RYANS FAMILY STEAKHOUSES INC
Form 10-Q
May 21, 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 April 4, 2001

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 X No ________

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

30,486,000 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 April 4, 2001	Quarter Ended March 29, 2000
Restaurant sales	$ 183,896	168,272
Operating expenses:		
Food and beverage	68,470	63,280
Payroll and benefits	55,047	50,583
Depreciation	7,054	6,725
Other operating expenses	25,366	21,486
Total operating expenses	155,937	142,074
Operating profit	27,959	26,198
General and administrative expenses	8,877	8,301
Interest expense	3,366	3,080
Revenues from franchised restaurants	(350)	(298)
Other income, net	(778)	(762)
Earnings before income taxes	16,844	15,877
Income taxes	6,063	5,779
Net earnings	$ 10,781	10,098
Net earnings per common share:		
Basic	$ .35	.29
Diluted	.34	.29
Weighted-average shares:		
Basic	31,062	34,992
Diluted	31,625	35,291

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands)

	April 4, 2001 (Unaudited)	January 3, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,494	2,098
Receivables	3,987	3,631
Inventories	5,126	5,085
Deferred income taxes	4,806	4,806
Prepaid expenses	1,146	820
Total current assets	27,559	16,440
Property and equipment:		
Land and improvements	128,418	126,362
Buildings	365,861	358,415
Equipment	197,895	193,013
Construction in progress	37,835	37,054
	730,009	714,844
Less accumulated depreciation	189,769	182,379
Net property and equipment	540,240	532,465
Other assets	7,368	7,156
	$ 575,167	556,061
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	14,505	11,003
Income taxes payable	8,001	3,263
Accrued liabilities	32,183	33,806
Total current liabilities	54,689	48,072
Long-term debt	201,000	192,000
Deferred income taxes	30,689	30,628
Other long-term liabilities	3,325	2,932
Total liabilities	289,703	273,632
Shareholders' equity:		
Common stock of $1.00 par value; authorized 100,000,000 shares; issued 30,486,000 in 2001 and 31,192,000 shares in 2000	30,486	31,192
Additional paid-in capital	2	89
Retained earnings	254,976	251,148
Total shareholders' equity	285,464	282,429
Commitments		
	$ 575,167	556,061

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)

	Three Months Ended April 4, 2001	Three Months Ended March 29, 2000
Cash flows from operating activities:		
Net earnings	$10,781	10,098
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	7,458	7,143
Gain on sale of property and equipment	(1)	(72)
Increase in:		
Receivables	(356)	(4)
Inventories	(41)	(466)
Prepaid expenses	(326)	(653)
Other assets	(280)	(736)
Increase (decrease) in:		
Accounts payable	3,502	2,391
Income taxes payable	4,738	4,844
Accrued liabilities	(1,623)	(103)
Deferred income taxes	61	58
Other long-term liabilities	393	921
Net cash provided by operating activities	24,306	23,421
Cash flows from investing activities:		
Proceeds from sale of property and equipment	110	2,993
Capital expenditures	(15,274)	(13,557)
Net cash used in investing activities	(15,164)	(10,564)
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	9,000	119,000
Debt issuance costs	-	(1,551)
Proceeds from issuance of common stock	805	336
Purchases of common stock	(8,551)	(32,306)
Net cash provided by (used in) financing activities	1,254	(11,896)
Increase in cash and cash equivalents	10,396	961
Cash and cash equivalents - beginning of period	2,098	642
Cash and cash equivalents - end of period	$12,494	1,603

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(In thousands)

I. For the Three Months ended April 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	-	-	10,781	10,781
Issuance of common stock under Stock Option Plans	121	684	-	805
Purchases of common stock	(827)	(771)	(6,953)	(8,551)
Balances at April 4, 2001	$30,486	2	254,976	285,464

II. For the Three Months ended March 29, 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	-	-	10,098	10,098
Issuance of common stock under Stock Option Plans	43	293	-	336
Purchases of common stock	(3,434)	(996)	(27,876)	(32,306)
Balances at March 29, 2000	$32,464	-	229,057	261,521

See accompanying notes to consolidated financial statements.

RYAN'S FAMILY STEAK HOUSES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 4, 2001
(Unaudited)

Note 1. Description of Business

Ryan's Family Steak Houses, Inc. operates a single-concept restaurant chain consisting of 306 Company-owned and 22 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 three months ended April 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 April 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 April 4, 2001 versus March 29, 2000

Restaurant sales during the first quarter of 2001 increased by 9.3% over the comparable quarter of 2000. Principal factors affecting the 2001 sales growth include (a) the 4.4% unit growth of Company-owned restaurants, which totaled 306 at April 4, 2001 and 291 at March 29, 2000, (b) a 2.5% increase in same-store sales, 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 quarter of 2000. 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. The 2001 sales results compare well to the 1.1% same-store sales increase experienced during the first quarter of 2000. Same-store sales in 2001 were affected principally by more favorable weather conditions during January 2001, 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 84.8% during the first quarter of 2001 compared to 84.4% in 2000. Food and beverage costs decreased to 37.2% of sales in 2001 from 37.6% in 2000 due to lower dairy, poultry, vegetable and soybean-based product costs, partially offset by higher beef costs. Payroll and benefits decreased to 29.9% of sales in 2001 from 30.1% in 2000 due principally to lower hourly payroll costs, partially offset by higher team member benefit and workers' compensation costs. Although the Company continues to experience wage pressures at the store level, hourly payroll cost decreased due to inefficiencies arising from severe weather in January 2000. All other operating costs, including depreciation, increased to 17.7% of sales in 2001 from 16.7% in 2000 due principally to higher natural gas and store closing costs. Based on these factors, the Company's operating profit at the restaurant level increased by 6.7%, amounting to 15.2% and 15.6% of sales for the first quarters of 2001 and 2000, respectively.

General and administrative expenses decreased to 4.8% of sales in 2001 compared to 4.9% in 2000 due to the leveraging effect of higher sales volumes on this heavily fixed cost category.

Interest expense for the first quarters of 2001 and 2000 amounted to 1.8% of sales for both years. Due to the Company's stock repurchase program (see "Liquidity and Capital Resources"), total debt increased from $194.0 million at March 29, 2000 to $201.0 million at April 4, 2001. The effective average interest rate increased to 8.1% during the first quarter of 2001 from 7.8% in 2000, resulting principally from higher credit spreads charged in connection with new credit facilities that closed in January 2000. At April 4, 2001, approximately 63% 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 swap rates and recent actions by the Federal Reserve Bank, management expects a more favorable interest rate environment during 2001.

Effective income tax rates of 36.0% and 36.4% were used for the first 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 first quarter amounted to $10.8 million in 2001 compared to $10.1 million in 2000. Due to a 10.4% reduction in weighted-average shares (diluted) resulting from the Company's stock repurchase program (see "Liquidity and Capital Resources"), earnings per share (diluted) increased 17.2% to 34 cents in 2001 compared to 29 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 April 4, 2001, the Company's working capital was a $27.1 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 $24.3 million for the first three months of 2001 and $79.4 million for the year ended January 3, 2001.

Total capital expenditures for the first three months of 2001 amounted to $15.3 million. The Company opened five Ryan's restaurants during the first three months of 2001, including one relocation. 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 $63 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 three months of 2001, the Company purchased 827,000 shares at an aggregate cost of $8.6 million. Since the beginning of the program in March 1996, approximately 24.4 million shares, or 46% of total shares available at the beginning of the program, had been purchased at an aggregate cost of $230.5 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 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 $31 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 April 4, 2001 consisted of $75 million of 9.02% senior notes and $126 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 $65 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, dividends, capital expenditures, investments and sales of assets. As of April 4, 2001, the Company exceeded the most restrictive minimum net worth requirement in the agreements by $41.4 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, potential legislation proposing to increase the minimum wage by $1.00 to $6.15 per hour has recently been discussed in the U.S. Congress. Another proposal that increases the minimum wage by $1.50 to $6.55 per hour has also been introduced. 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 April 4, 2001, there was $126 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 April 4, 2001 would have impacted interest expense by $251,000 and net earnings by $160,000.

While the Company has entered into interest rate derivative agreements in the past, there were no such agreements outstanding as of April 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 January 9, 2001, the Company filed a report on Form 8-K regarding sales information for December 2000.
On February 12, 2001, the Company filed a report on Form 8-K regarding sales information for January 2001.
On March 12, 2001, the Company filed a report on Form 8-K regarding sales information for February 2001.
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.

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 21, 2001 /s/Charles D. Way
Charles D. Way
Chairman, President and Chief Executive Officer

May 21, 2001 /s/Fred T. Grant, Jr.

Fred T. Grant, Jr.
Senior Vice President-Finance and
Treasurer

May 21, 2001 /s/Richard D. Sieradzki
Richard D. Sieradzki
Controller