RYANS FAMILY STEAKHOUSES INC
Form 10-Q
November 19, 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 October 3, 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 ________

At October 3, 2001, there were 30,501,000 shares outstanding of the registrant's common stock, par value $1.00 per share.

RYAN'S FAMILY STEAK HOUSES, INC.

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Item 1. Financial Statements

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands, except per share data)

	Quarter Ended	
	October 3, 2001	September 27, 2000
Restaurant sales	$188,839	177,797
Operating expenses:		
Food and beverage	67,878	67,050
Payroll and benefits	57,939	53,109
Depreciation	7,408	7,041
Other operating expenses	25,102	23,481
Total operating expenses	158,327	150,681
Operating profit	30,512	27,116
General and administrative expenses	10,280	8,933
Interest expense	2,642	3,507
Revenues from franchised restaurants	(316)	(291)
Other income, net	(850)	(563)
Earnings before income taxes	18,756	15,530
Income taxes	6,751	5,653
Net earnings	$ 12,005	9,877
Net earnings per common share:		
Basic	$ .39	.31
Diluted	.38	.31
Weighted-average shares:		
Basic	30,561	32,037
Diluted	31,891	32,288

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands, except per share data)

	Nine Months Ended	
	October 3, 2001	September 27, 2000
Restaurant sales	$565,341	527,029

Operating expenses:		
Food and beverage	207,092	197,630
Payroll and benefits	170,129	157,002
Depreciation	21,728	20,714
Other operating expenses	76,713	67,597
Total operating expenses	475,662	442,943
Operating profit	89,679	84,086
General and administrative expenses	27,867	26,506
Interest expense	9,368	10,182
Revenues from franchised restaurants	(991)	(904)
Other income, net	(2,219)	(1,875)
Earnings before income taxes	55,654	50,177
Income taxes	20,034	18,265
Net earnings	$ 35,620	31,912
Net earnings per common share:		
Basic	$ 1.16	.96
Diluted	1.13	.95
Weighted-average shares:		
Basic	30,654	33,168
Diluted	31,607	33,472

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS	October 3, 2001 (Unaudited)	January 3, 2001
Current assets:		
Cash and cash equivalents	$ 5,851	2,098
Receivables	4,751	3,631
Inventories	4,855	5,085
Deferred income taxes	4,806	4,806
Prepaid expenses	1,345	820
Total current assets	21,608	16,440

Property and equipment:		
Land and improvements	131,041	126,362
Buildings	374,648	358,415
Equipment	203,640	193,013
Construction in progress	37,940	37,054
	747,269	714,844
Less accumulated depreciation	201,473	182,379
Net property and equipment	545,796	532,465
Other assets	6,937	7,156
	$574,341	556,061
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	11,802	11,003
Income taxes payable	7,204	3,263
Accrued liabilities	34,967	33,806
Total current liabilities	53,973	48,072
Long-term debt	178,000	192,000
Deferred income taxes	30,829	30,628
Other long-term liabilities	3,705	2,932
Total liabilities	266,507	273,632
Shareholders' equity:		
Common stock of $1.00 par value; authorized 100,000,000 shares; issued 30,501,000 in 2001 and 31,192,000 shares in 2000	30,501	31,192
Additional paid-in capital	38	89
Retained earnings	277,295	251,148
Total shareholders' equity	307,834	282,429
Commitments		
	$574,341	556,061

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended	
	October 3, 2001	September 27, 2000
Cash flows from operating activities:		
Net earnings	$ 35,620	31,912
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	22,991	22,000
Gain on sale of property and equipment	(475)	(111)
Decrease (increase) in:		
Receivables	(1,120)	(573)
Inventories	230	(501)
Prepaid expenses	(525)	(719)
Other assets	17	(1,591)
Increase in:		

Accounts payable	799	600
Income taxes payable	3,941	3,017
Accrued liabilities	1,161	5,529
Deferred income taxes	201	183
Other long-term liabilities	773	1,624
Net cash provided by operating activities	63,613	61,370
Cash flows from investing activities:		
Proceeds from sale of property and equipment	5,385	4,665
Capital expenditures	(41,030)	(44,059)
Net cash used in investing activities	(35,645)	(39,394)
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 (repayment of) revolving credit facility	(14,000)	119,000
Debt issuance costs	-	(1,565)
Issuance of common stock under stock option plans	5,332	591
Purchases of common stock	(15,547)	(37,219)
Net cash used in financing activities	(24,215)	(16,568)
Increase in cash and cash equivalents	3,753	5,408
Cash and cash equivalents - beginning of period	2,098	642
Cash and cash equivalents - end of period	$ 5,851	6,050

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(In thousands)

I. For the Nine Months ended October 3, 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	-	-	35,620	35,620
Issuance of common stock under stock option plans	683	4,649	-	5,332
Purchases of common stock	(1,374)	(4,700)	(9,473)	(15,547)
Balances at October 3, 2001	$ 30,501	38	277,295	307,834

II. For the Nine Months ended September 27, 2000

$1 Par Value Additional

	Common Stock	Paid-In Capital	Retained Earnings	Total
Balances at December 29, 1999	$35,855	703	246,835	283,393
Net earnings	-	-	31,912	31,912
Issuance of common stock under stock option plans	80	511	-	591
Purchases of common stock	(4,034)	(1,142)	(32,043)	(37,219)
Balances at September 27, 2000	$31,901	72	246,704	278,677

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 3, 2001
(Unaudited)

Note 1. Description of Business

Ryan's Family Steak Houses, Inc. operates a single-concept restaurant chain consisting of 310 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 nine months ended October 3, 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. Relevant New Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is applicable to financial statements issued for fiscal years beginning after December 15, 2001. SFAS No. 144 provides new rules on asset impairment, superseding SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and providing a single accounting model for long-lived assets to be disposed of. The Company will adopt the Statement effective January 3, 2002 and is currently assessing the impact on its operations.

Note 4. Contingencies

The Company received a proposed assessment in September 2001 from the South Carolina Department of Revenue ("DOR") in connection with the DOR's audits of the Company's state tax returns for the years 1994 through 1999. The Company disagrees strongly with the DOR's findings, intends to vigorously contest the assessment and has in fact filed refund claims for substantially all of the years under audit. The DOR has not yet issued a final determination. When the determination is issued, management believes that there is a strong likelihood that the assessment will be sent to litigation and consequently has engaged legal counsel to review the case and maintain a current dialogue with the DOR. Accordingly, it is not possible to estimate the ultimate gain or loss to the Company. In the event of an unfavorable outcome, payment of the full assessment, including interest and penalties, by the Company to the DOR would not materially affect the Company's financial position.

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

RESULTS OF OPERATIONS

Quarter ended October 3, 2001 versus September 27, 2000

Restaurant sales during the third quarter of 2001 increased by 6.2% over the comparable quarter of 2000. Average unit growth, based on the average number of restaurants in operation, for the quarter amounted to 4.2%. Average unit sales ("AUS"), or the average weekly sales volume per unit, for all stores (including newly opened restaurants) increased by 2.5%. Same-store sales increased by 1.5% for the quarter. The Company calculates same-store sales using AUS 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 third quarter of 2001 compared to 84.7% in 2000. Food and beverage costs decreased to 35.9% of sales in 2001 from 37.7% in 2000 due to lower soft drink, beef and vegetable costs and menu price increases. Payroll and benefits increased to 30.7% of sales in 2001 from 29.9% in 2000 due principally to higher manager pay and group medical costs, partially offset by lower hourly labor and workers' compensation costs. Manager pay increased as a result of a company-wide salary increase for all top-level store managers that was implemented at the beginning of April 2001. Group medical costs were impacted by general medical inflation that is currently running nationally at a 13% to 15% annual rate. Hourly payroll and workers' compensation costs decreased due to efficiencies resulting from higher AUS and lower team member accident rates, respectively. All other operating costs, including depreciation, were 17.2% of sales in both 2001 and 2000 with higher natural gas prices in 2001 offset by lower store closing costs. Store closing costs were impacted by a gain on sale of a restaurant that amounted to approximately $1.0 million, or 0.5% of sales. Based on these factors, the Company's operating profit amounted to 16.2% and 15.3% of sales for the third quarters of 2001 and 2000, respectively.

General and administrative expenses increased to 5.4% of sales in 2001 compared to 5.0% in 2000. Higher franchise taxes in 2001 combined with the write-off of unused advertising trade credits were partially offset by lower legal costs. The Company obtained the trade credits in connection with a prior year's sale of land and expensed them in the third quarter of 2001 as management now believes that their expected utilization will be minimal. The increase in AUS also favorably impacted this heavily fixed-cost category.

Interest expense for the third quarters of 2001 and 2000 amounted to 1.4% and 2.0% of sales, respectively. The effective average interest rate decreased to 6.7% during the third quarter of 2001 from 8.4% in 2000, resulting from favorable interest rate trends. At October 3, 2001, approximately 58% 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 favorable interest rate comparisons 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 third quarter amounted to $12.0 million in 2001 compared to $9.9 million in 2000. Weighted-average shares (diluted) decreased 1.2% resulting from the Company's stock repurchase program (see "Liquidity and Capital Resources"). Accordingly, earnings per share (diluted) increased by 22.6% to 38 cents in 2001 compared to 31 cents in 2000.

Nine months ended October 3, 2001 versus September 27, 2000

For the nine months ended October 3, 2001, restaurant sales increased by 7.3% compared to the same period in 2000. Principal factors affecting 2001 sales growth include (a) the 4.5% 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 nine months of 2000. Same-store sales for the first nine months of 2001 increased by 1.4%.

Nine-month costs and expenses as detailed above were 84.1% and 84.0% of sales for 2001 and 2000, respectively. During the first nine months of 2001, costs and expenses were most affected by lower food and beverage costs (down 0.9% of sales) resulting from lower beef, produce, poultry, vegetable and soy-based product costs. Payroll and benefits increased by 0.3% of sales due to higher manager pay and group medical costs, partially offset by lower hourly labor and workers' compensation costs. All other operating costs, including depreciation, increased by 0.6% of sales due principally to higher natural gas prices. Based on these factors, the Company's operating margin at the restaurant level amounted to 15.9% of sales for the first nine months of 2001 compared to 16.0% of sales in 2000.

General and administrative expenses decreased by 0.1% of sales for the first nine months of 2001 due to lower media advertising and professional fees for the current year, partially offset by higher performance-based compensation. 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 0.3% of sales from the prior year.

Effective income tax rates of 36.0% and 36.4% were used for the first nine 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 nine months of 2001 amounted to $35.6 million compared to $31.9 million in 2000. Weighted-average shares (diluted) decreased 5.6% resulting from the Company's stock repurchase program (see "Liquidity and Capital Resources"). Accordingly, earnings per share (diluted) increased by 18.9% to $1.13 in 2001 compared to $0.95 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 October 3, 2001, the Company's working capital was a $32.4 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 $63.6 million for the first nine months of 2001 and $79.4 million for the year ended January 3, 2001.

Total capital expenditures for the first nine months of 2001 amounted to $41.0 million. The Company opened 12 Ryan's restaurants during the first nine months of 2001, including four 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 $56 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 nine months of 2001, the Company purchased 1,374,600 shares at an aggregate cost of $15.5 million. Since the beginning of the program in March 1996, approximately 24.9 million shares, or 47% of total shares available at the beginning of the program, had been purchased at an aggregate cost of $237.4 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 $23 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 October 3, 2001 consisted of $75 million of

9.02% senior notes and $103 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 $89 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 October 3, 2001, the Company exceeded the most restrictive minimum net worth requirement in the agreements by $51.4 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%.

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 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 October 3, 2001, there was $103 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 October 3, 2001 would have impacted interest expense by approximately $228,000 and net earnings by $146,000.

While the Company has entered into interest rate derivative agreements in the past, there were no such agreements outstanding as of October 3, 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 6. Exhibits and Reports on Form 8-K.

(a) None.

(b) 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.

On September 10, 2001, the Company filed a report on Form 8-K regarding sales information for August 2001.

On October 9, 2001, the Company filed a report on Form 8-K regarding sales information for September 2001.

On November 13, 2001, the Company filed a report on Form 8-K regarding sales information for October 2001.

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)

November 19, 2001 /s/Charles D. Way
Charles D. Way
Chairman, President and Chief Executive Officer

November 19, 2001 /s/Fred T. Grant, Jr.
Fred T. Grant, Jr.
Senior Vice President-Finance and Treasurer

November 19, 2001 /s/Richard D. Sieradzki
Richard D. Sieradzki
Controller