FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-30**
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FILER

BACK YARD BURGERS INC

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Type: **10-Q** | Act: **34** | File No.: **001-12104** | Film No.: **02645649**
SIC: **5812** Eating places

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 30, 2002

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ----------- to -----------

Commission file number 1-12104

BACK YARD BURGERS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	64-0737163
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1657 SHELBY OAKS DR. N. STE. 105, MEMPHIS, TENNESSEE 38134
(Address of principal executive offices)

(901) 367-0888
(Registrant's telephone number)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class - Common stock, par value $.01 per share

Outstanding at April 30, 2002 - 4,725,902

BACK YARD BURGERS, INC.

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BACK YARD BURGERS, INC.
CONSOLIDATED BALANCE SHEET (UNAUDITED)
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE AMOUNTS)

<TABLE>
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<S>	MARCH 30, 2002 <C>	DECEMBER 29, 2001 <C>
ASSETS		
Cash and cash equivalents	$ 1,961	$ 1,657
Receivables, less allowance for doubtful accounts of $141 ($129 in 2001)	476	582
Inventories	224	229
Income taxes receivable	17	38
Current deferred tax asset	104	186

Prepaid expenses and other current assets	196	50
Total current assets	2,978	2,742
Property and equipment, at depreciated cost	14,465	14,176
Intangible assets	1,751	1,751
Noncurrent deferred tax asset	388	419
Notes receivable	128	134
Other assets	243	286
	$ 19,953	$ 19,508
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 1,165	$ 994
Accrued expenses	1,286	1,368
Reserve for closed stores	98	100
Current installments of long-term debt	581	570
Total current liabilities	3,130	3,032
Long-term debt, less current installments	5,054	5,202
Deferred franchise and area development fees	345	285
Other deferred income	369	341
Other deferred liabilities	60	57
Total liabilities	8,958	8,917
Commitments and contingencies	--	--
Stockholders' equity		
Preferred stock, $.01 par value; 2,000,000 shares authorized; 19,763 shares issued and outstanding	--	--
Common stock, $.01 par value; 12,000,000 shares authorized; 4,708,811 shares issued and outstanding (4,645,019 at December 29, 2001)	48	47
Paid-in capital	10,371	10,195
Treasury stock, at cost, 25,000 shares	(28)	(28)
Retained earnings	604	377
Total stockholders' equity	10,995	10,591
Total liabilities and stockholders' equity	$ 19,953	$ 19,508

</TABLE>

See accompanying notes to unaudited financial statements

BACK YARD BURGERS, INC.
CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>

<CAPTION>

<S>	THIRTEEN WEEKS ENDED MARCH 30, 2002 <C>	THIRTEEN WEEKS ENDED MARCH 31, 2001 <C>
Revenues:		
Restaurant sales	$ 7,311	$ 6,331
Franchise and area development fees	27	99
Royalty fees	516	439
Advertising fees	130	113
Other	195	152
Total revenues	8,179	7,134
Expenses:		
Cost of restaurant sales	2,291	2,017
Restaurant operating expenses	3,470	3,106
General and administrative	1,066	816
Advertising	460	455
Depreciation and amortization	325	331
Total expenses	7,612	6,725
Operating income	567	409
Interest income	4	7
Interest expense	(132)	(147)
Other, net	(79)	(21)
Income before income taxes	360	248
Income taxes	133	92
Net income	$ 227	$ 156
Income per share:		
Basic	$ 0.05	$ 0.03
Diluted	$ 0.04	$ 0.03
Weighted average number of common shares and common equivalent shares outstanding:		
Basic	4,691	4,632
Diluted	5,111	4,708

</TABLE>

See accompanying notes to unaudited financial statements

BACK YARD BURGERS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

<TABLE>
<CAPTION>

	THIRTEEN WEEKS ENDED	
	MARCH 30, 2002	MARCH 31, 2001
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 227	$ 156
Adjustments to reconcile net income to net cash Provided by operating activities:		
Depreciation of property and equipment	324	292
Deferred income taxes	113	61
Amortization of intangible assets	1	37
Provision for losses on receivables	12	47
Loss on sale of assets	--	1
Other deferred income	28	(15)
(Increase) decrease in assets:		
Receivables	94	5
Inventories	5	12
Prepaid expenses and other current assets	(146)	(37)
Other assets	42	(7)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	89	157
Reserve for closed stores	(2)	(4)
Income taxes payable/receivable	21	22
Other deferred liabilities	3	(4)
Deferred franchise and area development fees	60	(85)
Net cash provided by operating activities	871	638
Cash flows from investing activities:		
Additions to property and equipment	(613)	(417)
Proceeds from sale of property and equipment	--	13
Proceeds on notes receivable	6	--
Net cash used in investing activities	(607)	(404)
Cash flows from financing activities:		
Issuance of stock	8	7
Principal payments on long-term debt	(137)	(279)
Proceeds from issuance of long-term debt	--	223
Proceeds from exercise of stock options	169	--
Treasury stock purchases	--	(28)
Net cash provided (used) by financing activities	40	(77)
Net increase in cash and cash equivalents	304	157
Cash and cash equivalents:		
Beginning of period	1,657	1,041

End of period	$ 1,961	$ 1,198
	========	========
Supplemental disclosure of cash flow information:		
Income taxes paid	$ --	$ 9
	========	========
Interest paid	$ 132	$ 147
	========	========

</TABLE>

See accompanying notes to unaudited financial statements

BACK YARD BURGERS, INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Back Yard Burgers, Inc. owns and operates quick-service and fast-casual restaurants and is engaged in the sale of franchises and the collection of royalties based upon related franchise sales. The company grants franchise rights for the use of "Back Yard Burgers," "BYB" or "BY Burgers" trade names and other associated trademarks, signs, emblems, logos, slogans and service marks which have been or may be developed.

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and notes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. The statements do reflect all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary to present fairly the financial position and results of operations and cash flows in conformity with generally accepted accounting principles. The statements should be read in conjunction with the Notes to Financial Statements for the year ended December 29, 2001 included in the company's 2001 Annual Report.

The financial statements include the accounts of Back Yard Burgers, Inc. and its wholly-owned subsidiaries, Little Rock Back Yard Burgers, Inc., Atlanta Burgers BYB Corporation and BYB Properties, Inc., as well as the Back Yard Burgers National Advertising Fund. All significant intercompany transactions have been eliminated.

The results of operations for the thirteen-week period are not necessarily indicative of the results to be expected for the full year.

The company maintains its financial records on a 52-53 week fiscal year ending on the Saturday closest to December 31.

NOTE 2 - RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. The company adopted SFAS No. 141 on December 30, 2001, with no material effect on the company's consolidated financial position or results of operations.

The company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets" (SFAS No. 142) effective January 1, 2002. SFAS No. 142 changed the accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach. The Company ceased amortization of goodwill in 2002 under the provisions of this statement. Expenses for the three months ended March 31, 2001 included amortization of $38,000. If SFAS No. 142 had been in effect during 2001 and amortization had not been recorded, net income for the first quarter of 2001 would have been approximately $24,000 (tax effected) greater than the reported total of $156,000 and earnings per share would have been $0.04 compared to the reported total of $0.03.

In October 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets effective for years beginning after December 15, 2001. This Statement supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, but retains the fundamental provision of SFAS 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be held for sale. The statement requires that whenever events or changes in circumstances indicate that a long-lived asset's carrying value may not be recoverable, the asset should be tested for recoverability. The statement also requires that a long-lived asset classified as held for sale should be carried at the lower of its carrying value or fair value, less cost to sell. The company adopted SFAS 144 on December 30, 2001, with no material impact on the company's consolidated financial position or results of operations.

NOTE 3 - NET INCOME PER SHARE

The company calculates earnings per share in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share, which requires the presentation of basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

COMPUTATION OF INCOME PER SHARE
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

	THIRTEEN WEEKS ENDED	
	MARCH 30, 2002	MARCH 31, 2001
<S>	<C>	<C>

Net Income	$ 227	$ 156
	========	========
Weighted average number of common shares outstanding during the period	4,691	4,632
	========	========
Basic income per share	$ .05	$ .03
	========	========
Weighted average number of common shares outstanding during the period	4,691	4,632
Preferred shares convertible to common shares	20	20
Stock options	400	56
	--------	--------
	5,111	4,708
	========	========
Diluted income per share	$ .04	$ .03
	========	========

</TABLE>

NOTE 4 - DEFERRED FRANCHISE AND AREA DEVELOPMENT FEES

Amounts received for certain franchise and area development rights, net of commissions paid, have been deferred. Revenues on individual franchise fees are recognized when substantially all of the initial services required of the company have been performed, which generally coincides with the opening of the franchises. Under the terms of the franchise agreements, these fees are non-refundable, and may be recognized as income should the franchisee fail to perform as agreed. Area development fees are recognized on a pro-rata basis as each unit opens. At March 30, 2002, deferred fees include franchise and area development rights sold during the following years:

<TABLE>

<S>	<C>
2002	$ 82
2001	52
Previous years	211

	$ 345
	========

</TABLE>

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The company is party to several pending legal proceedings and claims. Although the outcome of the proceedings and claims cannot be determined with certainty, management of the company is of the opinion that it is unlikely that these proceedings and claims will have a material adverse effect on the financial condition or results of operations of the company.

FORWARD-LOOKING INFORMATION

Certain information included herein may contain statements that are forward-looking, such as statements related to financial items and results, plans for future expansion and other business development activities, capital spending or financing sources, capital structure and the effects of regulation and competition. Forward-looking statements made by the company are based upon estimates, projections, beliefs and assumptions of management at the time of such statements and should not be viewed as guarantees of future performance. Such forward-looking information involves important risks and uncertainties that could significantly impact anticipated results in the future and, accordingly, such results may differ materially from those expressed in any forward-looking statements by or on behalf of the company. These risks and uncertainties include, but are not limited to, increased competition within the industry for customers, the availability of qualified labor and desirable locations, increased costs for beef, chicken or other food products and the effectiveness of promotional efforts and management decisions related to restaurant growth, financing, franchising and new product development, as well as items described under "Management's Discussion and Analysis of Financial Condition and Results of Operations" below. The company undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

As of March 30, 2002, the Back Yard Burgers system included 106 restaurants, of which 39 were company-operated and 67 were franchised. The company's revenues are derived primarily from company-operated restaurant sales, franchise and area development fees and royalty fees. Certain expenses (cost of restaurant sales, restaurant operating expenses, depreciation and amortization and advertising) relate directly to company-operated restaurants, while general and administrative expenses relate to both company-operated restaurants and franchise operations. The company's revenues and expenses are affected by the number and timing of the opening of additional restaurants. Sales for new restaurants in the period immediately following their opening tend to be high because of trial by public and promotional activities. As a result, the timing of openings can affect the average volume and other period-to-period comparisons.

RESULTS OF OPERATIONS

The following table sets forth the percentage relationship to total revenue, unless otherwise indicated, of certain items included in the company's historical operations and operating data for the periods indicated.

<TABLE>
<CAPTION>

	THIRTEEN WEEKS ENDED	
	MARCH 30, 2002	MARCH 31, 2001
<S>	<C>	<C>
Revenues		
Restaurant sales	89.4%	88.7%
Franchise and area development fees	.3	1.4
Royalty fees	6.3	6.2
Advertising fees	1.6	1.6
Other operating revenue	2.4	2.1

Total revenue	100.0%	100.0%

</TABLE>

<TABLE>
<CAPTION>

<S>	THIRTEEN WEEKS ENDED MARCH 30, 2002 <C>	THIRTEEN WEEKS ENDED MARCH 31, 2001 <C>
Costs and Expenses		
Cost of restaurant sales (1)	31.3%	31.9%
Restaurant operating expenses (1)	47.5	49.1
General and administrative	13.0	11.4
Advertising	5.6	6.4
Depreciation and amortization	4.0	4.6
Operating income	6.9	5.7
Interest income	.1	.1
Interest expense	(1.6)	(2.1)
Other, net	(1.0)	(.3)
Income before income taxes	4.4	3.5
Income taxes (2)	(37.0)	(37.1)
Net income	2.8	2.2

</TABLE>

<TABLE>
<CAPTION>

<S>	THIRTEEN WEEKS ENDED MARCH 30, 2002 ($000'S) <C>	THIRTEEN WEEKS ENDED MARCH 31, 2001 ($000'S) <C>
System-wide restaurant sales		
Company-operated	$ 7,311	$ 6,331
Franchised	13,008	11,183
Total	$ 20,319	$ 17,514
Average annual sales per restaurant open for a full year (3)		
Company-operated	$ 785	$ 744
Franchised	$ 790	$ 770
System-wide	$ 788	$ 758
Number of restaurants		
Company-operated	39	35

Franchised	67	60
Total	106	95

</TABLE>

(1) As a percentage of restaurant sales.

(2) As a percentage of income before taxes.

(3) Includes sales for restaurants open for entire trailing twelve-month period. Restaurants are included in the calculation after the completion of eighteen months of operation as sales during the six-month period immediately after the opening tend to be higher due to promotions and trial by public.

COMPARISON OF THE COMPANY'S RESULTS FOR THE THIRTEEN WEEKS ENDED MARCH 30, 2002 AND MARCH 31, 2001.

RESTAURANT SALES increased 15.5% to $7,311,000 during the thirteen weeks ended March 30, 2002, from $6,331,000 for the same 2001 period. This increase is due to a net increase of four company-operated units, as well as a 4.4% increase in same-store sales at restaurants open for more than one year. The same-store sales growth is primarily attributable to a menu price increase of approximately 4.0% implemented by the company in mid-December 2001.

FRANCHISE AND AREA DEVELOPMENT FEES decreased to $27,000 for the thirteen weeks ended March 30, 2002, from $99,000 in the year-earlier period. Two new franchise stores opened during the thirteen weeks ended March 30, 2002 compared with five openings in the year-earlier period.

ROYALTY FEES increased 17.5% to $516,000 during the thirteen week period ended March 30, 2002, compared to $439,000 during the same period in 2001. The change is due to a net increase of seven franchised stores since March 31, 2001, as well as a 0.8% increase in same-store sales at franchised restaurants compared with the prior year period.

COST OF RESTAURANT SALES, consisting of food and paper costs, totaled $2,291,000 for the thirteen weeks ended March 30, 2002, and $2,017,000 during the same period in 2001, decreasing as a percentage of restaurant sales to 31.3% from 31.9%. The decrease as a percentage of sales is primarily due to the menu price increase taken by the company in mid-December 2001, offset by cost increases of certain ingredients over the prior year, including produce, dairy and beef products.

RESTAURANT OPERATING EXPENSES, consisting of labor, supplies, utilities, maintenance, rent and certain other unit level operating expenses, increased to $3,470,000 for the thirteen weeks ended March 30, 2002, from $3,106,000 in the same prior year period, decreasing as a percentage of restaurant sales to 47.5%, from 49.1% for the year-earlier period. This change is primarily the result of a decrease in labor costs of 1.5%.

GENERAL AND ADMINISTRATIVE COSTS which increased $250,000 to $1,066,000 for the thirteen weeks ended March 30, 2002 from $816,000 in the same year earlier period, increased as a percentage of total revenue for the thirteen weeks ended March 30, 2002, to 13.0% from 11.4% in the same period in 2001.

$82,000 of the increase was personnel related, including increased spending on recruiting, training and benefit costs. Preopening expenses also increased by $31,000 due to the expenditures related to the opening of two company-operated restaurants during the thirteen-weeks ended March 30, 2002. The remainder of the increase is related to increased spending for professional services, travel for franchisee support and recruiting, public relations, insurance and other miscellaneous costs.

ADVERTISING EXPENSE which increased to $460,000 for the thirteen weeks ended March 30, 2002, from $455,000 in the same period in 2001, decreased as a percentage of total revenues to 5.6% from 6.4%. The decrease is due to the timing of national promotion production costs. The company's National Advertising Fund incurred more promotional and advertising costs in the first quarter of 2001 than in the first quarter of 2002.

INTEREST EXPENSE decreased 10.2% to $132,000 for the thirteen weeks ended March 30, 2002, from $147,000 in the year-earlier period. Since March 31, 2001, debt increased by $288,000, or 5.4%, to $5,635,000 as of March 30, 2002. However, with interest rates declining, the company was able to renegotiate interest rates downward by 1.7% to 2.4% on approximately 45.0% of its outstanding debt during the fourth quarter of 2001 resulting in the decrease in interest expense for the company during the first quarter of 2002.

OTHER, NET expense was $79,000 for the thirteen weeks ended March 30, 2002, compared with an expense of $21,000 in the prior year. The increase is due to a $30,000 loss on the disposal of assets relating to a store closure as well as $23,000 in loan closing costs incurred by the company. Also included in this category is other miscellaneous income and expenses, including franchise tax expense and these income and expense categories were relatively consistent during thirteen weeks ended March 30, 2002, and the year-earlier period.

IMPAIRMENT OF LONG-LIVED ASSETS

The company reviews the carrying value of its long-lived and intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. A new cost basis is established for impaired assets based on the fair value of these assets as of the date the assets are determined to be impaired.

In the past, the company incurred non-cash charges for the effect of company-operated restaurant closings and impaired assets at company-operated restaurants. Also, related accruals for future lease payments of closed stores, net of estimated sub-lease income, were previously recorded. During the thirteen weeks ended March 30, 2002, $2,000 of lease obligation payments were incurred for closed stores and charged against this reserve. As of March 30, 2002, the company's remaining accrual for all future lease obligations discussed above was $98,000 for the remaining lease payments due, net of estimated sub-lease income.

LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures totaled $613,000 for the thirteen weeks ended March 30, 2002 and $417,000 for the year-earlier period. Generally, the company constructs its restaurant buildings on leased properties for its company-operated restaurants. The average monthly lease cost for the 16 company-operated restaurants on leased sites at March 30, 2002 is approximately $3,800 per month. For the 14 restaurants where the company leases the building as well as the site, the average monthly lease cost is approximately $5,000.

Cash from operations for the company is primarily affected by net earnings adjusted for deferred franchise fees and non-cash expenses which consist primarily of depreciation and amortization. Depreciation and amortization totaled $325,000 for the thirteen weeks ended March 30, 2002 and $331,000 for the year-earlier period.

Cash provided by operations for the thirteen week period ended March 30, 2002, was $871,000 compared with $638,000 in the year-earlier period. In recent history, cash from operations and debt have been used for the addition of new restaurants and equipment.

As of March 30, 2002, the company had total long-term debt of $5,635,000 and unused lines of credit and loan commitments of potential additional borrowings of $1,626,000. No additional debt commitments were made by the company during the thirteen weeks ended March 30, 2002.

On January 2, 2001, the company's board of directors adopted a stock repurchase plan that allows the company to repurchase up to 500,000 shares of its outstanding common stock. As of March 30, 2002, the company had repurchased 25,000 shares of common stock under the plan. Based on market conditions and other factors, additional repurchases may be made from time to time in the open market or through privately negotiated transactions, at the discretion of the company.

The company has budgeted capital expenditures of approximately $3.5 million in fiscal year 2002, excluding potential acquisitions. These capital expenditures primarily relate to the development of additional company-operated restaurants, store equipment upgrades, and enhancements to existing financial and operating information systems, including enhancements to our point-of-sale system. As of March 30, 2002, the company had spent $613,000 of these budgeted capital expenditures. The company expects to fund these capital expenditures through cash flow from operations and borrowings under its existing line of credit. These capital expenditures may also require additional debt or equity financing, which the company has not secured at this time.

SEASONALITY AND INFLATION

While the company does not believe that seasonality affects its operations in a materially adverse manner, first quarter results are generally lower than other quarters due to seasonal climate conditions in the locations of many of its restaurants. Management does not believe that inflation has had a material effect on income during the thirteen weeks ended March 30, 2002. Increases in food,labor or other operating costs could adversely affect the company's operations. In the past, however, the

company generally has been able to increase menu prices or modify its operating procedures to substantially offset increases in its operating costs.

CONVERSION OF PREFERRED STOCK

In accordance with the provisions of the company's Certificate of Incorporation regarding preferred stock, as a result of the company's having attained after tax net income in excess of $600,000 during 1994, each share of preferred stock is convertible into one share of common stock, at the option of the holder. The company notified preferred stockholders of their right to convert preferred stock to common stock, and anticipates that all shares of preferred stock will eventually be converted. Such conversion began on April 5, 1995, at which time there were 1,199,979 shares of preferred stock outstanding. As of March 30, 2002, only 19,763 shares have yet to be converted.

KNOWN TRENDS AND UNCERTAINTIES

Labor will continue to be a critical factor for the company in the foreseeable future. In most areas where the company operates restaurants, there is a shortage of suitable labor. This, in itself, could result in higher wages as the competition for employees intensifies, not only in the restaurant industry, but in practically all retail and service industries. It is crucial for the company to develop and maintain programs to attract and retain quality employees.

During the thirteen weeks ended March 30, 2002, the cost of beef and chicken was relatively stable; however, management of the company expects these costs to rise at some point in the future, and that it will be difficult to raise menu prices to fully cover these anticipated increases due to the competitive state of the quick-service restaurant industry. Additional margin improvements would have to be made through operational improvements, equipment advances and increased volumes to help offset these potential increases.

Due to the competitive nature of the restaurant industry, site selection continues to be challenging as the number of businesses vying for locations with similar characteristics increases. This will likely result in higher occupancy costs for prime locations.

Company-operated same-store sales increased 4.4% during the thirteen weeks ended March 30, 2002. The same-store sales growth is primarily attributable to a menu price increase of approximately 4.0% implemented by the company in mid-December 2001.

The future success of the company will be determined, to a great extent, by its ability to positively address these issues.

RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. The company adopted SFAS No. 141 on December 30, 2001, with no material effect on the company's consolidated financial position or results of operations.

The company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets" (SFAS No. 142) effective January 1, 2002. SFAS No. 142 changed the accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach. The Company ceased amortization of goodwill in 2002 under the provisions of this statement. Expenses for the three months ended March 31, 2001 included amortization of $38,000. If SFAS No. 142 had been in effect during 2001 and amortization had not been recorded, net income for the first quarter of 2001 would have been approximately $24,000 (tax effected) greater than the reported total of $156,000 and earnings per share would have been $0.04 compared to the reported total of $0.03.

In October 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets effective for years beginning after December 15, 2001. This Statement supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, but retains the fundamental provision of SFAS 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be held for sale. The statement requires that whenever events or changes in circumstances indicate that a long-lived asset's carrying value may not be recoverable, the asset should be tested for recoverability. The statement also requires that a long-lived

asset classified as held for sale should be carried at the lower of its carrying value or fair value, less cost to sell. The company adopted SFAS 144 on December 30, 2001, with no material impact on the company's consolidated financial position or results of operations.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

The company is exposed to certain financial market risks, the most predominant being fluctuations in interest rates on variable rate debt and the repricing of fixed rate debt at maturity. Management monitors interest rate fluctuations as an integral part of the company's overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potential adverse effect of our results. The effect of interest rate fluctuations historically has been small relative to other factors affecting operating results, such as food, labor and occupancy costs.

Less than 25% of the company's debt portfolio as of March 30, 2002, had variable rates or had maturity dates of less than two years. With every 25 basis point increase in interest rates, the company could be subject to additional interest expense of approximately $4,000 annually, depending on the timing of the rate changes and debt maturities.

The company has considered the use of hedging instruments to minimize interest rate fluctuation risk, but based on the debt portfolio structure described above, no hedging tool has been deemed necessary for the company at this time.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

The company is involved in litigation incidental to its business, including, but not necessarily limited to, claims alleging violations of the Civil Rights Act of 1964 and/or discrimination. Aside from the cost of defense, such litigation is not presently considered by management to be material to the financial condition or results of operations of the company.

Item 2 Changes in Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

Not Applicable

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

None

Item 6 Exhibits and Reports on Form 8-K

Exhibits

None

Reports on Form 8-K

None

SIGNATURES

In accordance with 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 thereto duly authorized.

BACK YARD BURGERS, INC.

Date: May 13, 2002 By: /s/ Lattimore M. Michael

Lattimore M. Michael
Chairman and Chief Executive Officer

Date: May 13, 2002 By: /s/ Michael G. Webb

Michael G. Webb
Chief Financial Officer