefit from exercise of stock options	1,462	62
Deferred income taxes	195	69
Decrease (increase) in:		
Receivables	(275)	16
Inventories	(758)	(345)
Prepaid expenses	453	34
Income taxes receivable	-	2,739
Other assets	(289)	(550)
Increase (decrease) in:		
Accounts payable	1,968	3,049
Income taxes payable	5,995	3,634
Accrued liabilities	1,484	(1,214)
Other long-term liabilities	227	387
Net cash provided by operating activities	35,499	27,787
Cash flows from investing activities:		
Proceeds from sale of property and equipment	1,657	2,493

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

Capital expenditures	(16,882)	(18,471)
Net cash used in investing activities	(15,225)	(15,978)
Cash flows from financing activities:		
Net proceeds from (repayment of) revolving credit facility	(5,000)	10,000
Proceeds from stock options exercised	3,014	502
Purchase of common stock	(4,510)	(7,084)
Net cash provided by (used in) financing activities	(6,496)	3,418
Net increase in cash and cash equivalents	13,778	15,227
Cash and cash equivalents-beginning of period	8,617	2,654
Cash and cash equivalents-end of period	\$22,395	17,881
Supplemental disclosures		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 4,459	4,477
Income taxes	190	362

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

(In thousands)

Three Months ended March 31, 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	-	-	15,360	15,360
Issuance of common stock under stock option plans	487	2,527	-	3,014
Tax benefit from exercise of non-qualified stock options	-	1,462	-	1,462
Purchases of common stock	(273)	(3,939)	(298)	(4,510)
Balances at March 31, 2004	\$ 42,057	1,462	328,747	372,266

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004
(Unaudited)

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

Note 1. Description of Business

Ryan's Family Steak Houses, Inc. operates a restaurant chain consisting of 335 Company-owned restaurants located principally in the southern and midwestern United States and receives franchise royalties from an unrelated third-party franchisee that operates 14 restaurants (as of March 31, 2004) in Florida. Its restaurants operate under the Ryan's or Fire Mountain brand names, but are viewed as a single business unit for management and reporting purposes. A Fire Mountain restaurant offers a selection of foods similar to a Ryan's restaurant with display cooking and also features updated interior furnishings, an upscale food presentation and a lodge-look exterior. The Company was organized in 1977, opened its first restaurant in 1978 and completed its initial public offering in 1982. The Company does not operate or franchise any international units.

Note 2. Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Consolidated operating results for the three months ended March 31, 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

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

first interim or annual period ending after December 31, 2003. The implementation of FIN 46 has not had a material effect on the Company's consolidated financial statements.

Note 4. Stock Options

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

(In thousands, except earnings per share)	Three Months Ended	
	March 31, 2004	April 2, 2003
Net earnings, as reported	\$15,360	12,098
Less total stock-based compensation expense determined under fair value based method, net of related tax effects	(356)	(325)
Pro forma net earnings	\$15,004	11,773
Earnings per share		
Basic:		
As reported	.37	.28
Pro forma	.36	.28
Diluted:		
As reported	.35	.28
Pro forma	.34	.27

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 1,104,000 shares of common stock at March 31, 2004 and April 2, 2003, respectively, were not included in the computation of diluted EPS.

Note 6. Legal Contingencies

In November 2002, a lawsuit was filed in the United States District Court, Middle District of Tennessee, Nashville

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

Division, on behalf of three plaintiffs alleging various wage and hour violations by the Company of the Fair Labor Standards Act of 1938. The plaintiffs' attorneys are seeking collective-action status on this complaint. In October 2003, the presiding judge denied the Company's request to enforce the arbitration agreements signed by the plaintiffs and also ordered the Company to turn over certain employee addresses to the plaintiffs' attorneys. The Company has appealed this decision. As part of the appeal process, the presiding judge stayed the order regarding the employee addresses. Due to the evolving nature of this case, the potential financial impact to the Company's financial results cannot be estimated at this time. Accordingly, no accrual for a loss contingency has been made in the accompanying consolidated financial statements.

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

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 \$1,603,000 in 2004 and \$752,000 in 2003. This reclassification does not change either net earnings or shareholders' equity for 2003.

Note 8. Subsequent Event

At the Annual Meeting of Shareholders that was held on May 5, 2004, shareholders approved a proposal to change the Company's legal name to Ryan's Restaurant Group, Inc. Management intends to implement this name change in the near future.

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

RESULTS OF OPERATIONS

Quarter ended March 31, 2004 versus April 2, 2003

Restaurant sales during the first quarter of 2004 increased by 9.6% over the first quarter of 2003. Average unit growth, based on the average number of restaurants in operation, amounted to 3.9% during the quarter. The Company owned and operated 335 restaurants (307 Ryan's brand and 28 Fire Mountain brand) at March 31, 2004 and 326 restaurants (322 Ryan's brand and 4 Fire Mountain brand) at April 2, 2003. In comparison to the first quarter of 2003, average unit sales ("AUS"), or average weekly sales volumes per unit, for all stores (including newly opened restaurants) increased by 5.4% in 2004, and same-store sales increased by 4.8% in 2004. In computing same-store sales, the Company averages weekly sales for those units operating for at least 18 months. All

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

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 first quarters of 2004 and 2003, as compared to their comparable prior years' quarters, were as follows:

Same-store	2004	2003
Sales	4.8%	(4.2%)
Customer count	1.1%	(7.2%)
Menu factor	3.7%	3.0%

Management believes that an improving retail environment, aided by the Company's local marketing program, favorably affected sales during the first quarter of 2004. The local marketing program, which was implemented in April 2003, trains and encourages store managers to get the Ryan's and Fire Mountain brand names in front of potential customers through the use of both external merchandising and community marketing. In addition, winter weather conditions were generally less severe during the first quarter of 2004 compared to the first quarter of 2003.

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 83.5% during the first quarter of 2004 compared to 84.9% during the first quarter of 2003. Food and beverage costs amounted to 34.3% of sales for 2004 and 35.2% of sales for 2003. In 2004, food and beverage costs were adversely impacted by higher beef costs, which were approximately 9% higher than the first quarter of 2003. However, the higher beef costs were more than offset by better product utilization (less waste) resulting from the higher AUS, the 3.7% menu factor and a heightened store-level focus on food cost controls. Payroll and benefits increased to 31.6% of sales in 2004 from 31.5% of sales in 2003 due principally to higher store-level performance bonuses for management and hourly team members, largely offset by lower hourly payroll costs resulting from the higher sales volumes. All other restaurant costs, including depreciation, decreased to 17.6% of sales in 2004 from 18.2% of sales in 2003. This decrease resulted principally from the favorable impact of the higher AUS on the many fixed-cost items included in this category, partially offset by higher natural gas costs. Based on these factors, the Company's margins at the restaurant level increased by 1.4% of sales to 16.5% of sales in 2004 from 15.1% of sales in 2003.

General and administrative expenses increased to 4.9% of sales in 2004 from 4.7% of sales in 2003 due principally to higher performance bonuses.

Interest expense for the first quarter of 2004 and 2003 amounted to 1.3% and 1.2% of sales, respectively. The effective average interest rate increased to 6.1% during the first quarter of 2004 from 5.1% in 2003, resulting principally from the refinancing on July 25, 2003 of \$100 million of lower-cost variable-rate debt with 4.65% fixed-rate senior notes due

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

in 2013.

An effective income tax rate of 33.8% was used for the first quarter of 2004 and 36.2% for the first quarter of 2003. The decrease in rate resulted primarily from certain federal income tax credit hiring programs, such as the Work Opportunity Tax Credit program ("WOTC"), and lower state income tax expense. Management believes that the tax rate for 2004 will gradually increase relative to 2003 during subsequent quarters if these tax credit hiring programs are not re-enacted by the U.S. Congress.

Net earnings for the first quarter amounted to \$15.4 million in 2004 compared to \$12.1 million in 2003. Weighted-average shares (diluted) increased slightly (less than 1%) as the increased impact of the Company's outstanding stock options in the weighted-average share calculation completely offset the reduction in shares resulting from the Company's stock repurchase program. In general, as the Company's stock price increases, the number of shares related to stock options in the weighted-average share calculation also increases. Accordingly, earnings per share (diluted) amounted to 35 cents for the first quarter of 2004 and 28 cents for the first quarter of 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 three month periods ended March 31, 2004 and April 2, 2003 follow (in thousands):

	2004	2003	Change
Net cash provided by operating activities	\$35,499	27,787	7,712
Net cash used in investing activities	(15,225)	(15,978)	753
Net cash provided by (used in) financing activities	(6,496)	3,418	(9,914)
Net increase in cash and cash equivalents	\$13,778	15,227	(1,449)

Net cash provided by operating activities increased \$7.7 million mainly as a result of the higher cash flow generated by the Company's operations during the first quarter of 2004, 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 was fairly level during the first quarters of both 2004 and 2003. Finally, net cash provided by financing activities decreased by \$9.9 million as the Company repaid a portion of the outstanding loans under its revolving credit facility during the first quarter of 2004 due to (1) the increased cash flow generated from operations and stock option exercises and (2) a lesser amount of stock repurchases.

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

At March 31, 2004, the Company's working capital deficit amounted to \$54.8 million compared to a \$25.0 million deficit at December 31, 2004. This increase stems primarily from an increase in the Company's current liabilities relating to outstanding debt that is due within one year (\$16.0 million under the revolving credit facility and \$18.7 million of the 9.02% senior notes). Management does not anticipate any adverse effects from the current working capital deficit due to the significant and steady level of cash flow provided by operations.

Total capital expenditures for the first three months of 2004 amounted to \$16.9 million. The Company opened five and closed four restaurants during the first three months of 2004, which included two openings and three closings for relocation purposes. 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 13 to 15 new restaurants, including three potential relocations. All new restaurants open with the display cooking/lodge-look format. This format involves a glass-enclosed grill and cooking area that extends into the dining room and the use of stone and wood inside and outside the building in order to present an atmosphere reminiscent of a mountain lodge. A variety of meats are grilled daily and available to customers as part of the buffet price. Customers go to the grill and can get hot, cooked-to-order steak, chicken or other grilled items placed directly from the grill onto their plates. Management also intends to convert approximately 25 to 28 restaurants during the remainder of 2004 to the display cooking/lodge-look format. In this case, management believes that the exterior package favorably impacts restaurant sales by signaling to potential customers that changes have taken place inside the restaurant. For the remainder of 2004, substantially all of either the new or 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 \$86 million. The Company is currently concentrating its efforts on Company-owned restaurants and is not actively pursuing any additional franchised locations, either domestically or internationally.

The Company began a stock repurchase program in March 1996 and is currently authorized to repurchase up to 55 million shares of the Company's common stock through December 2004. Repurchases may be made from time to time on the open market or in privately negotiated transactions in accordance with applicable securities regulations, depending on market conditions, share price and other factors. During the first three months of 2004, the Company purchased 272,666 shares at an aggregate cost of \$4.5 million. Through March 31, 2004, approximately 43.5 million shares, or 54% of total shares available at the beginning of the repurchase program, had been purchased at an aggregate cost of \$319.1 million. The Company has purchased an additional 759,440 shares since March 31, 2004 at an aggregate cost of \$13.7 million. Management currently plans to additionally purchase up to approximately \$7 million of its common stock during the remainder of 2004

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

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 March 31, 2004, the Company's outstanding debt consisted of \$75 million of 9.02% senior notes, \$100 million of 4.65% senior notes and a \$100 million revolving credit facility of which \$16 million was outstanding at that date. After allowances for letters of credit and other items, there were approximately \$73 million in funds available under the revolving credit facility. The Company's ability to draw on these funds may be limited by the financial covenants in the agreements governing both the senior notes and the revolving credit facility. At March 31, 2004, the Company was in compliance with all covenants under the loan agreements. Management believes that, based on its current plans, these restrictions will not impair the Company's operations during 2004. The current revolving credit facility expires in January 2005, and management intends to refinance the facility during 2004. Based on preliminary discussions with banks, management believes that the facility will be refinanced in a manner that appropriately supports the Company's current operations and growth plans. However, since final negotiations have not commenced, there can be no assurance that the refinancing will occur on anticipated terms or at all.

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

SUBSEQUENT EVENT

At the Annual Meeting of Shareholders that was held on May 5, 2004, shareholders approved a proposal to change the Company's legal name to Ryan's Restaurant Group, Inc. Management intends to implement this name change in the near future.

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

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

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 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 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

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

costs. A significant number of the Company's restaurant team members are paid at the Federal minimum wage and accordingly, legislated changes to the minimum wage affect the Company's payroll costs. Although no minimum wage increases have been signed into law, legislation proposing to increase the minimum wage by \$1.85 to \$7.00 per hour over a two-year period is currently under consideration by the U.S. Congress. Subject to competitive market factors, the Company is typically able to increase menu prices to cover most of the payroll rate increases.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company is exposed to interest rate risk on its variable-rate debt, which is composed entirely of outstanding debt under the Company's revolving credit facility (see "Liquidity and Capital Resources"). At March 31, 2004, there was \$16 million in outstanding debt under this facility. Interest rates for the facility generally change in response to LIBOR. Management estimates that a one-percent change in interest rates throughout the quarter ended March 31, 2004 would have impacted interest expense by approximately \$46,000 and net earnings by \$30,000.

While the Company has entered into interest rate derivative agreements in the past, there were no such agreements outstanding during the three months ended March 31, 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

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During the first quarter of 2004, the Company did not make any changes in its internal controls over financial reporting that have materially affected, or are reasonably likely to affect, those controls.

FORWARD-LOOKING INFORMATION

In accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this quarterly report and elsewhere that are forward-looking involve risks and uncertainties that may impact the Company's actual results of operations. All statements other than statements of historical fact that address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as Company plans or strategies, deadlines for completing projects, expected financial results, expected regulatory environment and other such matters, are forward-looking statements. The words "estimates", "plans", "anticipates", "expects", "intends", "believes" and similar expressions are intended to identify forward-looking statements. All forward-looking information reflects the Company's best judgment based on current information. However, there can be no assurance that other factors will not affect the accuracy of such information. While it is not possible to identify all relevant factors, the following could cause actual results to differ materially from expectations: general economic conditions including consumer confidence levels; competition; developments affecting the public's perception of buffet-style restaurants; real estate availability; food and labor supply costs; food and labor availability; an adverse food safety event; weather fluctuations; interest rate fluctuations; stock market conditions; political environment (including acts of terrorism and wars); and other risks and factors described from time to time in the Company's reports filed with the Securities and Exchange Commission, including the Company's annual report on Form 10-K for the fiscal year ended December 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.

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

In November 2002, a lawsuit was filed in the United States District Court, Middle District of Tennessee, Nashville Division, on behalf of three plaintiffs alleging various wage and hour violations by the Company of the Fair Labor Standards Act of 1938. The plaintiffs' attorneys are seeking collective-action status on this complaint. In October 2003, the presiding judge denied the Company's request to enforce the arbitration agreements signed by the plaintiffs and also ordered the Company to turn over certain employee addresses to the plaintiffs' attorneys. The Company has appealed this decision. As part of the appeal process, the presiding judge stayed the order regarding the employee addresses. Due to the evolving nature of this case, the potential financial impact to the Company's financial results cannot be estimated at this time. Accordingly, no accrual for a loss contingency has been made in the accompanying consolidated financial statements.

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

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
January (01/01/04 - 02/04/04)	0	-	43,185,600	11,814,400
February (02/05/04 - 03/03/04)	8,000	\$16.48	43,193,600	11,806,400
March (03/04/04 - 03/31/04)	264,666	\$16.54	43,458,266	11,541,734
Total	272,666	\$16.54	43,458,266	11,541,734

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

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

December 2004. There were no purchases of the Company's common stock by or on behalf of the Company or any "affiliated purchaser" during the first quarter of 2004 other than through this stock repurchase program.

Item 5. Other Information.

During the quarterly period covered by this filing, the Company's Audit Committee did not approve the engagement of KPMG LLP, the Company's external auditor, for any non-audit services, and KPMG LLP did not perform any such services.

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

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

Exhibit # Description

31.1 Section 302 Certification of Chief Executive Officer

31.2 Section 302 Certification of Chief Financial Officer

32.1 Section 906 Certification of Chief Executive Officer

31.2 Section 906 Certification of Chief Financial Officer

(b) Reports on Form 8-K:

On January 28, 2004, the Company furnished a report on Form 8-K regarding the press release on the Company's financial results as of and for the year ended December 31, 2003.

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

Items 3 and 4 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 FAMILY STEAK HOUSES, INC.
(Registrant)

May 10, 2004

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

Edgar Filing: RYANS FAMILY STEAKHOUSES INC - Form 10-Q

May 10, 2004

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

May 10, 2004

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