RYANS FAMILY STEAKHOUSES INC
Form 10-Q
August 20, 2001

FORM 10-Q

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 July 4, 2001

Commission File No. 0-10943

RYAN'S FAMILY STEAK HOUSES, 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 ________

The number of shares outstanding of each of the registrant's classes of common stock as of July 4, 2001:

30,449,000 shares of common stock, $1.00 Par Value

RYAN'S FAMILY STEAK HOUSES, INC.

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PART I. FINANCIAL INFORMATION

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands, except per share data)

	Quarter Ended	
	July 4, 2001	June 28, 2000
Restaurant sales	$192,606	180,960
Operating expenses:		
Food and beverage	70,744	67,300
Payroll and benefits	57,143	53,310
Depreciation	7,266	6,948
Other operating expenses	26,245	22,630
Total operating expenses	161,398	150,188
Operating profit	31,208	30,772
General and administrative expenses	8,710	9,272
Interest expense	3,360	3,595
Revenues from franchised restaurants	(325)	(315)
Other income, net	(591)	(550)
Earnings before income taxes	20,054	18,770
Income taxes	7,220	6,833
Net earnings	$ 12,834	11,937
Net earnings per common share:		
Basic	$ .42	.37
Diluted	.41	.36
Weighted-average shares:		
Basic	30,338	32,475
Diluted	31,305	32,836

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands, except per share data)

	Six Months Ended	
	July 4, 2001	June 28, 2000
Restaurant sales	$376,502	349,232
Operating expenses:		
Food and beverage	139,214	130,580
Payroll and benefits	112,190	103,893
Depreciation	14,320	13,673
Other operating expenses	51,611	44,116
Total operating expenses	317,335	292,262
Operating profit	59,167	56,970
General and administrative expenses	17,587	17,573
Interest expense	6,726	6,675
Revenues from franchised restaurants	(675)	(613)
Other income, net	(1,369)	(1,312)
Earnings before income taxes	36,898	34,647
Income taxes	13,283	12,612
Net earnings	$ 23,615	22,035
Net earnings per common share:		
Basic	$ .77	.65
Diluted	.75	.65
Weighted-average shares:		
Basic	30,700	33,734
Diluted	31,465	34,064

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands)

	July 4, 2001 (Unaudited)	January 3, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,271	2,098
Receivables	5,154	3,631
Inventories	5,036	5,085
Deferred income taxes	4,806	4,806
Prepaid expenses	1,294	820

Total current assets	34,561	16,440
Property and equipment:		
Land and improvements	130,986	126,362
Buildings	372,589	358,415
Equipment	201,228	193,013
Construction in progress	38,685	37,054
	743,488	714,844
Less accumulated depreciation	197,391	182,379
Net property and equipment	546,097	532,465
Other assets	7,368	7,156
	$588,026	556,061
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	17,286	11,003
Income taxes payable	9,937	3,263
Accrued liabilities	37,480	33,806
Total current liabilities	64,703	48,072
Long-term debt	192,000	192,000
Deferred income taxes	30,761	30,628
Other long-term liabilities	3,497	2,932
Total liabilities	290,961	273,632
Shareholders' equity:		
Common stock of $1.00 par value; authorized 100,000,000 shares; issued 30,449,000 in 2001 and 31,192,000 shares in 2000	30,449	31,192
Additional paid-in capital	1,326	89
Retained earnings	265,290	251,148
Total shareholders' equity	297,065	282,429
Commitments		
	$588,026	556,061

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)

	Six Months Ended	
	July 4, 2001	June 28, 2000
Cash flows from operating activities:		
Net earnings	$ 23,615	22,035
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	15,147	14,530
Gain on sale of property and equipment	(74)	(98)
Decrease (increase) in:		
Receivables	(1,523)	(393)
Inventories	49	(661)
Prepaid expenses	(474)	(798)

Other assets	(347)	(1,396)
Increase (decrease) in:		
Accounts payable	6,283	1,647
Income taxes payable	6,674	(289)
Accrued liabilities	3,674	6,469
Deferred income taxes	133	126
Other long-term liabilities	565	1,387
Net cash provided by operating activities	53,722	42,559
Cash flows from investing activities:		
Proceeds from sale of property and equipment	612	4,398
Capital expenditures	(29,182)	(28,066)
Net cash used in investing activities	(28,570)	(23,668)
Cash flows from financing activities:		
Net repayment of notes payable	-	(91,000)
Repayment of long-term debt	-	(81,375)
Proceeds from issuance of senior notes	-	75,000
Net proceeds from revolving credit facility	-	124,000
Debt issuance costs	-	(1,565)
Proceeds from issuance of common stock	2,904	495
Purchases of common stock	(11,883)	(32,306)
Net cash used in financing activities	(8,979)	(6,751)
Increase in cash and cash equivalents	16,173	12,140
Cash and cash equivalents - beginning of period	2,098	642
Cash and cash equivalents - end of period	$ 18,271	12,782

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(In thousands)

I. For the Six Months ended July 4, 2001

	$1 Par Value Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balances at January 3, 2001	$31,192	89	251,148	282,429
Net earnings	-	-	23,615	23,615
Issuance of common stock under Stock Option Plans	394	2,510	-	2,904
Purchases of common stock	(1,137)	(1,273)	(9,473)	(11,883)

Balances at July 4, 2001	$30,449	1,326	265,290	297,065

II. For the Six Months ended June 28, 2000

	$1 Par Value Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balances at December 29,1999	$35,855	703	246,835	283,393
Net earnings	-	-	22,035	22,035
Issuance of common stock under Stock Option Plans	65	430	-	495
Purchases of common stock	(3,433)	(997)	(27,876)	(32,306)
Balances at June 28, 2000	$32,487	136	240,994	273,617

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 4, 2001
(Unaudited)

Note 1. Description of Business

Ryan's Family Steak Houses, Inc. operates a single-concept restaurant chain consisting of 308 Company-owned and 23 franchised restaurants located principally in the southern and midwestern United States. The Company, 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 and has no individually significant customers.

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 six months ended July 4, 2001 are not necessarily indicative of the results that may be expected for the fiscal year ending January 2, 2002. 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 January 3, 2001.

Note 3. New Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement standardizes the accounting for derivative instruments, including derivative instruments embedded in other contracts. Under SFAS No. 133, entities are required to carry all derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains and losses) of a derivative instrument depends on its intended use. The provisions of SFAS No. 133 were adopted at the beginning of 2001 with no resulting impact on the Company's financial condition or results of operations. As noted in "Liquidity and Capital Resources", the Company was not a party to any interest rate derivative agreements at July 4, 2001. The Company does not enter into derivative instrument agreements for trading or speculative purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Quarter ended July 4, 2001 versus June 28, 2000

Restaurant sales during the second quarter of 2001 increased by 6.4% over the comparable quarter of 2000. Average unit growth for the quarter amounted to 4.7%, and average unit sales ("AUS") for all stores, including newly opened restaurants, increased by 1.8%. Same-store AUS increased by 0.4% for the quarter. The Company calculates same-store sales using average unit sales in units that have been open for at least 18 months and operating during comparable weeks during the current and prior year. Same-store sales in 2001 were affected principally by new product introductions and menu price increases.

Total costs and expenses of Company-owned restaurants include food and beverage, payroll, payroll taxes and employee benefits, depreciation, repairs, maintenance, utilities, supplies, advertising, insurance, property taxes and licenses. Such costs, as a percentage of sales, were 83.8% during the second quarter of 2001 compared to 83.0% in 2000. Food and beverage costs decreased to 36.7% of sales in 2001 from 37.2% in 2000 due to menu price increases and lower produce, vegetable and soybean-based product costs. Payroll and benefits increased to 29.7% of sales in 2001 from 29.5% in 2000 due principally to higher manager pay, partially offset by lower hourly labor and workers' compensation costs. Manager pay increased as a result of a company-wide salary increase that was implemented at the beginning of the quarter for all top-level store managers. Although the Company continues to experience upward wage pressures at the store level, hourly payroll costs decreased due to efficiencies resulting from the higher AUS. All other operating costs, including depreciation, increased to 17.4% of sales in 2001 from 16.3% in 2000 due principally to higher natural gas and store closing costs. Based on these factors, the Company's operating profit amounted to 16.2% and 17.0% of sales for the second quarters of 2001 and 2000, respectively.

General and administrative expenses decreased to 4.5% of sales in 2001 compared to 5.1% in 2000 due to lower media advertising, partially offset by higher performance-based bonuses. Higher AUS also favorably impacted this heavily fixed cost category.

Interest expense for the second quarters of 2001 and 2000 amounted to 1.7% and 2.0% of sales, respectively. The effective average interest rate decreased to 7.9% during the second quarter of 2001 from 8.3% in 2000, resulting from favorable interest rate trends. At July 4, 2001, approximately 61% of the Company's outstanding debt was variable-rate debt with interest rates based generally on the London Interbank Offered Rate ("LIBOR"). Based on current LIBOR rates and recent actions by the U.S. Federal Reserve Bank, management expects a more favorable interest rate environment during the remainder of 2001.

Effective income tax rates of 36.0% and 36.4% were used for the second quarters of 2001 and 2000, respectively. The lower rate in 2001 resulted from the favorable impact of various tax-planning strategies.

Net earnings for the second quarter amounted to $12.8 million in 2001 compared to $11.9 million in 2000. Weighted-average shares (diluted) decreased 4.7% resulting from the Company's stock repurchase program (see "Liquidity and Capital Resources"). Accordingly, earnings per share (diluted) increased by 13.9% to 41 cents in 2001 compared to 36 cents in 2000.

Six months ended July 4, 2001 versus June 28, 2000

For the six months ended July 4, 2001, restaurant sales were up 7.8% compared to the same period in 2000. Principal factors affecting the 2001 sales growth include (a) the 4.6% unit growth of Company-owned restaurants, (b) a 2.4% increase in all-store AUS, and (c) the absence of the week containing New Year's Day 2001 from the 2001 amounts. This week, which traditionally is a slower sales week, was included in the results for the fourth quarter of 2000 due to its January 3, 2001 ending date. The week containing New Year's Day 2000 was included in the results for the first six months of 2000. Same-store AUS for the first six months of 2001 increased by 1.4%.

Six-month costs and expenses as detailed above were 84.3% and 83.7% of sales for 2001 and 2000, respectively. During the first six months of 2001, costs and expenses were most affected by lower food and beverage costs (down 0.4% of sales) resulting from lower produce, poultry, vegetable and soy-based product costs. Payroll and benefits remained essentially flat at 29.8% of sales for 2001 and 29.7% for 2000. All other operating costs, including depreciation, increased by 1.0% of sales due to higher natural gas and store closing costs. Based on these factors, the Company's operating margin at the restaurant level amounted to 15.7% of sales for the first six months of 2001 compared to 16.3%

of sales in 2000.

General and administrative expenses decreased by 0.4% of sales for the first six months of 2001 resulting from lower media advertising partly offset by higher performance-based bonus costs. A reduction in the average interest rate associated with the Company's revolving credit facility (see "Liquidity and Capital Resources") caused interest expense to decrease by 0.1% of sales from the prior year.

Effective income tax rates of 36.0% and 36.4% were used for the first six months of 2001 and 2000, respectively. The lower rate in 2001 resulted from the favorable impact of various tax-planning strategies.

Net earnings for the first six months of 2001 amounted to $23.6 million compared to $22.0 million in 2000. Weighted-average shares (diluted) decreased 7.6% resulting from the Company's stock repurchase program (see "Liquidity and Capital Resources"). Accordingly, earnings per share (diluted) increased by 15.4% to 75 cents in 2001 compared to 65 cents in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's restaurant sales are primarily derived from cash. Inventories are purchased on credit and are rapidly converted to cash. Therefore, the Company does not maintain significant receivables or inventories, and other working capital requirements for operations are not significant.

At July 4, 2001, the Company's working capital was a $30.1 million deficit compared to a $31.6 million deficit at January 3, 2001. The Company does not anticipate any adverse effects from the current working capital deficit due to significant cash flow provided by operations, which amounted to $53.7 million for the first six months of 2001 and $79.4 million for the year ended January 3, 2001.

Total capital expenditures for the first six months of 2001 amounted to $29.1 million. The Company opened nine Ryan's restaurants during the first six months of 2001, including two relocations. Management defines a relocation as a restaurant opened within 18 months after closing another restaurant in the same marketing area. A relocation represents a redeployment of assets within a market. For all of 2001, the Company plans to open a total of 16 Ryan's, including five relocations. Total capital expenditures for 2001 are estimated at $62 million. Expansion of Company-owned restaurants is expected to occur in states either within or contiguous to the Company's current 22-state operating area. The Company is currently concentrating its efforts on Company-owned units and is not actively pursuing any additional franchised locations, either domestic or international.

The Company began a stock repurchase program in March 1996 and is currently authorized to repurchase a total of 30.0 million shares of the Company's common stock through December 2002. Repurchases may be made from time to time on the open market or in privately negotiated transactions in accordance with applicable securities regulations, depending on market conditions, share price and other factors. During the first six months of 2001, the Company purchased 1,137,000 shares at an aggregate cost of $11.9 million. Since the beginning of the program in March 1996, approximately 24.7 million shares, or 46% of total shares available at the beginning of the program, had been purchased at an aggregate cost of $233.8 million. Management intends to proceed with the repurchase program during 2001, subject to the continued availability of capital and the other factors described below in "Forward-Looking Information". The Company is prohibited from repurchasing stock after 2002 per the current provisions of the credit agreement governing the revolving credit facility (see next paragraph).

The extent of the Company's external funding requirements for 2001 is dependent upon the level of stock repurchase transactions during the year. Based on current target debt levels, a maximum repurchase scenario would require approximately $30 million of additional borrowings during the remainder of 2001. All other funding needs, including capital expenditures, are expected to be met by internally generated cash from operations. The Company's debt structure at July 4, 2001 consisted of $75 million of 9.02% senior notes and $117 million in outstanding notes under a $200 million revolving credit facility. The senior notes are due in 2008 with principal payments commencing in 2005. The revolving credit facility is due in 2005 and bears interest at various floating interest rates plus a variable spread currently set at 1.375%. After allowances for letters of credit and other items, there was approximately $74 million in funds available under the revolving credit facility. However, the Company's ability to draw on these funds may be limited by restrictions in the loan agreements governing both the senior notes and the revolving credit facility. The loan agreements contain minimum net worth requirements and maximum leverage ratios as well as restrictions on future stock repurchases (see preceding paragraph), dividends, capital expenditures, investments and sales of assets. As of July 4, 2001, the Company exceeded the most restrictive minimum net worth requirement in the agreements by $46.6 million. Both loans are secured by the stock of the Company and its wholly-owned subsidiaries.

Management believes that its current capital structure is sufficient to meet its capital requirements through 2002. Interest rates for the revolving credit facility have not been fixed and generally change in response to LIBOR. 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.

IMPACT OF INFLATION

The Company's operating costs that may be affected by inflation consist principally of food, payroll and utility costs. A significant number of the Company's restaurant team members are paid at the Federal minimum wage and, accordingly, legislated changes to the minimum wage affect the Company's payroll costs. Although no minimum wage increases have been signed into law, this issue has been discussed frequently during recent months in the U.S Congress. The most publicized proposal increases the minimum wage by $1.50 to $6.55 per hour in several steps with a final implementation date that has not yet been determined. The Company is typically able to increase menu prices to offset 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 have generally ranged from 3% to 5%.

QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 commodities 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 July 4, 2001, there was $117 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 July 4, 2001 would have impacted interest expense by approximately $254,000 and net earnings by $163,000.

While the Company has entered into interest rate derivative agreements in the past, there were no such agreements outstanding as of July 4, 2001. The Company does not enter into financial instrument agreements for trading or speculative purposes.

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 report and elsewhere, which are forward-looking and which provide other than historical information, 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 deadlines for completing projects, expected financial results and other such matters are forward-looking statements. The words "estimate", "plans", "anticipate", "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 factors, the following could cause actual results to differ materially from expectations: general economic conditions; competition; developments affecting the public's perception of buffet-style restaurants; real estate availability; food and labor supply costs; food and labor availability; weather fluctuations; interest rate fluctuations; stock market conditions; 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 January 3, 2001. 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 2001 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 agreements governing both the senior notes and the revolving credit facilities, and the maximum debt and share repurchase levels authorized by the Company's Board of Directors.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None reportable.

Item 2. Changes in Securities.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None reportable.

Item 5. Other Information.

None.

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

(a) None.

(b) On April 9, 2001, the Company filed a report on Form 8-K regarding sales information for March 2001.

On May 14, 2001, the Company filed a report on Form 8-K regarding sales information for April 2001.

On June 11, 2001, the Company filed a report on Form 8-K regarding sales information for May 2001.

On July 9, 2001, the Company filed a report on

Form 8-K regarding sales information for June 2001.
On August 13, 2001, the Company filed a report on Form 8-K regarding sales information for July 2001.

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)

August 20, 2001	/s/Charles D. Way Charles D. Way Chairman, President and Chief Executive Officer
August 20, 2001	/s/Fred T. Grant, Jr. Fred T. Grant, Jr. Senior Vice President-Finance and Treasurer
August 20, 2001	/s/Richard D. Sieradzki Richard D. Sieradzki Controller